



Thornton Grout Finnigan LLP
RESTRUCTURING + LITIGATION

November 16, 2023

Glittering Woes: Stornoway's Insolvency Storm Strikes Again as India's Diamond Import Freeze Impacts Canada

By Divyansh (Divi) Dev*

Not too long ago, Stornoway Diamond was on the brink of becoming the world's [sixth-largest](#) diamond producer. However, the company has now filed for insolvency protection for the [second time in four years](#), with the freeze on the import of rough diamonds by India cited as a key factor in this latest financial setback. Paragraph 8.3 of the [initial application](#) filed in this matter highlights that the announcement by India of a two-month freeze, spanning from October 15 to December 15, 2023, had a "catastrophic" impact on Stornoway's revenue.

Strategic Importance of Indian Diamond Imports

In terms of global diamond production, Canada was the [world's third largest producer](#) of diamonds in 2022. Meanwhile, India secured its place as the world's largest diamond-importing nation in 2022, accounting for [42% of the total diamond import](#) by volume worldwide.

Now, picture a scenario where 42% of the world's diamond import comes to an abrupt cessation, triggering financial distress due to supply-demand crises, especially in diamond-rich countries like Canada. It comes as no surprise that Stornoway's initial application emphasizes this reality in detail. India, historically a dominant force in the diamond market, acquired 90% of available rough diamonds. The import freeze proved devastating for Stornoway, serving as a direct catalyst for its financial collapse and eventual insolvency filing, driven by a significant dependence on Indian customers.

India's Push for Lab-made Diamonds

The Indian government is actively seeking to establish the country as a [major player](#) in the lab-grown diamond industry. This initiative gained visibility when the Indian Prime Minister gifted a [7.5-carat lab-cut diamond](#) to U.S. First Lady Jill Biden during their meeting this summer at the White House. In the lead-up to the G20 meetings in New Delhi later that year, the Indian Commerce Minister advocated for the [global adoption](#) of lab-made diamonds. This strategic move aligns with the fact that India already holds a [15% market share](#) in the global lab-grown diamond market, valued at US\$22.45 billion in 2022.

Adding to this, in its 2023 Annual Budget, India [eliminated customs duties](#) on the seeds used in the manufacturing of lab-grown diamonds. These developments are occurring against the backdrop of declining household income due to high-interest rates, making the economic case for lab-made diamonds more compelling. Approximately five years ago, lab-grown diamonds were sold at a [20% discount](#) to natural diamonds. However, this discount has now expanded to approximately

[80%](#), driven by retailers offering them at increasingly competitive prices as the cost of production continues to decrease.

Sluggish Indian Domestic Demand for Diamonds

The prohibition on diamond imports aligns with India's festive season of Diwali, a period traditionally marked by a surge in jewelry demand. However, instead of depending on imported Canadian diamonds, India's strategy is to deplete its [swollen inventory](#) first. Notably, the demand for diamonds in the Indian market has been relatively weaker, averaging a 5% to 10% decline over the last two quarters. This move reflects an effort to balance the market and manage the existing supply-demand dynamics during a critical period for jewelry consumption in the country.

Distress in Diamond Market

Two prominent signs of distress within the diamond mining sector have come to light. The initial concern is linked to the macroeconomic factors, especially those pertaining to international trade, as previously outlined. The second factor involves a simultaneous decline in prices for both natural and synthetic diamonds, accompanied by an increased consciousness among consumers regarding the ethical implications associated with natural diamond mining, such as carbon footprint and involvement in conflict-ridden regions. Consequently, this period presents a considerable challenge for diamond traders who find themselves grappling with not only a growing inventory, but also, an escalating financial burden on diamond producers that are heavily dependent on debt financing.

Note that this ongoing trend is not limited to Canada. For example, in the United States, WD Lab Grown Diamonds, the [second-largest](#) producer of lab-made diamonds in the country, filed for bankruptcy in October 2023. The company's financial challenges are primarily attributed to its inability to compete effectively with the [low prices](#) offered by its contemporaries in markets such as India.

Future of Canadian Diamond Mining Industry

With India-Canada relations going through a sour phase, the heightened interconnectivity of global economies raises the question of whether these developments will negatively impact the Canadian diamond industry more broadly. While certain trends in various industries tend to be cyclical, others also become enduring fixtures. The diamond market and its global demand are currently trying to find a fine balance between these two trends, and the outcome of the same remains to be seen.

** Divyansh (Divi) Dev is a restructuring and insolvency lawyer with Thornton Grout Finnigan (TGF). He is dually licensed as a lawyer in both Canada (Ontario) and India (Delhi). Views expressed are personal.*