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Sanctions Update:

The Implementation of EU's Restrictions on Third-country Processed Diamonds and Jewellery

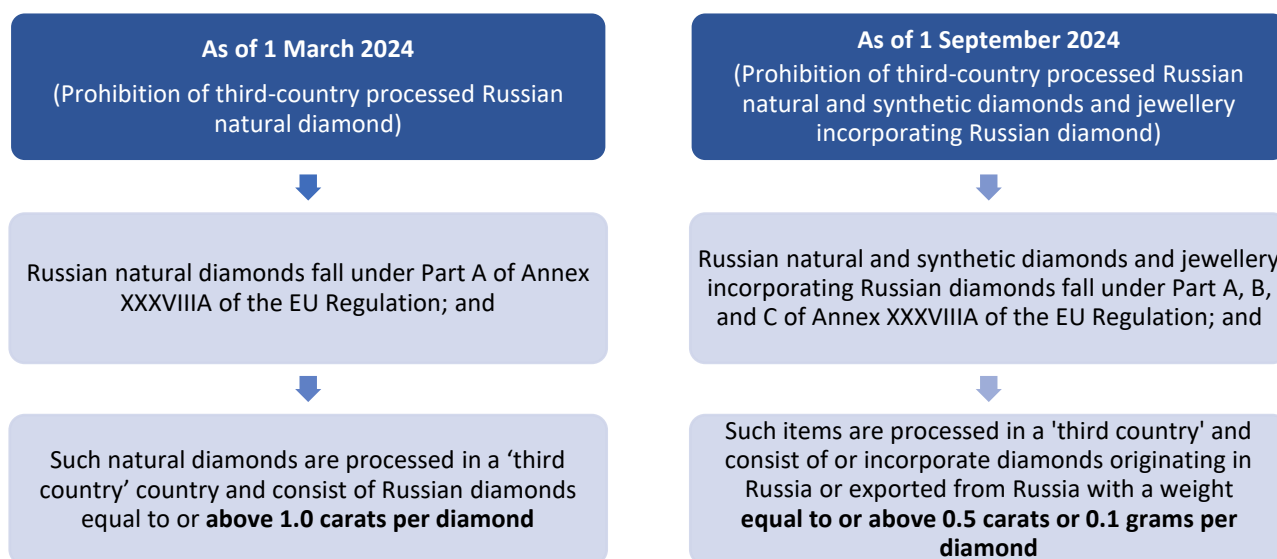
The Implementation of EU's Restrictions on Third-country Processed Diamonds and Jewellery

Introduction

Amidst the ongoing Russia-Ukraine conflict, the evolution of sanction measures continues. Several critical sectors of economic importance to Russia have been targeted by G7 countries¹, a prominent recent example being the EU's restrictions on the import of Russian natural diamonds (rough and polished) and jewellery processed in third countries.

EU Restrictions on Third-country Processed Diamonds and Jewellery

The EU's restrictions on imports of Russian natural diamonds (rough and polished) and jewellery processed in third countries are set out in EU Regulation (EU) 833/2014 (**EU Regulation**)², and apply in different stages.



EU's Traceability-based Verification and Certification Mechanism³

The EU has imposed a positive requirement for importers to provide evidence of the country of origin of (i) diamonds or (ii) products incorporating diamonds, that are in turn used as input to process a product in a third country. For example, if a third country processed product containing diamonds falling under Part A of Annex XXXVIII A is imported after 1 March 2024 and contains a diamond equal to or above 1.0 carats per diamond, the importer is required to provide evidence that such diamonds are not Russian diamonds. Evidence to substantiate this may include:

- Mining country of origin
- Names of the buyer and seller

¹ G7 countries perceive that these restrictions aim to deprive Russia of its revenue stream, which is estimated at EUR 4 billion per year, of which approximately EUR 1.5 billion are annual imports into the EU – See *Restrictions on Diamonds – Related article: Article 3p of the Council Regulation No. 833/2014 - FAQs – as of 1 March 2024*, available at URL: https://finance.ec.europa.eu/system/files/2023-12/faqs-sanctions-russia-diamonds_en.pdf (Accessed on - 7 March 2024)

² Council Regulation (EU) No 833/2014 of 31 July 2014 concerning restrictive measures in view of Russia's actions destabilising the situation in Ukraine, read with amendments as of 15 February 2024, available at URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014R0833> (Accessed on - 7 March 2024)

³ See *Restrictions on Diamonds – Related article: Article 3p of the Council Regulation No. 833/2014 - FAQs – as of 1 March 2024*, available at URL: https://finance.ec.europa.eu/system/files/2023-12/faqs-sanctions-russia-diamonds_en.pdf (Accessed on - 7 March 2024)

- Weight in carat and value of diamonds
- Place of importation, exportation, and transportation route

The EU has established a G7 certification scheme, which is optional between 1 March 2024 to 31 August 2024 (sunrise period). However, as of 1 September 2024, obtaining the necessary clearance under the G7 certification scheme will be made mandatory. Accordingly, between the sunrise period, the importers may choose to obtain a certification from: (a) the concerned authority located in Belgium; or (b) under the G7 certification scheme, a blockchain-based ledger to ensure traceability from mining to the end use of diamonds.

Impact on Indian Exporters

India's imports of natural diamonds and diamond-related products from Russia and falling under Part A, B, and C of Annex XXXVIII⁴ of the EU Regulation were valued at 1,062.23 USD/million in CY 2023. More specifically, non-industrial diamonds (unworked or simply sawn, cleaved, or bruted) classified under CN code 7102 31 constituted a major portion of Indian imports from Russia. On the other hand, India exported to the EU natural diamonds and diamond-related products falling under Part A, B, and C of Annex XXXVIII of the EU Regulation which were valued at 2,960.70 USD/million in CY 2023. Such exports largely constitute non-industrial diamonds (other than unworked or simply sawn, cleaved, or bruted) classified under CN code 7102 39 followed by non-industrial diamonds (unworked or simply sawn, cleaved, or bruted) classified under CN code 7102 31 and articles of jewellery and parts thereof incorporating diamonds classified under CN code 7113.

Jurisdiction/Product Type	CY 2022	CY 2023
Indian Imports of products Part A, B, and C of Annex XXXVIII A		
Indian imports from Russia	1,030.12	1,062.23
India's Exports of products Part A, B, and C of Annex XXXVIII A		
Indian exports to the EU	3,643.83	2,960.70

Source: Figures in USD/Million from Department of Commerce, India TradeStat

Conclusion

Given the significant trade between Russia and India on the one hand and India and the EU on the other, the recent restrictions are expected to have significant market ramifications for Indian exporters of diamonds. More specifically, Indian exporters may be seen restructuring their global supply chains. Particularly, as an immediate next step, they may be required to ramp up their record-keeping processes, as necessary, to adapt to the traceability-based G7 certification scheme that is expected to become mandatory starting September 2024.

That said, in the short term, as India is also a producer of lab-grown diamonds, there may be a shift in exporting lab-grown diamonds *vis a vis* natural diamonds that are currently subject to EU restrictions. Having said that, as the regulatory landscape currently stands, Indian exporters of natural diamonds should ramp up their recordkeeping/screening processes of the supply/value chain by adopting best practices so businesses don't inadvertently make commercial decisions that have sanction-related repercussions.

Additionally, in instances where India imports or exports diamonds to the EU through trading partners in jurisdictions such as UAE and Hong Kong, Indian exporters may contractually require such trading partners

⁴ Part A includes CN code 7102 10, 7102 31, and 7102 39; Part B includes CN codes 7104 21, and 7104 91; and Part C includes CN codes 7113, 7114, 7115 90, 7116 20, and 9101.

to also maintain robust recordkeeping mechanisms. This would ensure that Indian exporters mitigate against potential violations of EU regulations through such trading partners.

Unless the conflict ends and eventually the sanctions regulations are watered down, the Indian diamond industry will have to adhere to the sanctions regulations and be prepared for many such developments that may be introduced from time to time that could impact both the sector as well as trade going forward.

Economic Laws Practice (**ELP**) has been assessing sanctions and export control-related regulations in multiple jurisdictions and regularly advising clients of any potential exposure to such regulations on account of their potential business engagements in restricted items and/or certain sanctioned countries. ELP also has a reach that extends to multiple markets across the globe through its extensive network of foreign lawyers and consultants, who in turn work closely with regulators and authorities in their jurisdictions.

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com or write to our authors:

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