

Ban on diamond imports to the EU: the twelfth package of sanctions against Russia

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On 18 December, the Council of the European Union adopted the twelfth package of sanctions against Russia. It imposes bans on the import of Russian diamonds and liquefied petroleum gas (LPG) and on the export of sensitive goods to third countries. It also includes additional listings of Russian and Belarusian nationals and companies. The new restrictions are also intended to tighten previously introduced sanctions (see Appendix).

Commentary

- Given the EU's economic problems and the fact that the Russia's war against Ukraine is no longer seen as a political priority by many European decision-makers, it is increasingly difficult to convince member states to step up measures against Russia at the expense of their own economies. Therefore, negotiations on subsequent sanctions packages are taking longer and longer, and ultimately the restrictions are much milder than originally proposed by the European Commission. For example, the twelfth sanctions package has significantly reduced the list of sensitive goods that should be covered by a clause prohibiting their re-export to Russia (the so-called 'no Russia' clause) or their transit through the territory of this country.
- It is particularly important that the mechanisms for monitoring the circumvention of the price cap on crude oil and fuels have also been relaxed. For example, the provision introducing stricter control of the possible resale of EU tankers to third-country companies has been cancelled and replaced with the obligation to inform EU authorities about their sale. Moreover, most of the newly imposed restrictions are accompanied by a long list of exemptions and transition periods (many of these concern especially Hungarian projects, including the Paks II Nuclear Power Plant), which gives Russian companies time to adapt to the new restrictions and thus reduces the effectiveness of the sanctions.
- For the twelfth package of sanctions to come into force, Ukraine had to meet Vienna's informal demand to remove Austria's Raiffeisen Bank from the blacklist of sponsors of the Russian invasion. It is one of the few European banks (along with Hungary's OTP Bank) to continue operation in Russia. Although Raiffeisen Bank has limited its activity in this country to a certain extent and has announced it will withdraw from Russia, it still achieves very high profits there (around 50% of the total income of the entire Raiffeisen group). Its profit in the first nine months of 2023 stood at around €1 billion, after Russian

taxes had been paid. It is worth noting that the bank is unable to transfer these funds outside Russia due to the currency controls imposed by the Kremlin.

- Since some EU member states are increasingly calling into question the effectiveness of the sanctions policy against the Russian Federation, the fact that the twelfth package of sanctions has been adopted has to be viewed as a demonstration of the determination of the European Commission and the governments of individual countries which are ready to continue supporting Ukraine and condemning Moscow for the invasion. Despite unfavourable circumstances, restrictions have been introduced that may prove painful to Russia and escalate its economic problems. The ban on the import of Russian diamonds can be considered a particular success. Diamonds are one of the last raw materials of great importance for the state's budget revenues and for people associated with the Kremlin that Russia was still able to export. Overcoming Belgium's opposition (Antwerp is the capital of the world diamond trade), however, is primarily a political victory because it proves that the member states are still able to put community goals ahead of their own interests.
- Solutions aimed at counteracting the circumvention of restrictions, especially those concerning oil and fuels (which are the main source of revenues for the Russian budget), have a particular impact on the effectiveness of sanctions and the further weakening of the Russian economy. The price cap mechanism was quite effective during the first six months following its introduction. Later on, many companies, including those from the EU, began violating it on a massive scale without facing any consequences, partly due to the increase in global commodity prices. The G7's promises to tighten the price cap requirements (and its subsequent actual tightening of them), supported by American secondary sanctions against selected tankers and third-country traders (for more see '[The United States steps up its sanctions against Russia](#)') and the increased supply of oil on the global market have all made the export price of Russian oil fall below \$60 per barrel in December 2023. The embargo on LPG imports will certainly have an impact on the Russian fuel sector, as well. According to forecasts, in 2023, approximately 2 million tonnes of LPG from Russia will reach the EU (mainly Poland and the Baltic States), which corresponds to half of the total oil exports from Russia. It will be difficult to redirect LPG outside the EU due to infrastructure limitations.
- An EU directive criminalising the circumvention of sanctions would help improve the effectiveness of sanctions. The Spanish Presidency and the European Parliament finalised negotiations on its shape on 12 December (one year after the draft document was created), and now it is waiting to be accepted by the member states, which will be the final phase of the procedure (for more see '[Council and Parliament reach political agreement to criminalise violation of EU sanctions](#)').

APPENDIX. Selected provisions of the twelfth sanctions package

- A ban has been imposed on the direct and indirect import, purchase or transfer of natural and synthetic non-industrial diamonds (including diamond jewellery) from Russia into the EU. It will be implemented in stages: starting from 1 January 2024, it will cover direct

imports, and from 1 March to 1 September 2024, it will also cover indirect imports of Russian cut or polished diamonds from third countries. At the same time, a mechanism for identifying them is to be launched in order to prevent the circumvention of sanctions. The imposition of the diamond import ban by the EU is being coordinated with all G7 countries. The total value of diamond imports to the G7 countries is estimated at \$3.6–4.6 billion per year, of which around \$1.2 billion is accounted for by the EU.

- The ban on imports from Russia to the EU has been expanded to include more goods, including copper and aluminium wires, foil, pipes and liquefied petrochemical gas (LPG). The total import value of these products was estimated at around €2.2 billion per year. However, exemptions and transitional periods are envisaged, limiting the application of this restriction. For example, the ban on LPG imports will come into force after 12 months.
- The council has cancelled some import restrictions on personal items imported from Russia into the EU, such as personal hygiene products and clothes. It has also allowed cars with diplomatic registrations to enter EU territory. Member states may also allow EU citizens to import their private cars from Russia (provided they are not intended for sale).
- EU entities have been obliged to include a clause prohibiting the re-export of sensitive goods to the Russian Federation (the 'no Russia' clause) in export contracts, mainly concerning the defence industry.
- The list of dual-use goods and technologies exported from the EU that cannot be transited through Russia has been extended. In addition, the existing ban on the provision of services has been supplemented with a ban on the provision of software for business management and for industrial design and industrial production. Additionally, an obligation has been imposed to notify the relevant authorities about transfers of funds outside the EU by entities registered in the EU that are owned or co-owned by Russian citizens or companies.
- The rules for implementing the price cap mechanism, which enables the export of Russian crude oil and fuels by sea to third countries using services (transport, insurance, technical or financial assistance) provided by Western companies will only be tightened when they are sold below the price set by the G7 countries (for oil it is \$60 per barrel). Firstly, buyers of Russian crude oil and petroleum products are obliged to provide Western service providers with detailed information not only about the price of the commodities but also about additional costs, such as freight and insurance throughout the supply chain. Secondly, the council has announced that the information exchange system between the European Commission and member states has been improved in order to identify entities involved in violating the restrictions by concealing the origin of the cargo, ship-to-ship transfer of oil or by manipulating transponders. Thirdly, restrictions have also been introduced on the trade in tankers, prohibiting the sale of EU tankers to individuals or companies from the Russian Federation. Moreover, entities selling tankers to third countries have been obliged to inform the relevant authorities of member states about each such transaction. This regulation has retroactive effect, as it covers the period from 5 December 2022 to 19 December 2023.

- The personal sanctions list has been expanded to include 60 more Russian and Belarusian nationals, primarily linked to the defence industries of these countries or who are involved in the war in Ukraine, including Boris Obnosov, the Director General of the Tactical Missiles Corporation, representatives of central and regional administration, including the National Electoral Commission, and Ilya Medvedev, the son of the former Russian President Dmitry Medvedev. Restrictions have also been imposed on 85 companies, including the propaganda television channels Tsargrad TV (created by Konstantin Malofeev) and Spas TV (owned by the Orthodox Church), as well as the Federal Financial Monitoring Service (Rosfinmonitoring) and the private military company Redut (for more see [Council Regulation \(EU\) 2023/2878](#)).