

EU Sanctions Are Back on the Table. Will They Work?



The bloc is considering a quota or other restrictions on Russian diamonds. Industry members and politicians claim only a global effort will have an impact.

The European Union (EU) is considering placing caps on imports of Russian rough, according to media reports and sources that have spoken to *Rapaport News*. The bloc is discussing a 10th sanctions package ahead of the one-year anniversary of the Ukraine invasion. After escaping nine rounds, Belgium's trade in Alrosa goods is back in the spotlight.

Yet many sides of the debate claim the measures would have minimal impact. Shipments of Russian diamonds to Antwerp have already slumped because of US consumer preferences and rough buyers' difficulties making payments, making quotas pointless. And without an international approach, Russia would still be able to sell into the market through other channels, according to critics.

If the cap fits

It's unclear exactly what sanctions European Commission officials are looking to introduce. One of the options is a limit on imports of Russian diamonds at 30% of prewar levels, according to Belgian newspaper [De Morgen](#). Another is a system for tracing the goods so the market knows where they're from, the report said.

Belgian Prime Minister Alexander De Croo appeared to have gone a step further, saying the country was working with "partners" on blocking access to Russian diamonds across Western markets, current-affairs site [Politico](#) reported.

Pressure is building on the EU to do something. Earlier this month, Lucara Diamond Corp. CEO Eira Thomas called for sanctions in an interview with the [Financial Times](#). Even De Croo — who has previously said Belgium would not oppose measures but that they would only help rivals such as Dubai — publicly referred to Russian goods as "blood diamonds" last week.

Meaningless move?

Imports of nonindustrial Russian diamonds to Belgium have fallen by around 80% since July 2022, according to estimates from EU insiders.

"If they are thinking about a quota [of] 30% of the trade in Russian diamonds compared to the beginning of that war, it's more or less nothing, since the trade already dropped hugely," Kathleen Van Brempt, a Belgian member of the European Parliament and a supporter of full sanctions, told *Rapaport News*.

This decline is because of the US's partial ban as well as retailers' and shoppers' unofficial boycotts.

“Most consumers, if they would know they were wearing Russian diamonds, would not want to make that sort of investment,” according to the politician, who represents the social-democratic Vooruit (Forward) party and lives in Antwerp.

International approach

EU sanctions without global cooperation would merely push the goods to other centers, according to opponents of the plans.

The Antwerp World Diamond Centre (AWDC), which declined to comment on the specific proposals, has long held the view that sanctions by the EU alone would hurt the Belgian industry while having no impact on Russia. Rough from Alrosa, in which the state owns a 33% stake, has continued to flow to India despite the geopolitical situation, albeit in reduced volumes.

Any fresh restrictions would have only “cosmetic value,” because imports are already low, an Antwerp-based rough trader said on condition of anonymity. “That little [amount] will divert immediately via Dubai to Mumbai or directly to Mumbai,” he continued. “So it’s not going to serve the purpose at all.”

No excuse

The G7 nations — the US, the UK, Canada, France, Germany, Italy and Japan — have discussed introducing “binding rules” on the trade in Russian diamonds, Van Brempt said. However, the politician argued, the lack of a unified approach so far need not be an obstacle to kickstarting sanctions of some sort.

“Of course, once you impose sanctions, all sorts of loopholes will start running,” she acknowledged. “Yes, there we have a problem, but let’s impose it and start working on

the loopholes.”

The initial launch of the Kimberley Process (KP) was also difficult because some African countries had very few controls, Van Brempt observed. “So you need to step up and gradually get a process in place to make this work.”

Rupee settlement

The discussions come as India appears to be going in the opposite direction after rolling out a mechanism for settling international trade in rupees.

Manufacturers had been making purchases in other currencies such as euros since Russia’s exclusion from the Swift international payment system made dollar payments difficult. However, these transactions have also run into obstacles.

On January 4, India’s Gem & Jewellery Export Promotion Council (GJEPC) distributed a list of 12 Indian banks, or local branches of foreign financial institutions, that had received government approval to open “vostro” accounts on behalf of foreign banks. These accounts are held by the Indian bank in rupees for a foreign bank and are a method for facilitating international trade.

No one has yet used the system to buy and sell Alrosa rough because of the currency’s volatility, explained GJEPC chairman Vipul Shah. “The Russians are not comfortable investing in rupee,” he said. But, in theory, they could, and India’s access to Russian rough would improve.

Plenty of rough

The mass diamond shortages that many in the industry predicted for 2022 never happened, as some Russian goods still entered the market and Chinese demand faltered amid Covid-19 lockdowns. Might scarcities be in the cards now that Belgium's trade in Alrosa production is under threat?

“Because the goods are going directly to the cutting center[s in India], there are no shortages,” said the anonymous Antwerp trader. “There are rumors that in 2022, [Alrosa] sold more than enough. So for 2023, also, they will sell it, I think.”

Image: Shipments under inspection at Antwerp's Diamond Office. (Antwerp World Diamond Centre)