

Martin Rapaport's Open Letter on Russian Sanctions



Martin Rapaport recently sent this open letter to Mairead McGuinness, European commissioner for financial services, financial stability and the capital-markets union.

To: Mrs. Mairead McGuinness
Commissioner
Financial Services Financial Stability and Capital Markets Union
European Union

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From: Martin Rapaport
Chairman

Rapaport Group
Via Email: Martin@Rapaport.com

Re: Rapaport US Diamond Protocol to Reduce Russian Diamond Revenue

November 14, 2023

Dear Commissioner McGuinness:

The Rapaport Group supports the implementation of effective restrictive measures in order to reduce the revenues that Russia extracts from the export of diamonds.

Such restrictive measures must include “Russian Source” diamonds that have been exported from Russia as rough diamonds and manufactured (i.e. substantially transformed) outside of Russia. The US sanctions implemented to date have been ineffective due to the inclusion of the “Russian Source” loophole. This loophole allows for the continued flow of Russian rough diamonds to India, where they are polished and exported to the US as “Indian origin” polished diamonds. Money moves unimpaired from the US to India and then on to Russia. The net result is that there is no reduction in revenue to Russia. In fact, Alrosa’s revenue for H1 2023 was the same \$1.9 billion as H1 2022.

The EU must recognize that the World Diamond Council G7 Protocol supports this Russian Source loophole and is therefore ineffective and should not be supported by the EU.

The WDC proposal is based on a ‘check-the-box’ whitewashing system, whereby self-interested international trade organizations replace the role of government regulatory agencies charged with the enforcement of sanctions against Russian diamonds. Such

WDC guidelines empower international trade organizations that support the purchase of Russian diamonds, to audit the exclusion of such Russian diamonds from the US and other G7 markets. The numerous conflicts of interest render the WDC protocol's auditing system unacceptable.

The WDC G7 Diamond Protocol requires overly complex compliance and auditing systems that shifts market power to large companies that can comply with such unnecessary strenuous requirements against smaller companies that cannot. It enables mining companies such as De Beers, to control polished diamond markets through selective distribution of auditable rough diamonds to select companies. This will result in a reduction of market competition and charges of restraint of trade in the important U.S. market. Such political and legal opposition will significantly delay efforts to restrict the import of Russian diamonds into the US which is 55% of the global polished diamond market.

The Rapaport Group provides an alternative effective proposal entitled the "US Diamond Protocol", provided below, which will effectively restrict the flow of "Russian Source" diamonds into U.S. and other G7 markets.

Please note the "U.S. Diamond Protocol" enables government agencies to regulate the entities that are allowed to supply to the U.S. It places the responsibility of enforcement on government regulators and not self-interested trade organizations. Furthermore, should governments wish to implement 'tracing technologies', the US Protocol provides for complete transparency of every entity in the supply chain, from mine to point of import. Finally, it does not restrain trade for diamonds once they have been legally imported into the U.S. and retains the free market for recycled diamonds and estate jewelry.

The Rapaport Group urges the EU to adopt the [US Diamond Protocol](#) and adjust it for implementation regarding the EU and other G7 nations.

Important background information is available at [Rapaport.com/us-diamond-protocol](https://rapaport.com/us-diamond-protocol).

Thank you,
Martin Rapaport
Chairman, Rapaport

Martin@Rapaport.com

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The Rapaport US Diamond Protocol

Section 1.

All diamonds imported into the United States will require the following declarative statement by the importer and exporter:

“To the best of my knowledge the diamonds being imported have not been sourced from any US sanctioned entity.”

Note: “sourced” diamonds include diamonds purchased from a sanctioned entity that have been substantially transformed by non-sanctioned entities. This includes diamonds purchased from Alrosa and manufactured outside of Russia. US Customs or another designated government authority may maintain a list of companies allowed to export or import diamonds into the US.

Section 2.

In the event the US government wishes to implement a tracing capability for the import of diamonds into the US, the following protocols should be implemented:

All diamonds imported into the US shall have a unique US Blockchain Identification Number (USBIN) that links to the following information related to the import: name of blockchain; name of mining company; name of diamond manufacturer; import carat weight; import US\$ value; invoice trail of diamonds from mine to importer, listing the names of all companies that have transacted the diamonds.

The USBIN must be prominently displayed in a clear tamper-proof sealed bag containing the diamonds. For the purpose of import, the blockchain information will be restricted to government auditing entities.

All diamonds already in the US may be entered into a government-approved blockchain and assigned a USBIN by the company exporting the diamonds from the US. Such diamonds may be reimported into the US using the USBIN.

It is the responsibility of US government designated entities such as US Customs and/or Office of Foreign Asset Control to audit and approve acceptable diamond blockchains, as well as to designate entities that are allowed or not allowed to be included in the USBIN supply chain.

Once polished diamonds are in the US, there are no restrictions on their trade or statements required on any invoices.

Other countries, such as members of the G7, may or may not accept the US Diamond Protocol and US-USBIN for the importation of diamonds into their country.

Main image: Russian diamonds. (Alrosa)

