

Diamond Traders and Manufacturers Unwilling to End Business with Russia

By [Paul Antonopoulos](#)

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Earlier this month, the United States, the United Kingdom and the European Union listed Russia’s Alrosa, the world’s largest producer of diamonds, on the sanctions list. Alrosa accounts for 27% of the world market share and 95% of Russia’s diamond mining. Last year, sales of rough and manufactured diamonds by the Russian group reached \$4.1 billion. Due to Alrosa’s status, sanctions on Russia’s diamond industry will negatively impact the industry around the world, something that the US, UK and EU had not considered.

According to Edahn Golan, an Israeli diamond industry analyst, if the US government decides to extend sanctions on all diamonds mined in Russia, no matter where they are made, then there will be a significant disruption in the industry across the world. Excluding Alrosa from the global market would cause serious damage to the company itself and the entire market, because in Golan’s view, the contribution of Alrosa to the world market is irreplaceable.

The expert said that the effect of the sanctions would be significantly reduced if only the ban on rough diamonds were included, because in this case, when diamonds are made outside of Russia, they will be imported normally into the US without violating the regulations. This is something that the US must consider quickly because if the sanctions against Alrosa remain in place until the end of the year, consumers will likely suffer an increase in the cost of diamond jewellery during important shopping periods, such as Christmas and New Year.

Regardless of the sanctions, the price of rough diamonds has not increased much for now, but if there is a shortage, prices will certainly soar. The price is set depending on how much the consumer is willing to pay, and if it is found to be too expensive, naturally the buyer will move to another type of product.

Ben Davis, an analyst at London-based investment firm Liberum Capital Limited, also spoke

about the indispensable position of the Russian market share in the volume of diamonds mined on the world market. Although Davis stressed that no crude diamond supplier can replace Russia, he did note the rapid development of synthetic and recycled diamonds, as well as other gemstones.

He also claimed, in opposition to Golan, that the stagnation of the global economy could lead to lower prices for rough diamonds and as a result, lower prices for manufactured diamonds. In his view, even if Russia completely leaves the market, it will not see a sudden price increase. While it is believed that the price level in the market will maintain relative stability, the expert also said that it is unlikely that the West will soon lift sanctions against the Russian diamond industry, specifically the Alrosa Group.

Despite Davis' positive outlook that prices will not increase, according to sources cited by [Bloomberg](#), diamond buyers across the big trading centres in Antwerp and Dubai and manufacturing hubs in India have spent considerable time "consulting lawyers to determine what the US sanctions on Alrosa PJSC mean and how they can continue to buy." This once again demonstrates the unwillingness of non-Western countries to end their trade with Russia. At the same time though, Russia is not just accepting the sanctions without response.

Russia's Ministry of Foreign Affairs announced on April 27 that it would impose "personal restrictions" on 287 members of the UK's House of Commons, arguing these politicians "took the most active part" in London's decision on March 11 to sanction 386 members of the Duma, the lower house of the Russian parliament. Among the latest sanctions imposed by the UK was a 35% tariff on the importation of diamonds, both rough and polished, from Russia and Belarus.

However, just as the West is forcing Russia to establish new sanction-busting financial methods, thus accelerating the de-Dollarization of the global economy, Russia may pursue a wholesale purchase of the diamonds via the State Fund of Precious Metals and Precious Stones - Gokhran. Gokhran, a state institution which operates under the Russian Ministry of Finance, acts as a repository for the handling of purchases, storage and sale of precious items, such as diamonds, on behalf of the Russian government.

Russian finance minister **Anton Siluanov** told [Reuters](#) that the government remained open to purchasing its own rough product if the sanctions continue.

"We do not rule out the possibility of Gokhran purchasing diamonds produced by Alrosa. The amount will be determined later," he said.

It is recalled that Gokhran previously purchased diamonds valued at more than \$1 billion during a period of weakened demand caused by the 2009 Global Financial Crisis. In this way, Russia is formulating new methods so that the diamond industry does not only develop steadily in the country, but is also able to continue working with traders and manufacturers outside of the West that have not imposed sanctions.

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Paul Antonopoulos is an independent geopolitical analyst.

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