



OPEN DIALOGUE

DIAMONDS ARE NOT FOREVER:

Analysing Ineffectiveness of Diamond
Embargo in Hurting Russia's Economy



25 November 2023

The Open Dialogue Foundation was established in Poland in 2009 on the initiative of Ukrainian student and civic activist Lyudmyla Kozlovska (who currently serves as President of the Foundation). Since its founding, statutory objectives of the Foundation include the protection of human rights, democracy and the rule of law in the post-Soviet area. In July 2017 the area of interest of the Foundation was expanded due to the rapidly deteriorating situation in Poland and other EU member states affected by illiberal policies implemented by their populist governments. The Foundation has its permanent representations in Brussels, Warsaw and Kyiv.

Website: <https://odfoundation.eu/>; e-mail: odfoundation@odfoundation.eu

Twitter: [@ODFoundation](https://twitter.com/ODFoundation)

Project Manager:

Lyudmyla Kozlovska (the Open Dialogue Foundation): lyudmylakozylovska@odfoundation.eu

Copyright: The Open Dialogue Foundation, November 2023



Table of Contents:

SUMMARY.....4

KEY FACTS4

1. RUSSIA IN THE GLOBAL DIAMOND MARKET5

2. THE WEST'S PLAN TO BAN IMPORTS OF RUSSIAN DIAMONDS6

3. SANCTIONS AGAINST RUSSIA'S DIAMOND EXPORTS ARE DOOMED TO BE INEFFECTIVE, SIMILAR TO SANCTIONS AGAINST RUSSIAN OIL EXPORTS7

CONCLUSION AND RECOMMENDATIONS9

This Policy note presents a brief analysis of the expected ban imposed by the West on the import of Russian diamonds. The Policy note was prepared by the Open Dialogue Foundation to support international efforts aimed at limiting Russia's capacity to wage war against Ukraine.

The Foundation would like to thank Mukhtar Ablyazov, a Kazakhstani opposition politician and former Minister of Energy, Industry and Trade for his comments in the preparation of the Policy note.

SUMMARY

The Group of Seven (G7), together with Belgium and the European Commission, designed a package of sanctions that implies a ban on diamond imports from Russia. However, sanctions imposed on Russia's diamond exports will not have a negative effect on the Russian economy and will not affect its capacity to finance the war for the reasons outlined in this report. The imposition of new, ineffective sanctions packages only discredits sanctions as an instrument of foreign policy. The Open Dialogue Foundation recommends intensifying the current oil sanctions, which would inflict damage to the Russian economy worth USD 40 billion annually.

KEY FACTS

- Russia's share in the global diamond production market tops 35%. Russia's share in diamond exports is 8.3%. Revenue from diamond exports in 2022 reached USD 3.8 billion. The largest diamond producer in Russia is *ALROSA* (90% share in Russia). 93% of the company's revenue comes from rough diamonds and 7% from polished diamonds.
- In 2022, after Russia's invasion of Ukraine, *ALROSA* fell under sanctions imposed by the US, Canada, the UK, Australia and Japan. The US sanctions did not affect Russian diamonds that were cut in third countries. Thus, Russian diamonds cut in India are considered "Indian" and can be imported into the USA. A similar effect will result from the 12th package of sanctions.
- The largest diamond trading hubs are located in Belgium (80% of the world market), India and the UAE. 90% of all diamonds in the world are cut in India.
- The European Commission presented a draft of the 12th package of sanctions, which includes a ban on imports of Russian diamonds. A direct ban on imports of Russian (rough diamonds) is expected to be imposed starting from 1 January 2024, and from March to September 2024 — a phased ban on imports of Russian diamonds cut in third countries (for example, in India) is expected.
- The ban on imports of Russian diamonds will follow the example of ineffective sanctions against Russian oil exports. The European embargo on Russian crude oil and petroleum products has not shown the expected results, as it allows importing petroleum products produced from Russian oil in third countries. India has increased its purchases of Russian crude oil and at the same time increased exports of petroleum products made from Russian crude oil to the EU.
- The sanctions against Russia's diamond exports will not have the anticipated negative effect on the Russian economy, as:
 - 1) Russia will redirect diamond exports to India, the UAE and China. India will cut Russian diamonds and sell the finished product to global markets.

- 2) Russia has been preparing for this kind of sanctions and reduced its share of the pre-war diamond trade in Antwerp from 25% in a normal year to 5% in 2023, without the imposition of the 12th package of sanctions.
- 3) Russia's revenue from diamond exports is about USD 3.8 billion per year. In one month in October 2023, the revenue from Russia's oil exports reached USD 18.3 billion, which is almost 5 times more than the annual revenue from diamond exports in 2022.^{1, 2} It is oil exports that are crucial in the formation of Russia's budget revenues. Even with a complete ban on imports of Russian diamonds (rough and cut in third countries), such sanctions will fail to cause serious damage to the Russian economy.

Recommendations:

- It is necessary to strengthen the existing sanctions, primarily against Russia's oil industry, rather than introduce new ineffective sanctions packages. Sanctions against Russia's diamond sector will not affect its capability to finance the war. As it follows from the above-mentioned data, Russia has prepared in advance for the introduction of such sanctions. The imposition of new, ineffective sanctions packages will help Russia to discredit the sanctions altogether as mechanism and foreign policy methods of Western countries;
- It is necessary to work with oil producers to increase oil supply on the world market and, in parallel, to strengthen sanctions against Russia's oil exports;
- It is necessary to block Russian exports of crude oil and petroleum products through the Black Sea. The Black Sea accounts for up to 20% of Russia's oil exports. Such sanctions would have a significant impact on the Russian economy: losses would amount to about USD 40 billion a year.

1. RUSSIA IN THE GLOBAL DIAMOND MARKET

As of the end of 2022, Russia held the following shares in global diamond production:

- 35% share in global diamond production (41.9 million carats out of 119.96 million carats).
- 22% share of the global diamond production market in production value (USD 3.55 billion out of USD 16 billion).³

Russia is a participant of the Kimberley Process, an international diamond certification scheme. Established under a UN mandate in 2003, the Kimberley Process includes 85 states and is a mechanism for regulating the trade in conflict diamonds — rough diamonds mined illegally to finance armed conflicts by rebel groups against legitimate governments.⁴

The largest diamond producer in Russia is *ALROSA*, which accounts for 90% of diamond production in Russia.^{5, 6, 7} It's important to note that:

¹ https://kimberleyprocessstatistics.org/public_statistics

² [https://www.reuters.com/world/india/russia-makes-up-40-indian-oil-imports-dents-opecs-share-2023-10-20/#:~:text=NEW%20DELHI%2C%20Oct%2020%20\(Reuters,Middle%20East%2C%20industry%20data%20showed.](https://www.reuters.com/world/india/russia-makes-up-40-indian-oil-imports-dents-opecs-share-2023-10-20/#:~:text=NEW%20DELHI%2C%20Oct%2020%20(Reuters,Middle%20East%2C%20industry%20data%20showed.)

³ https://kimberleyprocessstatistics.org/public_statistics

⁴ <https://www.kimberleyprocess.com/en/what-kp>

⁵ <https://www.alrosa.ru/press-center/news/2022/alrosa-predstavlyaet-rezultaty-prodazh-za-2021-g/>

⁶ <https://www.alrosa.ru/business/about-market/>

⁷ <https://www.alrosa.ru/press-center/news/2023/alrosa-dobyla-krupneyshiy-za-poslednie-10-let-yuvelirnyy-almaz/#:~:text=%D0%90%D0%9B%D0%A0%D0%9E%D0%A1%D0%90%20%E2%80%94%D0%BC%D0%B8%D1%80%D0%BE%D0%B2%D0%BE%D0%B9%20%D0%BB%D0%B8%D0%B4%D0%B5%D1%80%20%D0%BF%D0%BE%20%D0%BE%D0%B1%D1%8A%D0%B5%D0%BC%D1%83,%D0%B2%20%D0%AF%D0>

- ALROSA's share in the global diamond production is 30%.
- ALROSA's revenue in 2021 reached USD 4.16 billion. Of these: 95.4% of revenue came from rough diamond sales, 4.6% from polished diamond sales. There are no financial statements for 2022.

However, Russia's share in diamond exports to the world market was only 8.3%. The largest diamond exporters are the UAE (with a 29.4% share) and the European Union (with a 21.5% share). According to the Kimberley Process, Russian diamond exports in 2022 reached USD 3.8 billion, and in 2021 — USD 4 billion.^{8, 9}

2. THE WEST'S PLAN TO BAN IMPORTS OF RUSSIAN DIAMONDS

On 24 February 2022, the U.S. Department of the Treasury imposed sanctions on ALROSA's CEO Sergey Sergeevich Ivanov, and in April 2022, it imposed sanctions on the company itself.^{10, 11} On 11 March 2022, President Biden signed an executive order prohibiting imports of non-industrial diamonds from Russia into the United States.¹² It is important to note that the **sanctions did not affect Russian diamonds that were cut in third countries**.¹³ After 24 February 2022, ALROSA was also sanctioned by Canada, the UK, Australia and New Zealand.^{14, 15, 16, 17}

On 15 November 2023, the European Commission presented a draft of the 12th package of sanctions against Russia.¹⁸ The 12th package of sanctions is expected to be approved on 14-15 December 2023 during the European Council summit. One of the main aspects of the new sanctions package is a ban on Russian diamond imports. According to *Politico*, *EU Observer* and *Reuters*, a phased ban on imports of Russian diamonds is expected to be imposed in the following way:^{19, 20, 21}

- 1) A direct ban on imports of Russian (rough diamonds) is planned to come into effect on 1 January 2024.
- 2) From March to September 2024, an indirect ban on imports of Russian diamonds cut in third countries is expected. This will require mechanisms to trace the origin of diamonds.

If a direct ban on Russian diamond import does not raise any questions, since the Kimberley Process regulates trade in rough diamonds and, accordingly, allows establishing the traceability of diamonds, it remains unclear how effective the traceability mechanism will be if Russian diamonds are cut in India and then exported to world markets as "product of India".

Diamond industry expert Edahn Golan commented to *Voice of America* in October 2023 on the planned imposition of sanctions on the Russian diamond industry:²²

%BA%D1%83%D1%82%D0%B8%D0%B8%20%D0%B8%20%D0%90%D1%80%D1%85%D0%B0%D0%BD%D0%B3%D0%B5%D0%BB%D1%8C%D1%81%D0%B
A%D0%BE%D0%B9%20%D0%BE%D0%B1%D0%BB%D0%B0%D1%81%D1%82%D0%B8.

⁸ <https://www.kimberleyprocess.com/en/what-kp>

⁹ https://kimberleyprocessstatistics.org/public_statistics

¹⁰ <https://home.treasury.gov/news/press-releases/jy0707>

¹¹ <https://home.treasury.gov/news/press-releases/jy0608#:~:text=Sergei%20Ivanov's%20son%2C%20Sergei%20Sergeevich,a%20board%20member%20of%20Gazprombank.>

¹² <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/11/executive-order-on-prohibiting-certain-imports-exports-and-new-investment-with-respect-to-continued-russian-federation-aggression/>

¹³ <https://www.axios.com/2023/05/08/russia-diamonds-sanction-g7-biden-admin>

¹⁴ <https://www.gov.uk/government/news/foreign-secretary-announces-65-new-russian-sanctions-to-cut-off-vital-industries-fuelling-putins-war-machine>

¹⁵ <https://www.legislation.govt.nz/regulation/public/2022/0074/latest/LMS659655.html>

¹⁶ <https://www.legislation.gov.au/Details/F2022L00604>

¹⁷ <https://www.canada.ca/en/global-affairs/news/2022/02/canada-imposes-additional-economic-measures-on-russia-in-response-to-russias-attack-on-ukraine.html>

¹⁸ https://www.eeas.europa.eu/eeas/ukraine-high-representative-together-european-commission-submits-proposals-12th-package-sanctions_en

¹⁹ <https://euobserver.com/world/157706>

²⁰ <https://www.politico.eu/article/russia-european-union-sanctions-diamonds-oil-price-cap-ukraine-war/>

²¹ <https://www.reuters.com/markets/commodities/eu-ban-russian-diamonds-start-2024-eu-sanctions-proposal-2023-11-17/>

²² <https://www.voanews.com/a/g7-nations-look-for-ban-on-russian-diamonds/7298274.html>

"India accounts for about 95% of global diamond manufacturing and polishing. According to U.S. regulations, a product that went through a major transformation at a particular country is considered a product of that country. In the case of Russian rough diamonds [that are] polished in India: From the standpoint of American regulations, those are Indian diamonds."

In October 2023, *The Economic Times*, reported that "the G7 has no problem with India buying Russian rough diamonds."²³ Sanctions on Russian diamond exports could affect about 3 million workers in the Indian city of Surat, where nine out of ten diamonds in the world are polished.²⁴ India has not joined the sanctions against Russia and obviously will not join them, especially given that 3 million workplaces depend, among other things, on Russian diamonds.

Experts suggest that Russia will redirect its diamond exports to non-G7 markets, including India, the UAE and China.^{25, 26} This will make it possible to compensate for some of the losses. The experts also expect that companies in India and the UAE will act as "spacers" and intermediaries in selling Russian diamonds to Belgian buyers.²⁷ *The Brussels Times* reported in June 2023, citing an anonymous source in Antwerp's diamond industry, that Russian diamonds accounted for 25% of Antwerp's trade in the pre-war period and less than 5% in 2023 without sanctions.²⁸ Thus, Russia was preparing in advance for this kind of sanctions.²⁹

3. SANCTIONS AGAINST RUSSIA'S DIAMOND EXPORTS ARE DOOMED TO BE INEFFECTIVE, SIMILAR TO SANCTIONS AGAINST RUSSIAN OIL EXPORTS

The sanctions on Russia's oil exports, including the European embargo and the oil price cap (USD 60 per barrel), were designed to significantly limit revenues to the Russian budget and, consequently, to limit Russia's capability to finance the war against Ukraine.^{30, 31} However, the sanctions have not had the desired effect. Russia has increased oil supplies to India and China, learnt to skirt the oil price cap and, as a result, continues to fill its budget to finance the war against Ukraine.^{32, 33, 34, 35, 36, 37} For example, Russia's official military budget for 2024 is planned at USD 120 billion. However, another 27% of Russia's total budget for 2024 is capped.^{38, 39} Therefore, our consultants estimate that Russia's military expenditures for 2024 will be at least USD 150 billion. In 2023, Russia's military expenditures topped USD 110 billion.⁴⁰

The European embargo prohibits the import of Russian crude oil and petroleum products (except to some EU members), but **does not prohibit the sale of petroleum products made from Russian crude oil produced in third countries**. For example, Russia's share of India's oil imports increased from 2% in FY

²³ <https://economictimes.indiatimes.com/industry/cons-products/fashion/-/cosmetics/-/jewellery/g7-eases-a-facet-of-india-diamond-trade/articleshow/104117689.cms>

²⁴ <https://economictimes.indiatimes.com/industry/cons-products/fashion/-/cosmetics/-/jewellery/plan-to-slap-fresh-sanctions-on-russias-alrosa-could-hit-surat-diamond-workers/articleshow/99436930.cms>

²⁵ <https://kyivindependent.com/that-diamond-ring-it-may-have-helped-pay-for-russias-war/>

²⁶ <https://www.finam.ru/publications/item/aktsii-alrosa-pod-davleniem-na-fone-obsuzhdeniya-zapreta-rossiyskikh-almazov-20231019-1139/>

²⁷ https://finance.rambler.ru/markets/50775376-evrosoyuz-riskuet-pohoronit-mirovuyu-brilliantovuyu-stolitsu/?utm_content=finance_media&utm_medium=read_more&utm_source=copylink

²⁸ <https://www.brusselstimes.com/573690/antwerps-diamond-dilemma>

²⁹ <https://finance.rambler.ru/markets/50775376-evrosoyuz-riskuet-pohoronit-mirovuyu-brilliantovuyu-stolitsu/>

³⁰ <https://www.consilium.europa.eu/en/policies/sanctions/restrictive-measures-against-russia-over-ukraine/sanctions-against-russia-explained/>

³¹ https://ec.europa.eu/commission/presscorner/detail/pl/ip_22_7468

³² <https://www.iea.org/reports/oil-market-report-august-2023>

³³ <https://www.ft.com/content/cad37c16-9cbd-473c-aa2f-102c21393d2e>

³⁴ <https://www.bloomberg.com/news/articles/2023-09-29/yellen-concerned-about-evasion-of-russia-oil-cap-as-prices-climb#xj4y7vzkg>

³⁵ <https://www.ft.com/content/7c6998aa-a0d9-4ba7-9e35-e291978ca4d6>

³⁶ <https://www.politico.eu/article/russia-crude-oil-price-sanction-ukraine-war/>

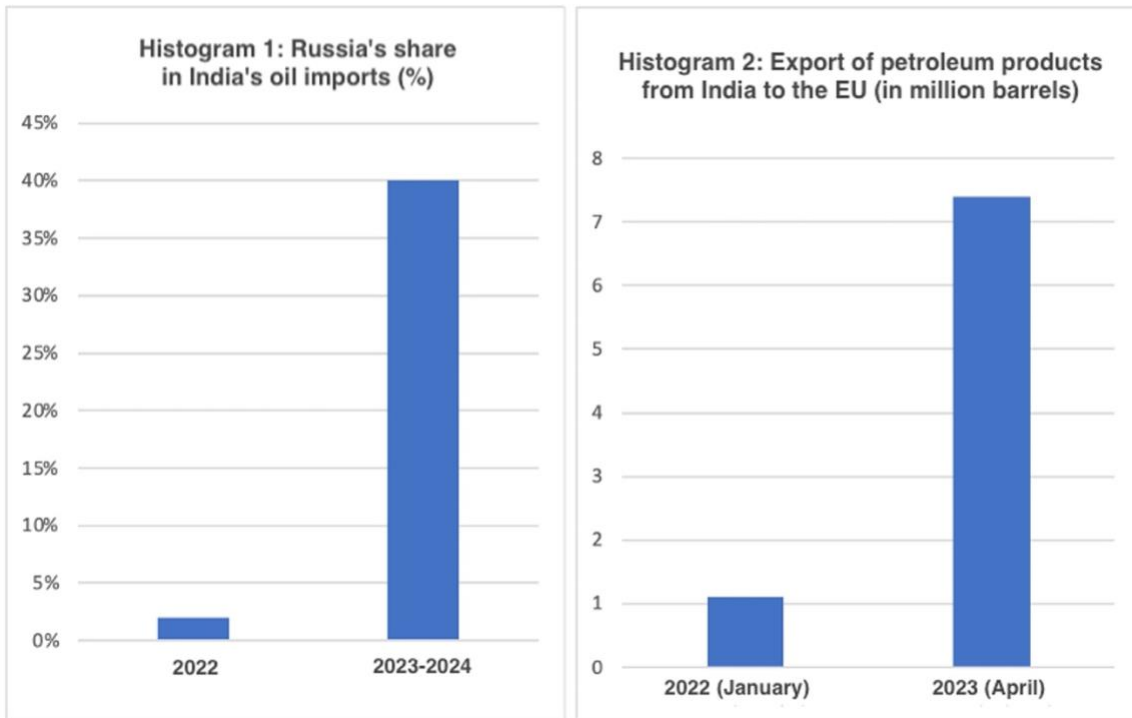
³⁷ <https://www.reuters.com/business/energy/russian-oil-sold-india-30-above-western-price-cap-traders-2023-09-28/>

³⁸ <https://www.kommersant.ru/doc/6348808>

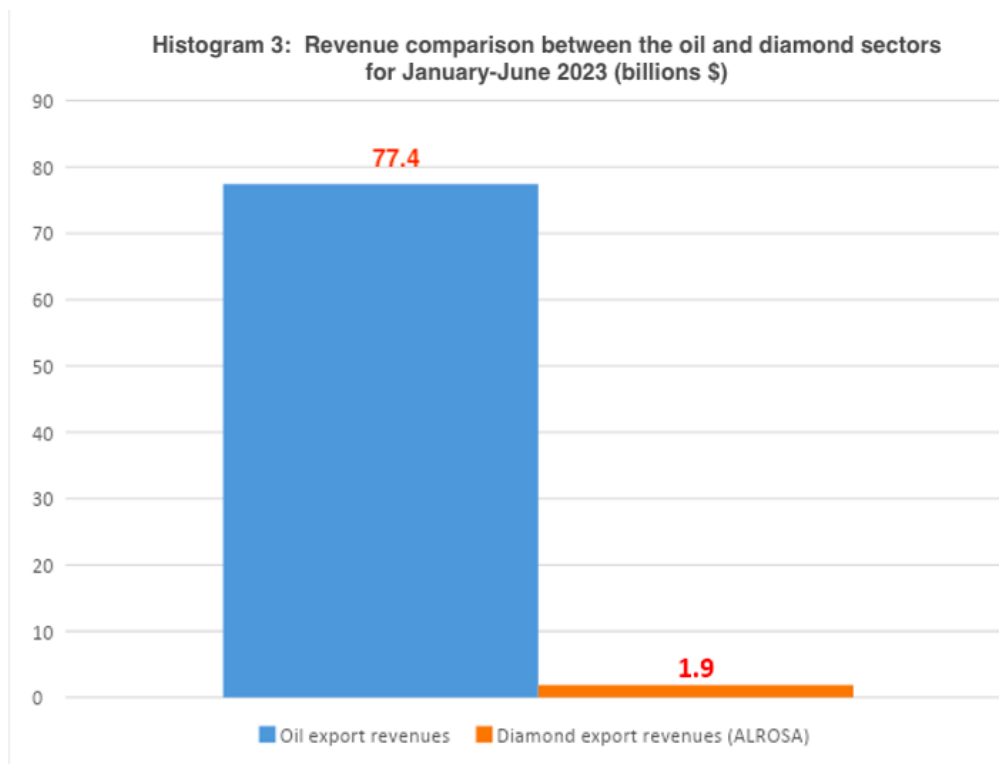
³⁹ https://www.rbc.ru/economics/15/11/2023/655363029a79475deb5b0942?from=from_main_1

⁴⁰ <https://www.moscowtimes.ru/2023/05/16/rossiya-tratit-na-voinu-bolshe-30-miliardov-rublei-v-den-a43050>

2022 to 40% in the first half of FY 2023-2024 (histogram 1).^{41, 42} India, in turn, has increased its exports of petroleum products (kerosene-type jet fuel and diesel) to the EU from 1.1 million barrels in January 2022 to 7.4 million barrels in April 2023 (histogram 2).⁴³



In October 2023, Russia's oil export revenues reached USD 18.3 billion.⁴⁴ In one month, revenue from Russia's oil exports was almost 5 times more than Russia's entire diamond exports for 2022 — USD 18.3



⁴¹ <https://www.livemint.com/news/india/oil-imports-from-russia-up-nearly-3fold-11692114648171.html#:~:text=In%20FY22%2C%20Russian%20oil%20accounted,mt%20in%20the%20previous%20fiscal.>
⁴² [https://www.reuters.com/world/india/russia-makes-up-40-indian-oil-imports-dents-opecs-share-2023-10-20/#:~:text=NEW%20DELHI%2C%20Oct%2020%20\(Reuters,Middle%20East%2C%20industry%20data%20showed.](https://www.reuters.com/world/india/russia-makes-up-40-indian-oil-imports-dents-opecs-share-2023-10-20/#:~:text=NEW%20DELHI%2C%20Oct%2020%20(Reuters,Middle%20East%2C%20industry%20data%20showed.)
⁴³ <https://www.politico.eu/article/eu-india-summit-russia-oil-sanctions-subrahmanyam-jaisankar/>
⁴⁴ <https://www.iea.org/reports/oil-market-report-november-2023>

billion versus USD 3.8 billion. When comparing Russia's revenue from oil and diamond exports for January-June 2023 (data for this period are available), the revenue from oil exports exceeded the revenue from diamond exports by 39 times (histogram 3).⁴⁵

CONCLUSION AND RECOMMENDATIONS

The ban imposed by the West on diamond imports from Russia will not have a significant impact on Russia's budget and its capacity to finance the war against Ukraine, as Russia's **annual** revenue from diamond exports is only about USD 4 billion. In addition, such sanctions can be circumvented, following the example of circumventing the European embargo on Russian crude oil and petroleum products.

Russia has been selling and will sell rough diamonds through traders in the UAE and India, whose countries have traditionally not joined sanctions against Russia. Diamonds of Russian origin will be cut in India, and cut diamonds will be sold to foreign markets as diamonds of Indian origin.

Sanctions are an important and necessary tool to limit Russia's capacity to wage war against Ukraine. However, international sanctions will be discredited as a foreign policy tool as a result of the failure to achieve the goals and lack of effectiveness, namely the ability to stop the financing of Russia's economic and military capabilities and the economic and military blocs it is creating, such as the CSTO (Collective Security Treaty Organisation) and the Eurasian Economic Union, that allow it to finance a long-term war against Ukraine.

Instead of introducing a new 12th package of ineffective sanctions, it's essential to focus on strengthening the sanctions that have already been imposed and including third-country leaders, who help circumvent existing sanctions, on personal sanctions lists.

The Open Dialogue Foundation offers to **block Russian exports of crude oil and petroleum products through the Black Sea**. The Black Sea accounts for up to 20% of Russia's oil exports.⁴⁶ The world market will lose about 1.5 million barrels of crude oil and petroleum products per day. **Russia's losses will amount to about USD 40 billion per year** (1.5 million barrels per day x USD 80 per barrel x 365 days per year). This is 10 times more than the annual revenue from diamond exports.

It is necessary to **work with oil-producing countries to increase oil supply** on the world market and, in parallel, to strengthen sanctions against Russia's oil exports. A number of countries including Saudi Arabia, Venezuela, Nigeria, the UAE, Iraq, etc. can replace lost volumes. Saudi Arabia alone is perfectly capable of raising its oil production by 1 million barrels per day.⁴⁷ Such sanctions would significantly damage Russia's economy and its capability to finance the war against Ukraine.

⁴⁵ <https://www.alrosa.ru/investors/results-reports/finance/2023/>

⁴⁶ <https://portnews.ru/news/341725/>

⁴⁷ <https://www.reuters.com/business/energy/saudi-arabia-extends-voluntary-oil-output-cut-1-mln-bpd-end-2023-09-05/>