

More Sanctions to Ignore

By James Evans, EG

The latest round of international sanctions came into effect on 01 March. As such, gem-quality Russian diamonds weighing a carat or more should no-longer enter the G7. But will these sanctions bite, given previous sanctions were ignored?

Previous restrictions have fallen into two groups:

- **Sanctions on Russian diamonds.** These sanctions could be side-stepped by cutting Russian rough in a third country (under the rules of “substantial transformation”).
- **Sanctions on specific diamond-miners** (most notably ALROSA; the state-owned firm that dominates Russian production). These sanctions continue to be ignored.

The latest sanctions close the “substantial transformation” loophole for stones weighing a carat or more. To investigate whether they’re biting, we recorded the price of every round, 0.98-0.99 carat diamond from BlueNile.com – both before and after the sanctions took effect. For each diamond, we also recorded the average price of diamonds that were exactly equivalent in terms of colour, clarity, and cut, but which weighed 1.00-1.02 carats. If the sanctions had teeth, we would expect fewer 1.00-1.02 carat diamonds to be available, and therefore a greater markup to apply to these stones. Our analysis found the opposite; that the mark-up for 1.00-1.02 carat diamonds was no greater after the latest sanctions were introduced. Furthermore, we would expect the average cut grade to improve for stones just below a carat (as, for Russian stones, there would be less incentive to sacrifice cut quality for weight). Again, our analysis found the opposite.

From September the sanctions regime is set to shift yet again, as a new certification scheme will require diamonds weighing half a carat or more to be registered in a blockchain-based ‘ledger’ upon entry to the G7. However, the World Diamond Council’s ‘System of Warranties’ already requires assurance that stones are “from legitimate sources not involved in funding conflict”. It would be optimistic to assume one certification scheme will succeed where the other has failed. Indeed, the new scheme may be counterproductive if it provides a plausible defence for those undermining sanctions.

Natural diamonds have long been associated with labour abuses, illegal cartels, and conflict. If the industry’s ethical claims are to be taken seriously, we now need a robust process to positively identify where stones have originated – not a high-tech veneer atop a failed ‘system of warranties’.