

**IPIS insights**



**RUSSIAN DIAMONDS  
AND THE WAR IN UKRAINE**



# EDITORIAL

## **Russian diamonds and the war in Ukraine**

Antwerp, April 2022 (second edition September 2022).

**Front cover image:** Aerial view of Alrosa's Mir mine (Photo: Igor Dvurekov (CC BY-SA 3.0), 2016)

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# 1. INTRODUCTION

This report provides background and analysis on several aspects of the Russian diamond sector, what links it has to Russia's invasion of Ukraine, and how the international business and political community is seeking an adequate response to the challenges this raises.

The Russian invasion of Ukraine, that started on February 24, 2022 has led to international outrage. Russia's targeting of civilians and civilian infrastructure, causing widespread loss of life, human suffering and the destruction of schools, hospitals and residential areas, was condemned by 141 United Nations (UN) member states in a March 2<sup>nd</sup> General Assembly Resolution.<sup>1</sup> This outrage has led to an unprecedented wave of economic and financial sanctions designed to hurt Russia's economy and drain the resources of the Russian regime.

Against this background, the importance of Russia in the global diamond sector, more specifically of its diamond mining giant Alrosa, has been drawing increased attention with governments, businesses and industry associations reacting in diverging and constantly shifting ways. Combined with the complex and closed nature of this international industry, this has made it difficult to get and keep a clear picture of how the diamond and jewelry industry is affected by and responding to this matter.

This report starts with a brief presentation of what kind of actor Alrosa is, followed by its responsible sourcing track record. A fourth section analyses the various direct and indirect linkages between the Russian diamond sector and the invasion of Ukraine. The state of affairs with regard to the governmental and corporate response to this situation is presented in the following two sections. This report ends with an analysis of how this crisis will considerably impact the Kimberley Process, the international conflict diamond certification scheme, even though this body is unlikely to take any action on the matter.

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1 UN General Assembly, Resolution Demanding Russian Federation Immediately End Illegal Use of Force in Ukraine, Withdraw All Troops, 11<sup>th</sup> Emergency Special Session, GA/12407, 02.03.2022.

## 2. WHO IS ALROSA?

Alrosa is the largest diamond producing company in the world by volume.<sup>2</sup> In 2021 it sold 45.5 million carats of diamonds worth USD 4.2 billion. Alrosa accounts for over 90% of Russia's diamond production. Russia is the world's largest diamond producing country, accounting for approximately one third of global supply.

Alrosa's main mining operations are located in the Republic of Sakha (Yakutia) and the Arkhangelsk region in the northwestern part of Russia. In addition, Alrosa has important activities in Africa, especially in Angola, the world's fourth largest producer. It is a 41 % shareholder in the Sociedade Mineira do Catoca (SMC), which operates the Catoca mine, one of the world's largest diamond mines, producing over 7 million carats worth USD 800 million per year. Through SMC, which is a majority owner of the Sociedade Mineira do Luaxe, Alrosa also has a stake in Angola's much-anticipated new Luaxe mine, that is preparing to launch production and put 5.7 million carats on the market next year. Since 2019 Alrosa moreover owns 70% in a joint venture with Zimbabwe's state-owned diamond miner ZCDC which has been granted 39 prospecting licenses in which the joint venture is investing around USD 17 million.<sup>3</sup> Finally, in 2021, Alrosa signed a Memorandum of Understanding with the Democratic Republic of Congo's (DRC) state-owned diamond miner MIBA, defining areas of mutual interest and the potential for cooperation in the diamond mining industry.<sup>4</sup>

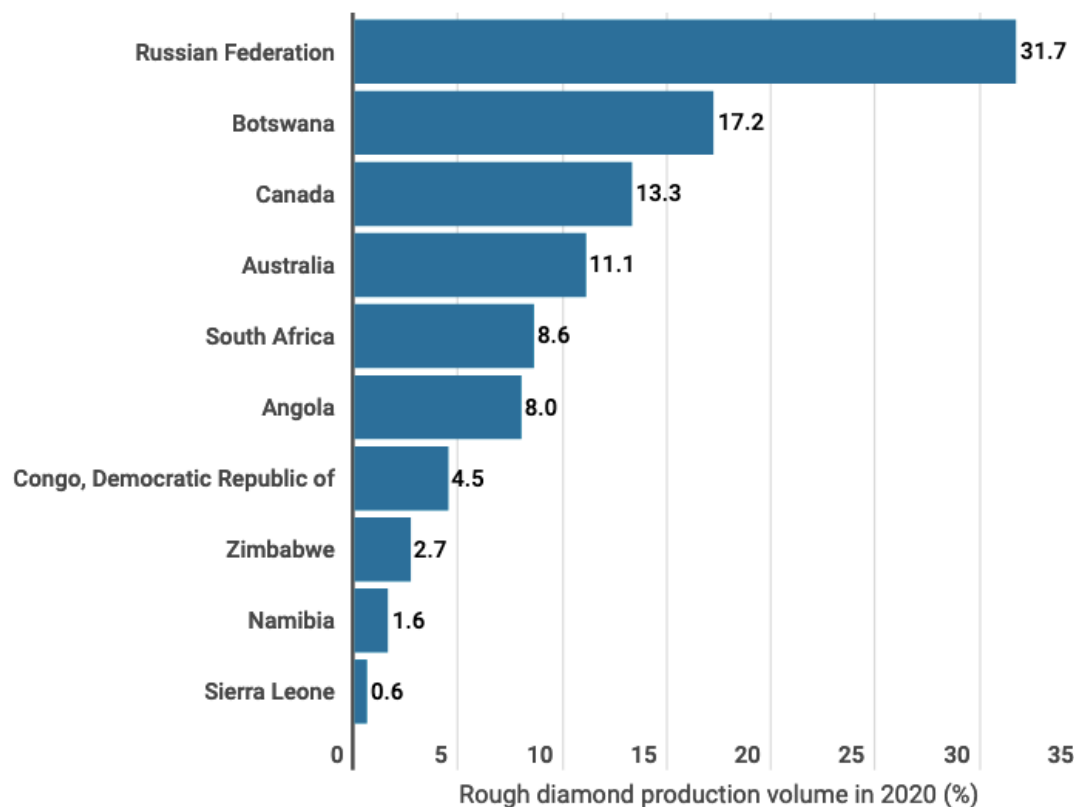


Figure 1: Rough diamond production volume in 2020, by country (Source: Kimberley Process statistics)

- 2 The UK-headquartered De Beers, whose decades-long near monopoly on diamond mining and trading was broken by Alrosa in the early 2000s, is still the largest diamond producer by value, with a total revenue of USD 5.6 billion in 2021.
- 3 'Alrosa, Zimbabwe JV investing around \$17 mln in exploration, plans to start mining', Interfax, 02.06.2022, <https://interfax.com/newsroom/top-stories/79813/>
- 4 Alrosa, 'ALROSA and MIBA sign Memorandum of Understanding, 09.09.2021, <http://eng.alrosa.ru/alrosa-and-miba-sign-memorandum-of-understanding/> (last accessed on 01.04.2022).



### 3. ALROSA AND RESPONSIBLE SOURCING

Alrosa presents itself as a responsible mining company and reports to meet “the highest responsible business standards”, focusing on the respect for human rights and “placing a special emphasis on ensuring the integrity of the supply chain from mine to customer”.<sup>5</sup> The Alrosa Alliance Guidelines on Responsible Business Practices stipulate its ethical standards, which all the company’s long-term clients are required to comply with. The Guidelines are often referenced as an example of the diamond industry’s commitment to responsible sourcing.

In 2016, Alrosa’s efforts and commitments were acknowledged by an independent audit for the Responsible Jewelry Council (RJC) which awarded the company certification against the Code of Practices. These “highest standards of responsible business”, as the RJC terms them,<sup>6</sup> cover “not only standard finance and legal compliance issues, but also ethical business aspects, such as anti-corruption measures, human rights, decent labor conditions, social responsibility programs and protection of the environment”.<sup>7</sup> Alrosa’s global leadership is moreover reflected in its central role in major international industry associations, such as the Responsible Jewelry Council, the World Diamond Council and the Natural Diamond Council (see below for how Russia’s invasion of Ukraine is affecting these roles).

However, in recent years, a number of events started putting stains on Alrosa’s ethical track record. In 2017, eight workers died when an underground shaft of Alrosa’s flagship Mir mine in Yakutia flooded. The director of the mine, Alexei Burkser, and the chief engineer were fired for failing to halt the work and evacuate workers despite knowledge of a leak. Burkser was later found dead in pre-trial detention with “signs of suicide”.<sup>8</sup>

A second major stain on Alrosa’s record occurred in 2021 when it failed to respond to a massive tailings leak at the Catoca mine in Angola, of which it is a 41% shareholder. The purportedly toxic spill colored hundreds of kilometers of rivers in Angola and the neighboring DRC red and had a devastating impact on aquatic life and human health. In addition to a massive number of fish deaths, 12 people died due to the contamination and thousands got sick, according to DRC authorities. Yet, despite the scale of the disaster and the high profile of the mine and its owners, the cause of the damage to date remains shrouded in obscurity.<sup>9</sup> Adding to the picture of corporate deficiency, is that hardly any action has been taken to mitigate the immediate and potentially long-term damage to the hundreds of thousands of people whose main source of water and nutrition has become contaminated. Despite 7,800 victims having filed a case against Catoca in the Tshikapa High Court in Kasai, DRC, Catoca did not show up for the trial which took place in March 2022. At the time of writing the Court was still deliberating the matter.

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5 Alrosa, ‘ALROSA provided clients with an overview of its sustainability agenda and ALROSA Provenance programme’, 27.09.2021, <http://eng.alrosa.ru/alrosa-provided-clients-with-an-overview-of-its-sustainability-agenda-and-alrosa-provenance-programme/> (last accessed on 01.04.2022).

6 RJC/Alrosa, ‘ALROSA joins the Responsible Jewellery Council’, 17.08.2016, <https://www.responsiblejewellery.com/wp-content/uploads/2016-08-17-Press-release-ALROSA-joins-RJC-ENG-final.pdf> (last accessed on 01.04.2022).

7 Alrosa, ‘Alrosa becomes a certified member of the RJC’, 17.08.2016, <http://eng.alrosa.ru/alrosa-becomes-a-certified-member-of-the-rjc/> (last accessed on 30.03.2022).

8 ‘Ex-head of Alrosa’s flooded Russian mine found dead in custody’, *Reuters*, 08.10.2019, <https://www.reuters.com/article/alrosa-mir-investigation-death-idINL5N26T1JK>.

9 Mukpo A., ‘An environmental ‘catastrophe’ in Southern Africa lingers with few answers’, *Mongabay*, 16.09.2021, <https://news.mongabay.com/2021/09/an-environmental-catastrophe-in-southern-africa-lingers-with-few-answers/>.

## 4. WHAT ARE THE LINKS BETWEEN ALROSA AND RUSSIA'S INVASION OF UKRAINE?

It is not easy to uncover how Alrosa may be contributing to the Russian war chest, as Russia is not known for transparency. It is however undeniable that there is a link between Alrosa and the Russian regime's generation of revenue. New revelations even indicate Alrosa is directly supporting the maintenance of a combat submarine of the Russian military.

### 4.1. ACCESS TO REVENUE AND FOREIGN CURRENCY

Alrosa has two governmental shareholders, namely the Russian Federation and the Republic of Yakutia, each owning 33% of Alrosa's shares. Reportedly, the company is closely connected to and overseen by President Putin.<sup>10</sup> Alrosa's CEO Sergej Sergejevitsj Ivanov is part of Putin's inner circle and was one of the five oligarchs targeted by the first round of US sanctions announced on the day that Russia started its invasion of Ukraine (see below). The level of government control is also clear from the representation in Alrosa's board as it consists of many of Putin's close allies. Board members include Anton Siluanov, Russia's Minister of Finance, Kirill Dmitriev the US- and UK-sanctioned CEO of the Russian Direct Investment Fund, and Vladimir Rashevsky, the head of fertilizer producer EuroChem, who is subject to EU sanctions.

A first link is that the Russian Federation shares in Alrosa's profits. In 2021 this profit amounted to RUB 91 billion (USD 1.1 billion). In Putin's own words this "gives serious revenues to the federal and regional budget".<sup>11</sup> At a March 18 meeting of the UN Economic and Social Council (ECOSOC) in New York the US representative noted that "We cannot ignore that Russia accounts for a significant portion of global rough diamond production and that these proceeds help finance the government's operations, presumably including its military".<sup>12</sup> The Russian diamond industry provides a source of revenue for the Russian Federation, but considerably less than what it gets through its oil and gas exports for instance. Gazprom's 2021 profit is six times higher than Alrosa's and amounted to USD 6.7 billion,<sup>13</sup> while the total value of Russian energy imported in the EU in 2021 has been estimated at € 99 billion.<sup>14</sup>

The Russian Federation does not only generate revenues from diamonds as a shareholder, since the 1990s it has been directly buying and selling diamond production from Alrosa to manage global supply and pricing. This is done by Gokhran, Russia's state-owned repository of precious stones, diamonds and metals that operates under the Ministry of Finance. It is a state secret how many diamonds Gokhran has in stock and thus how much revenue the Russian Federation could generate by putting this reserve on the market. In 2021, Gokhran organized six auctions for a total of three million carats garnering USD 225 million. According to one source those auctions accounted for 20% of Gokhran's total repository.<sup>15</sup>

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10 McClure T., 'Jewellery industry accused of silence over Russian diamonds', *The Guardian*, 19.03.2022, <https://www.theguardian.com/world/2022/mar/19/jewellery-industry-accused-of-silence-over-russian-diamonds>.

11 'Russian PM Vows Support for Diamond Miner Alrosa', *Radio Free Europe*, 21.08.2009, <https://www.rferl.org/a/Russian-PM-Vows-Support-For-Diamond-Miner-Alrosa/1804546.html>.

12 'Natural resources, peaceful societies and sustainable development: Lessons from the Kimberley Process', Economic and Social Council, Special meeting, New York, <https://media.un.org/en/asset/k14/k14xj2bebt> (last accessed 01.04.2022).

13 'Rising prices fuel record profit at Russia's Gazprom Neft', *Reuters*, 18.02.2022, <https://www.reuters.com/business/energy/russias-gazprom-neft-reports-record-annual-profit-67-bln-2021-2022-02-17/>.

14 Edmond C., 'How much energy does the EU import from Russia?', *World Economic Forum*, 17.03.2022, <https://www.weforum.org/agenda/2022/03/eu-energy-russia-oil-gas-import/>.

15 Shishlo A., 'Gokhran to hold another diamond auction on September 7, 2021', *Rough & Polished*, 04.08.2021, <https://www.rough-polished.com/en/news/122282.html>.



*Ukrainian civilians and soldiers take shelter under a bridge in Kyiv (Photo: Mvs.gov.ua (CC BY 4.0), 2022)*

With the ruble plunging, access to foreign currency becomes increasingly vital for Russia to sustain its war effort. Reportedly in fear of sanctions targeting US-dollar assets (see below), Alrosa has been testing payments in euros, yuan and other currencies since 2018.<sup>16</sup> The company is said to have been testing non-US-dollar payments in recent years, that is before the Russian invasion of Ukraine. Various reports<sup>17</sup> indicate that this practice continues to date with Alrosa auctions and sales to Indian polishers among others via banks in Germany, Italy and the United Arab Emirates (UAE).

## 4.2. SUPPORT TO A RUSSIAN COMBAT SUBMARINE

Last March the Belgian newspaper HLN reported that the Russian army boasts that Alrosa has paid significant amounts over the years to “increase the combat readiness of Russian submarines”.<sup>18</sup> Newsletters from Alrosa indeed reveal that the company engaged in a sponsorship agreement with the B-871 combat submarine in 1997, committing to “maintain the ship in a combat-ready condition and provide material assistance to the personnel as well as sporting, medical, cultural and recreational support” (own translation from Russian).<sup>19</sup>

16 See for instance: Devitt P. & Golubkova K., 'Russian firms test non-dollar deals to sidestep any U.S. sanctions', Reuters, 18.10.2018, <https://www.mining.com/web/alrosa-test-non-dollar-deals-sidestep-us-sanctions/>

17 Ghosal S., 'Russia resumes export of rough diamonds to India', *The Economic Times*, 17.03.2022, <https://economictimes.indiatimes.com/industry/cons-products/fashion-/cosmetics-/jewellery/russia-resumes-export-of-rough-diamonds-to-india/articleshow/90277593.cms>.

18 Muylaert J. & De Witte E., 'Antwerpse diamantsector financiert mee oorlog in Oekraïne: diamantgeld vloeit naar Russische oorlogsdrukbotten', *Het Laatste Nieuws (HLN)*, 21.03.2022, <https://www.hln.be/economie/antwerpse-diamantsector-financiert-mee-oorlog-in-oekraïne-diamantgeld-vloeit-naar-russische-oorlogsdrukbotten~ab375428/>.

19 Alrosa May 2017 Newsletter, p. 47, [http://www.alrosa.ru/wp-content/uploads/2017/04/Alrosa\\_01-1.pdf](http://www.alrosa.ru/wp-content/uploads/2017/04/Alrosa_01-1.pdf) (last accessed on 01.04.2022).



С середины 1990-х и до 2015 года «АЛРОСА» была единственной действующей подводной лодкой Черноморского флота

ВЕСТИНИ АЛРОСА

НАША ИСТОРИЯ 13

20 лет назад алросовцы взяли шефство над дизель-электрической подводной лодкой Б-871. Сегодня «АЛРОСА» — это единственная боевая субмарина в мире, названная в честь промышленной корпорации.

52 мкм. 45 ст. 300 м. 17 ст. 10 ст. 6,2 м. 9,9 м. 76,2 м. 3950 м. 2300 м.  
Звезда Автономность Подводная Надводная Средняя Наибольшая Наибольшая Подводная Надводная  
главная плавания глубина скорость высота ширина длина водоизмещение замаскированность

# Большое плавание «АЛРОСА»

Текст: Станислав Волков

Прямо по курсу субмарина Б-871 пролегла в 1987 году («Варшавка») была заложена в мае 1988 года на четвертом издании «Образца Сириуса». Уже через год верфи спустились на воду и переправили на Черное море. Все ее заводские системы в 1989 году передали в распоряжение ВМФ.

Article on the history of the 'Aloresa' Submarine entitled "The Great Voyage of the <Aloresa>" in Alrosa's February 2017 corporate newsletter

Early 2014, shortly after the annexation of Crimea, amid what Alrosa terms a “kaleidoscope of events in these truly historic days for Sevastopol and Crimea” (own translation), the company dedicates an article in its April newsletter to ‘The Diamond Submarine and Ukraine’.<sup>21</sup> It lauds how the ‘Aloresa’ submarine with its long service and track record played a crucial role in training the crews of Russia’s extensive Black Sea fleet. With pride it expresses how this impressive record led the ‘Aloresa’ submarine crew to be selected to service the Zaporozhye submarine, which “after many years as part of the Navy of Ukraine returned to the battle lines of the Black Sea Fleet” (own translation).<sup>22</sup> In fact, this Zaporozhye submarine was the only submarine of the Ukrainian navy until it was seized by Russia on 22 March 2014. The Alrosa corporate newsletter further describes how the ‘Aloresa’ submarine crew is currently training about half of the former Ukrainian crew of the Zaporozhye who wished to apply for Russian citizenship and continue service as part of the Russian Black Sea fleet.

As the ‘Aloresa’ submarine had to undergo repairs, the diamond miner ended its newsletter by expressing commitment to “this strong friendship (that) has been tested by time. It does not corrode. It will go through repair and modernization and the renewed submarine will once again stir the Black Sea blue water” (own translation).<sup>23</sup> In 2017, Alrosa commemorated 20 years of sponsorship of “the world’s only combat submarine named after a company” (own translation).<sup>24</sup>

20 Ibid., p.46.  
21 Alrosa April 2014 Newsletter, p. 15, <http://www.alrosa.ru/wp-content/uploads/2014/05/VA4213.pdf> (last accessed on 01.04.2022).  
22 Ibid.  
23 Ibid.  
24 Alrosa February 2017 Newsletter, p. 13 [http://www.alrosa.ru/wp-content/uploads/2017/03/Alrosa02246\\_2017.pdf](http://www.alrosa.ru/wp-content/uploads/2017/03/Alrosa02246_2017.pdf) (last accessed on 01.04.2022).

With this sponsorship agreement Alrosa claims it sought to solve two problems at once. In the first instance, it wanted to help save the Russian navy from collapse as it was in a dire financial situation following the fall of the Soviet-Union. In return for its support, the company wanted youths from Yakutia, where most of its mines are based, to be able “to serve on real combat submarines in order to protect them from the rising crime, drug addiction and alcoholism in the region” (own translation).<sup>20</sup> To thank the company for its support, the Commander-in-Chief of the Russian Navy awarded the B-871 submarine the honorary name ‘Aloresa’ in 2004.

АКТУАЛЬНАЯ ТЕМА

ВЕСТИНИ АЛРОСА

№4 (213) март, 2014

## Широкое связи

# Алмазная субмарина и Украина



К алмазному соборит и для каждой из... (text continues in columns)

Как пережили бурные события на Украине и в Крыму наши подводники, по сути звание подводной лодки Б-871 «АЛРОСА»?



Article titled “The Diamond Submarine and Ukraine” in Alrosa’s April 2014 corporate newsletter

On March 22<sup>nd</sup>, the Belgian newspaper HLN followed up with an allegation that Alrosa may be contributing to Russia's production of nuclear weapons. It based these suspicions on the fact that Alrosa obtained a license in 2008 to mine, process and store uranium, and entered a partnership agreement with Russia's nuclear agency Rosatom one year later. Indeed, the Moscow-based diamond news outlet Rough & Polished reported in 2008 that the Russian Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor) issued a 3-year license to Alrosa to handle nuclear materials.<sup>25</sup> The company spokesperson was quoted as saying that Alrosa may now "develop deposits containing nuclear-active materials as admixed components". He added that such deposits exist in Yakutia where most of Alrosa's activities take place.

## 5. STATUS OF SANCTIONS ON RUSSIAN DIAMONDS

Despite the Western clampdown on Russian products and sectors, the legal restrictions on the diamond industry remain very limited to date. This is to a large extent due to the fragmented and complex nature of the global diamond supply chain. In addition to mining, this chain roughly speaking consists of three other main links: trading, manufacturing (i.e. cutting and polishing) and retail. The trade involves three countries with large hubs: Belgium, UAE and India; and two housing relatively smaller diamond centers: Israel and China. Diamond manufacturing is dominated by India where 90% of the world's diamonds are cut and polished. The United States are the largest diamond jewelry consumer market, followed by China. Of all these countries, so far, only the US have taken measures to restrain the import of Russian diamonds.

### 5.1. US SANCTIONS

Two rounds of US sanctions have targeted diamonds specifically. The first executive order sanctioning Russia, issued on the first day of the Russian invasion in Ukraine, immediately focused on Alrosa. It added the company's CEO, Sergey S. Ivanov to the Specially Designated Nationals list of the Office of Foreign Assets Control (OFAC). This implies any US assets he has, will be seized while it also prevents him from doing business in the US or with US citizens.

In an attempt to limit Alrosa's ability to raise US capital, the executive order moreover prohibits US citizens or persons in the US from engaging in transactions and dealings with the Russian company involving "new debt of longer than 14 days maturity and new equity".<sup>26</sup> According to the Jewelers Vigilance Committee (JVC), an industry association providing compliance advice to jewelers in the US, this would prohibit what is termed "memo agreements" in the diamond business. This is a transaction whereby a supplier provides a parcel of diamonds for inspection to a customer, with a payment only occurring if the latter decides to purchase the goods. Alrosa claimed however that both components of this executive order would not prevent it from doing business as usual, as its CEO never possessed assets abroad and the company doesn't engage in transactions that involve debt.<sup>27</sup>

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25 'ALROSA will be able to develop deposits containing uranium as an admixed component', *Rough & Polished*, 23.12.2008, <https://www.rough-polished.com/en/news/21066.html>.

26 US Department of the Treasury, 'U.S. Treasury Announces Unprecedented & Expansive Sanctions Against Russia, Imposing Swift and Severe Economic Costs', 24.02.2022, <https://home.treasury.gov/news/press-releases/jy0608>.

27 Bates R., 'U.S. Sanctions Target Alrosa and Its CEO', *JCK*, 25.02.2022, <https://www.jckonline.com/editorial-article/alrosa-ceo-target-us-sanctions/>.

Two weeks later, a new executive order was served to further cut the ties with the Russian diamond sector by banning the import of what it termed “non-industrial diamonds”.<sup>28</sup> Yet, further guidance by OFAC made clear that also this time the practical impact was limited. The sanctions only concerned diamonds “produced, manufactured, extracted, or processed in the Russian Federation, excluding any Russian Federation origin good that has been incorporated or substantially transformed into a foreign-made product.”<sup>29</sup> The large majority of Russian diamonds only enter the US market after they are polished in India, which in this reasoning reclassifies them as Indian products. Various industry analysts confirmed that it remains perfectly legal for US companies to import Russian diamonds that have been cut or polished elsewhere.<sup>30</sup>



*Soldiers patrolling in the Antwerp diamond quarter (Photo: IPIS, 2020)*

JVC however cautioned that the US restrictions could be tightened any minute and that the US is likely hoping “that other countries will join them in this ban” in order to “narrow the pathway for Russian diamonds to go elsewhere.”<sup>31</sup> Some analysts have argued that the current exemption in the US sanctions may have been deliberate as distinguishing product based on origin is notoriously difficult in the diamond industry.<sup>32</sup> Source-tracking has gained increased attention in recent years but the industry will have to considerably step up efforts to distinguish diamonds from (non-)Russian origin. The Biden administration could be giving “the industry a chance to get its act together before the next wave of sanctions”.<sup>33</sup>

## 5.2. EU SANCTIONS

Despite rising competition from centers like Dubai and Mumbai, Antwerp today is still the world’s largest diamond hub.<sup>34</sup> This success to a considerable extent hinges on Russian diamonds, which according to sector federation Antwerp World Diamond Centre (AWDC) account for 25% of Antwerp’s rough diamond imports, valuing EUR 1.8 billion in 2021.<sup>35</sup> Alrosa puts around one third of its production on the market through Antwerp, where it has an important sales office and where around 20 of Alrosa’s 58 long-term clients are based.<sup>36</sup>

28 The White House, ‘Executive Order on Prohibiting Certain Imports, Exports, and New Investment with Respect to Continued Russian Federation Aggression’, 11.03.2022, <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/>.

29 US Department of the Treasury, ‘Frequently Asked Questions: Russian Harmful Foreign Activities Sanctions’, 08.03.2022, <https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1019> (last accessed on 01.04.2022).

30 Freedman J., ‘Russian Goods Cut Elsewhere Are Legal: JVC’, *diamonds.net*, 15.03.2022, <https://www.diamonds.net/News/NewsItem.aspx?ArticleID=68486&ArticleTitle=Russian+Goods+Cut+Elsewhere+Are+Legal%3A+JVC>; Smillie I., ‘The Feel-Good Ban on Russian Diamonds’, *Inkstick*, 24.03.2022, <https://inkstickmedia.com/the-feel-good-ban-on-russian-diamonds/>.

31 Bates R., ‘U.S. Ban On Russian Diamond Imports May Have Major Loophole’, 14.03.2022, <https://www.jckonline.com/editorial-article/u-s-russian-diamond-loophole/>.

32 Krawitz A., ‘The Diamond Origin Dilemma’, *diamonds.net*, 16.03.2022, <https://www.diamonds.net/News/NewsItem.aspx?ArticleID=68495&ArticleTitle=The+Diamond+Origin+Dilemma>.

33 Bates R., ‘With Russia, Industry Must Prove It Learned The “Blood Diamond” Lesson’, *JCK*, 28.03.2022, <https://www.jckonline.com/editorial-article/russia-industry-blood-diamond/>.

34 For an analysis of Antwerp’s diamond sector controls from a global perspective: Merket H., *Belgium’s fight against conflict diamonds: An assessment of the country’s diamond sector controls from a global perspective* (IPIS, Antwerp, 2021), 79p.

35 Meulders R., ‘La controverse des diamants russes d’Anvers’, *La Libre*, 10.03.2022, <https://www.lalibre.be/economie/entreprises-startup/2022/03/10/la-controverse-des-diamants-russes-danvers-ATCWQJDKRBP7ET27Y4U42GNJU/>.

36 ‘Alrosa and Antwerp Reaffirm Relationship’, *diamonds.net*, 06.12.2021, <https://www.diamonds.net/News/NewsItem.aspx?ArticleID=68099&ArticleTitle=Alrosa+and+Antwerp+Reaffirm+Relationship>.



For a moment it looked like the second EU sanctions package, which was introduced on February 25<sup>th</sup> and targeted broad areas of the Russian economy, would include restrictions for the diamond sector as well. Yet, the diamond trade was eventually exempted, along with Italian luxury goods, following concerns expressed by the Belgian government and a lobby campaign by the AWDC.<sup>37</sup> The latter warned that such a measure would hurt Belgium more than Russia, as the diamond trade could easily move to another trading hub putting thousands of Belgian jobs in danger.

In an attempt to hurt Russian oligarchs, the fourth EU sanctions package, which came into effect on March 15<sup>th</sup>, banned the sale of luxury products, including diamonds, to Russia.<sup>38</sup> This did however not affect the diamond trade much as the dominant flow of diamonds takes the opposite direction, from Russia to the EU.

Despite the absence of restrictive measures, diamond traders in Antwerp report that the trade is stalling, citing two main reasons.<sup>39</sup> Firstly, the closing of the EU airspace to passenger planes from Russia also affects the diamond trade, which tends to make use of special compartments in their cargo hold. Secondly, the uncertainty generated by ever tightening sanctions makes traders hesitant to purchase Russian diamonds as their clients may no longer want or be allowed to trade them the next day. This scenario is not unthinkable, as several political parties in Belgium have put sanctions against Russian diamonds on the table following media reports about Alrosa directly supporting Russia's military and nuclear program (see above). In a speech by video link to the Belgian federal parliament, Ukrainian President Zelensky further upped the pressure by stressing that "Peace is worth much more than diamonds".<sup>40</sup> Yet, the position of the Belgian government remains unchanged, namely that it does not plan to exert any pressure to include diamonds in the next EU sanctions package, but would not oppose any EU decision on the matter either.<sup>41</sup>

### 5.3. UK SANCTIONS

On March 24<sup>th</sup>, the United Kingdom (UK) joined the US in sanctioning Alrosa.<sup>42</sup> As the UK is not a major rough diamond trading hub, the importance of these measures lay not so much in blocking Alrosa's exports, but in the fact that UK companies are prohibited from doing business with sanctioned entities. It most likely also raised the pressure for the London-based RJC and its member organizations (see below).

### 5.4. OTHER MAIN CENTERS

The two other main diamond trading hubs, UAE and India, have not taken any measures to restrict Russian diamond imports. On the contrary, they reportedly see an opportunity to take over market share from their competitor Antwerp and have already sent representatives to Moscow to assure them of their openness. In India in particular there is a nervousness that the international restrictions would hurt their diamond polishing sector and its estimated workforce of 650,000. Addressing these concerns, Alrosa

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37 Kelepouris S. & Struys B., 'Een geslepen lobby: hoe een Russische diamant-oligarch zaken kan blijven doen vanuit België', *De Morgen*, 19.03.2022, <https://www.demorgen.be/nieuws/een-geslepen-lobby-hoe-een-russische-diamant-oligarch-zaken-kan-blijven-doen-vanuit-belgie~ba873060/>.

38 Council Regulation (EU) 2022/428 of 15 March 2022 amending Regulation (EU) No 833/2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine.

39 Suy P., 'Russische diamantexport naar Antwerpen stopt', *De Tijd*, 17.03.2022, <https://www.tijd.be/ondernemen/retail/russische-diamantexport-naar-antwerpen-stopt/10374323.html>.

40 Connelly T., 'From Russia with diamonds: How Antwerp has evaded sanctions so far', *RTE*, 32.03.2022, <https://www.rte.ie/news/analysis-and-comment/2022/0331/1289609-russia-diamonds-sanctions/>.

41 Moens B., 'Belgium braces for Zelenskyy's fury over Russian diamonds', *Politico*, 29.03.2022, <https://www.politico.eu/article/diamond-trade-puts-belgium-in-antwerp-tough-spot-in-front-of-ukraine-zelenskyy/>.

42 Foreign, Commonwealth & Development Office, 'Foreign Secretary announces 65 new Russian sanctions to cut off vital industries fuelling Putin's war machine', 24.03.2022, <https://www.gov.uk/government/news/foreign-secretary-announces-65-new-russian-sanctions-to-cut-off-vital-industries-fuelling-putins-war-machine>.



has assured India's Gem and Jewellery Export Promotion Council (GJEP) that it will make all efforts to guarantee a continuous supply.<sup>43</sup> Furthermore, India and Russia are working to reinforce a direct rupee-ruble payment mechanism to bypass SWIFT banking restrictions.<sup>44</sup>

## 6. INDUSTRY REACTION

The response to the Russian aggression also divides the diamond and jewelry industry. Brilliant Earth, a relatively small US jewelry retailer that has a mission to 'disrupt the diamond industry' with its ethical approach,<sup>45</sup> was first in taking a stance. On February 26<sup>th</sup> it announced to have removed all Russian mined diamonds from its website.<sup>46</sup> Signet Jewelers Ltd. and Tiffany & Co., the two largest jewelry retailers in the US, followed a few weeks later with their decisions to move beyond the US sanctions on Russian diamonds. On March 20<sup>th</sup> and 25<sup>th</sup> respectively, Signet and Tiffany communicated they will no longer be purchasing diamonds mined in Russia.



*Showcase of a jewelry store in Antwerp's diamond district (Photo: IPIS, 2020)*

The Russian aggression is also causing headaches to the big industry associations, particularly those that have set itself a mission to provide leadership on ethics. This concerns in the first the RJC as it is the industry's most prominent standard-setting body. Its mixed response so far appears to be tearing apart the organization. On the one hand, Alrosa's Peter Karachiev voluntarily stepped down as Vice-Chair of the RJC Board.<sup>47</sup> On the other hand, Alrosa to date is still a certified RJC member, despite the CoP providing "multiple bases for action against Alrosa", as Brad Brooks-Rubin, a strategic adviser for the RJC, was quoted as saying in The Guardian.<sup>48</sup>

The internal discontent over RJC's continuing silence on the matter eventually plunged the association into turmoil. On March 30<sup>th</sup> news got out two large jewelers, Pandora and Cartier-owner Richemont, ended their memberships and Iris Van der Veken resigned as RJC's Executive Director.<sup>49</sup> All three cited discontent

43 'India may consider alternative pay system for exporters if Russia-Ukraine war continues for long', *Deccan Herald*, 08.03.2022, <https://www.deccanherald.com/business/business-news/india-may-consider-alternative-pay-system-for-exporters-if-russia-ukraine-war-continues-for-long-1089282.html>.

44 Ghosal S., 'Russia resumes export of rough diamonds to India', *The Economic Times*, 17.03.2022, <https://economictimes.indiatimes.com/industry/cons-products/fashion/-/cosmetics/-/jewellery/russia-resumes-export-of-rough-diamonds-to-india/articleshow/90277593.cms>.

45 Brilliant Earth, 'Defining Beyond Conflict Free™', <https://www.brilliantearth.com/conflict-free-diamonds/>.

46 See: <https://twitter.com/BrilliantEarth/status/1497660600641470464>.

47 Responsible Jewellery Council, 'ALROSA steps down from the Board of the Responsible Jewellery Council (RJC)', 03.03.2022, <https://www.responsiblejewellery.com/alrosa-steps-down-from-the-board-of-the-responsible-jewellery-council-rjc/>.

48 McClure T., 'Major jewellers to cease buying Russian-origin diamonds after increased scrutiny', 31.03.2022, <https://www.theguardian.com/world/2022/mar/31/major-jewellers-to-cease-buying-russian-origin-diamonds-after-increased-scrutiny>.

49 Pandora, 'Pandora leaves trade association RJC', 30.03.2022, <https://pandoragroup.com/investor/news-and-reports/press-releases/newsdetail?id=25046>; Koltrowitz S. & Spencer M., 'Cartier and other Richemont labels leave Responsible Jewellery Council', *Reuters*, 30.03.2022, <https://www.reuters.com/business/retail-consumer/richemont-group-labels-leave-responsible-jewellery-council-2022-03-30/>; Krawitz A., 'RJC Head Iris Van der Veken Resigns', *diamonds.net*, 30.03.2022, <https://www.diamonds.net/news/NewsItem.aspx?ArticleID=68532>.

over RJC’s handling of Alrosa’s membership. RJC Chair David Bouffard responded in a statement that the council had “commenced an arm’s length, independent, third-party legal assessment ... to consider the status of Alrosa as an RJC member”. He added that conclusion of this process was imminent and that the RJC “appreciates that the pace of this process may be frustrating, but this is an unprecedented situation, which is constantly changing and requires that the time be taken to ensure that due process is followed as exhaustively as possible”.<sup>50</sup>

Another industry leader that has so far not issued a clear response to the moral dilemma, is the World Diamond Council (WDC). The WDC represents the industry as an observer to the Kimberley process (KP) and has a mission to “ensure that all diamonds in the pipeline are handled in accordance with universal principles of human rights, labor rights, anti-corruption and anti-money laundering”.<sup>51</sup> Not having been put on the spot regarding the matter, the WDC only released a statement on March 8th expressing its deep concern “for the safety of those affected by the conflict in Ukraine”.<sup>52</sup> It added that “The situation remains complicated as well as dynamic, with changes likely to occur at any time, so it is not possible at this stage to make any meaningful predictions about the potential impact on the diamond sector”. At the time of writing, Alrosa is still a WDC member and has a seat on the association’s Board of Directors.

Concerns also rose for the Natural Diamond Council, the marketing arm of the globe’s seven largest diamond mining companies, including Alrosa, which claims to “advance the integrity of the modern diamond jewelry industry”. On March 2nd, Alrosa suspended its NDC membership, stepped down from the board and ceased all financial contributions. It noted that “The current situation is unprecedented, the company continues to monitor and analyze repercussions it might have for the industry and relationships that have been built over decades across the world”.<sup>53</sup>

## 7. THE (NON-)RESPONSE OF THE KIMBERLEY PROCESS

### 7.1. UNLIKELY KIMBERLEY PROCESS ACTION

In theory, the mechanism to coordinate international efforts to break the link between diamonds and conflict is the Kimberley Process. It operates under a UN mandate and includes all major diamond mining, trading, manufacturing and consumer countries, along with industry and civil society observers. All countries participating in the scheme are obliged to meet certain minimum requirements to ensure that no conflict diamonds enter the legitimate trade.

Two major weaknesses of this control regime, which have long been criticized by civil society and increasingly by industry and a number of governments, render it unlikely that the KP will take up any role in providing coordination or guidance on the matter of Russian diamonds. Firstly, following several failed reform attempts, the Kimberley Process still looks at conflict through a 20-year-old lens. Its definition of conflict diamonds has remained unchanged since 2000s and only concerns “rough diamonds used by rebel movements or their allies to finance conflict aimed at undermining legitimate governments”.<sup>54</sup> This narrow definition has over the years led the KP to ignore various cases where public or private

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50 Bates R., ‘RJC Executive Director Resigns As Alrosa’s Status Splits Group, *JCK*, 30.03.2022, <https://www.jckonline.com/editorial-article/rjc-executive-director-resigns/>.

51 World Diamonds Council, ‘About WDC’, <https://www.worlddiamondcouncil.org/about-wdc/> (last accessed 01.04.2022).

52 World Diamond Council, ‘Statement on the crisis in Ukraine’; 08.03.2022, <https://www.worlddiamondcouncil.org/wp-content/uploads/2022/03/WDC-Update-Ukraine-Situation-8-3-2022.pdf>.

53 Jamasmie C., ‘Alrosa suspends Natural Diamond Council membership’, *mining.com*, 04.03.2022, <https://www.mining.com/alrosa-suspends-natural-diamond-council-membership/>.

54 KPCS Core Document, Section 1, Definitions.

security forces, and not rebels, were inflicting violence and conflict to control diamond mining areas.<sup>55</sup> It is therefore highly unlikely that the KP would consider action on a matter that differs even more from a scenario where rebels control diamond mines.

A second major shortcoming is that decision-making in the KP is based on consensus, implying that no votes are cast and decisions are only taken if none of the 56 Participants (55 countries + the EU as single entity) expresses disagreement. Even if Russia would in this case not be allowed to participate in decision-making, KP membership includes various countries that are unlikely to support KP scrutiny of Russian diamonds, such as China, the United Arab Emirates and India. The March 2<sup>nd</sup> UN General Assembly (UNGA) Resolution demanding an end to Russia's aggression against Ukraine provides some indication of division among KP member states, as it was supported by only 33 of the KP's 59 Participants (two voted against, nineteen abstained and five were not present for the vote).



*From left to right: 2019 representatives of the Kimberley Process Civil Society Coalition, World Diamond Council, Russian KP Vice-Chair and Indian KP Chair (Photo: IPIS, 2019)*

## 7.2. LIKELY KIMBERLEY PROCESS FRICTION

While many in the KP may want to ignore the matter, the Russian diamond controversy will considerably impact the process. The geopolitical crisis and the opposing views on how the KP should deal with it, will exacerbate the stalemate that has been hindering progress since its inception.<sup>56</sup> It can also plunge the KP into an existential crisis, with a risk of implosion. Civil society has long criticized how the KP certification scheme, with its narrow focus and substandard oversight and controls, whitewashes diamonds associated with violence and abuse as conflict-free vis-à-vis unwitting jewelry consumers reliant on its assurance.<sup>57</sup> This however always concerned a minority of stones. The fact that Russian diamonds present one third of the global diamond supply may lead an increasing number of Participants as well as civil society and industry observers to question whether they can continue being part of – and invest considerable time and resources in – a process that entrusts and legitimizes this flow with KP conflict-free certificates.

55 Merket H., 'Blood diamonds in the supply chain', *Rapaport Magazine*, March 2022, <https://www.diamonds.net/Magazine/Article.aspx?ArticleID=68420&RDRIssueID=223&ArticleTitle=Blood%2BDiamonds%2Bin%2Bthe%2BSupply%2BChain>.

56 Merket H., 'Focus on Kimberley Process after failed reform cycle', *IPIS Briefing*, November 2019, <https://ipisresearch.be/weekly-briefing/ipis-briefing-no-2/>.

57 Kimberley Process Civil Society Coalition, *Real Care is Rare: An on-the-ground perspective on blood diamonds and the fifth 'C'* (KPCSC, Harare, 2019), 31p.



Increased friction within the KP is already emerging. Russia currently chairs two of the six KP working bodies, both of which carry considerable political and strategical clout. The first is the Committee on Participation and Chairmanship (CPC). Besides with applications for KP membership and chairmanship, the CPC deals with cases of non-compliance by KP Participants, which can lead to their removal from the scheme and hence to a status of pariah on the global diamond market. It is a coincidence that Russia presides this group precisely now, when its own compliance may be questioned, as this role is always fulfilled by the outgoing KP Chair, a rotational position that Russia held in 2021. This is not the case for the Committee on Rules and Procedures (CRP), which should in principle also rotate regularly, but has been chaired by Russia since 2006. This Committee oversees the development of and compliance with the KP's internal rules and procedures that determine when and how meetings are held and decisions are made.

In emails to CPC and CRP members, seen by press agency Reuters, both the United Kingdom (UK) and US on March 9<sup>th</sup> condemned Russia's aggression against Ukraine – which is also a KP Participant — and announced they will not be participating in KP meetings chaired by Russia. Russia replied that it “will not give in to provocations and connive at discussing within the Kimberley Process a critical international issue, which is beyond the scope of the Kimberley Process,” and added that “Irresponsible attempts to forcibly politicize the activities of the Kimberley Process jeopardize the achievements of the KP, threaten the implementation of its current agenda and run against the interests of the diamond industry.”<sup>58</sup>

The KP Civil Society Coalition (CSC) issues a public statement on March 14<sup>th</sup> urging “Botswana as 2022 Kimberley Process Chair to call a dedicated KP plenary meeting to establish if and which measures are required to secure that diamonds produced in Russia or by Alrosa do not contribute to financing this conflict”.<sup>59</sup> The Botswana Chairman replied that this is not a decision he can make under KP rules and procedures, but that it requires a KP Participant to make such a request.<sup>60</sup> At the time of writing no KP Participant has openly voiced such request. While this may still occur, it would be sufficient for one Participant to formally oppose a meeting dedicated to the issue to prevent it from happening. Whether or not a special meeting takes place, the Russian diamond controversy will overshadow and may forestall deliberations on other KP matters. Annual in-person plenary deliberations are planned to be held in Botswana in June and November respectively.

Geopolitical strife may particularly continue to complicate the main KP issue of recent years, namely that of conflict diamonds from the Central African Republic (CAR). Since civil war broke out in this diamond-rich country in 2013, this has been the only situation matching the KP's narrow definition of conflict diamonds, leading the KP to impose a rough diamond export embargo. This ban has been somewhat relaxed since 2015 with the opening of a few compliant zones in the west of the country from which rough diamonds can be legally exported. The controversial Russian involvement in this country (see below) is likely to add to the controversy and further undermine trust among KP Participants involved in the KP Monitoring Team for CAR (CAR MT). Russia was accepted as an observer to this team in 2019, which includes representatives of the US, the EU, and Angola, in addition to other KP working group leads, civil society and industry observers.<sup>61</sup>

At least since 2017 Russian mercenaries from the Wagner Group, a private military contractor with reported links to the Kremlin, have been active in the CAR allegedly with a notable focus on important mining

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58 Reid H., 'U.S. boycotts conflict diamond meetings chaired by Russia', *Reuters*, 18.03.2022, <https://www.reuters.com/article/us-ukraine-crisis-diamonds-idAFKCN2LF1LS>.

59 KP CSC, 'KP CSC calls for Kimberley Process meeting on Russian invasion and links with diamond trade', 14.03.2022, <https://www.kpcivilsociety.org/press/kp-csc-calls-for-kimberley-process-meeting-on-russian-invasion-and-links-with-diamond-trade/>.

60 Bates R., 'Russia's Invasion of Ukraine Has Befuddled the Kimberley Process', *JCK*, 22.03.2022, <https://www.jckonline.com/editorial-article/russias-invasion-kimberley-process/>.

61 Kimberley Process Monitoring Team - Central African Republic: Terms of Reference, [https://www.kimberleyprocess.com/en/system/files/documents/11-2019\\_car\\_mt\\_tor\\_provisional\\_delhi\\_2019.pdf](https://www.kimberleyprocess.com/en/system/files/documents/11-2019_car_mt_tor_provisional_delhi_2019.pdf) (last accessed 01.04.2022).



areas.<sup>62</sup> Combined with leaked documents<sup>63</sup> revealing that Lobaye Invest, a company with suspected links to Wagner, obtained rights to explore for diamonds and gold at seven sites in the CAR, this has fueled suspicions that Russian elements are out to violently secure control over the CAR's mineral wealth.<sup>64</sup> In 2021, Russian mercenaries engaged alongside government forces in a violent campaign to suppress increased rebel activity in the aftermath of the December 2020 presidential elections in the CAR. UN experts, international media outlets and civil society groups have been documenting the involvement of Wagner group mercenaries in mass summary executions, rape, torture, looting, forced displacement and arbitrary detention among others to scare locals away from lucrative mineral deposits.<sup>65</sup> This increased scrutiny reportedly led Russia, since September 2021, to block the renewal of the UN Security Council mandate for the UN Panel of Experts on the CAR.<sup>66</sup> This panel, which the UN Sanctions Committee appointed in 2014, has been one of the few and most vital sources of intelligence for the KP, particularly regarding the link between diamond trafficking and conflict financing. The Russian diamond controversy adds to this already troublesome context, further deteriorating the potential for constructive KP debates and decisions on the CAR.

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62 European External Action Service (EEAS), 'Political and Strategic Environment of CSDP Missions in the Central African Republic (CAR)', 15.11.2021, <https://s3.eu-central-1.amazonaws.com/euobs-media/4246332bc3a03d1da2b82a32cc58ec1c.pdf> (last accessed 01.04.2022).

63 'Centrafrique : Lobaye invest sarlu décroche un permis de recherche', *Centrafrique le Défi*, 31.08.2018, <https://www.centrafriqueledefi.com/pages/economie-industrie/centrafrique.html> (last accessed 01.04.2022).

64 Rettman A., 'Russian mercenaries using EU-trained soldiers in Africa', *EUObserver*, 29.11.2021, <https://euobserver.com/world/153653>;

65 'Working Group on the use of mercenaries; Working Group on the issue of human rights and transnational corporations and other business enterprises; Working Group on Enforced or Involuntary Disappearances; Special Rapporteur on extrajudicial, summary or arbitrary executions; and Special Rapporteur on torture and other cruel, inhuman or degrading treatment or punishment', AL OTH 182/2021, 26.03.2021, <https://spcommreports.ohchr.org/TMResultsBase/DownloadPublicCommunicationFile?gld=26304> (last accessed 01.04.2022); Letter dated 25 June 2021 from the Panel of Experts on the Central African Republic extended pursuant to resolution 2536 (2020) addressed to the President of the Security Council, S/2021/56, 25.06.2021, The Sentry, 'Investigative Report by CNN with The Sentry : Wagner Group Atrocities', 15.06.2021; <https://thesentry.org/reports/cnn-central-african-republic/>.

66 Nichols M. & Saul J., 'Flouting U.N. sanctions in Africa? No one is watching after Russia move', *Reuters*, 30.09.2021, <https://www.reuters.com/world/us/exclusive-flouting-un-sanctions-africa-no-one-un-watching-after-russia-move-2021-09-29/>.

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