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A STUDY REPORT ON CONFLICT DIAMOND BUSINESS IN AFRICA

Introduction:

Diamonds are judged on the Four Cs - clarity, color, cut and carat weight. However if the same person who lust after these precious gems would feel the same if they knew about the fifth 'C' -conflict. Would they consider their rings to be worth the suffering, deaths and displacement of thousands of Africans? The United Nations definition of conflict diamonds is, "Diamonds that originate from areas controlled by forces or factions opposed to legitimate and internationally recognized governments, and are used to fund military action in opposition to those governments". It is also known as Blood Diamond. The powerhouse of the diamond industry, De Beers, are the most accused consolidate in this line of business.

History:

Diamonds in Africa were formed 3 billion years ago when titanic-force pressure and heat caused carbon below the Earth's surface to crystallize. As recently as a million years ago, erupting molten rock brought the diamonds closer to the Earth's surface. Since then, they have brought joy into the hearts of those who receive them and stress into the hearts of those who can't afford them. The irony of diamond desire is that it centers around the idea that diamonds are precious and rare.

It's important to realize that as long as there has been a diamond industry, diamond mining has been beset by violence, smuggling, worker exploitation, child labour and degradation. These problems have existed for decades. Terrible abuses have long taken place in artisanal diamond mining – a form of mining in which individuals mine for diamonds using simple methods like digging pits or panning in riverbeds. However, it was not until the late 1990s that the diamond industry began to confront a consumer backlash. Bloody civil wars were then raging in African countries. All of these wars had one thing in common: **they were all fueled by diamonds.**

Global Witness and Partnership Africa Canada, two non-profit groups, took the lead in exposing the problem to the public. Rebel groups were seizing control of diamond mining regions and exchanging diamonds for money and weapons. The diamond industry was buying up these blood-stained diamonds and selling them in jewelry stores.

Press coverage soon made the terms "blood diamond" and "conflict diamond" more familiar to diamond consumers. And mounting public concern caught the attention of diamond industry executives. They were smart to realize: if consumers no longer recognized the beauty in diamonds, if all they saw was violence and hardship, then sales could plummet.

And so the diamond industry responded – just not in the most honest or effective way.

The Kimberley Process:

The diamond industry's response came in the form of a new diamond certification scheme called the Kimberley Process (KP) launched in 2003. According to De Beers, more than 81 countries participate in the Kimberley Process, which requires the governments in these countries to ensure that all diamond shipments

are exported in secure containers. In addition, each shipment must also have a specifically numbered and government-validated certificate that promises the shipment does not contain conflict diamonds. The countries must also agree to refuse any diamond shipments not containing an authentic Kimberley Process Certificate.

At first, advocates for a more ethical diamond industry were optimistic that the Kimberley Process could become an effective tool for change. Many non-profit groups helped to find the Kimberley Process and for years worked hard to improve it from the inside. Regrettably, the Kimberley Process has failed to live up to its initial promise. It raises the following problems:

- “Conflict diamonds” are defined as diamonds used by rebel groups to fund civil wars. If a diamond isn’t funding a rebel group, it isn’t a conflict diamond, according to the Kimberley Process. What this means is that the Kimberley Process grants conflict free certification to large numbers of diamonds tainted by bloodshed, child labor, sexual violence, and other injustices—all problems that remain very much a part of diamond mining today.
- No strict control to stop diamond smuggling. Even when it declines to certify diamonds from a certain country, those diamonds still wind up in the international diamond supply with false Kimberley Process paperwork.
- Many of the diamond-producing countries that belong to the Kimberley Process do not want it to raise standards. This problem is magnified by the broken decision-making process. All Kimberley Process decisions must be made by consensus, leaving it virtually paralyzed and unable to make hard choices.
- The regulation is done voluntarily by the diamond dealers in their midst.
- Most consumers still cannot be sure where their diamonds come from or whether they are financing armed violence or abusive regimes.

This crisis is so severe that the very individuals and non-profit groups that helped found the Kimberley Process and once looked upon its establishment with pride are now unwilling to participate in it or be associated with it.

Despite all these grave problems, the Kimberley Process presently grants conflict free certification to diamonds from all but one country: the Central African Republic. Every other country, no matter what the ethical conditions, is able to sell its diamonds with the Kimberley Process stamp of approval. It is by counting only these banned diamonds from the Central African Republic – and disregarding abuses in the rest of the diamond supply – that the diamond industry can claim that less than one percent of diamonds are conflict diamonds.

In other words, the diamond industry has taken the Kimberley Process’s failure to tackle the blood diamond problem and, astonishingly, presented that failure as a stunning success.

De Beers:

De Beers Consolidated Mines Limited, set-up by Cecil Rhodes, the British explorer and adventurer who gave his name to the African country of Rhodesia (now Zimbabwe), is a South African-based mining and trading company, which controls the flow of 60 percent of diamonds. It distributes rough diamonds, ships them, and distributes them to significant intermediaries, wholesalers and retailers. Despite the company's seeming monopoly on the world's diamonds, De Beers insists that their diamonds are 100 percent conflict-free.

(a) Unfair Trading and Competition-

The purpose of DeBeers was the exploitation of diamond mines in South Africa. The challenge was that while diamonds were a rare resources only a couple of centuries ago, the discovery of extremely rich mines

in South Africa and other countries of Africa was threatening to drive the prices down. The establishment of DeBeers consisted therefore, in a parallel effort, of setting up a cartel with other producers in order to control international prices of diamonds. A cartel is a loosely, but effective, agreement between producers of a resource, product or service to agree on minimum levels of prices offered for these resources, products and services to the general public. A cartel is structured in such a fashion that its members follow the marching orders given by the cartel leader. Cartels are immoral because they overcharge the buying public by artificially propping up prices. They victimize the general buying public. They are also against the freedom of enterprise as they force possible competitors to obey the cartel directives, often under financial or even physical threats.

Unfair competition is unethical in terms of the **Teleological Framework**, as it focuses on the negative result of the conduct of an individual or company as a juristic person, which forms the basis of self-interest (**ethical egoism**), thereby going against the rights of others. This cartel-forming also violates the principle of **utilitarianism**, which is concerned with providing the greatest good for the greatest number of people, as the cartel only benefitted a small number of stakeholders. De Beers knew that their actions were not only wrong, but illegal, yet they still pursued this form of unethical behavior.

(b) Unethical Business Conduct-

The De Beers diamonds marketed in London, at the address of the Diamond Trading Company, a De Beers subsidiary. Retailer come to look what DeBeers has to offer them to keep them in business. The DeBeers employee takes the diamond distributor in a small room and present him with a bag of diamonds. The retailer cannot buy diamonds one by one. He has to take the whole bag or leave it. Further the retailer makes an offer for the bag and the negotiation proceeds on this base. Retailers are very afraid of crossing the DeBeers operation because if they refuse the bag, or make too little an offer or behave like poor citizens in the diamond trade DeBeers will either not offer them any new bags of diamonds to purchase or will offer them bags with only poor grade diamonds which are difficult to distribute.

The DeBeers operation is therefore unethical not only towards the end buyers, the public which buys diamonds but also to all distributors and retailers of diamonds in the whole world.

(c) Deceitful Advertising-

De Beers has successfully pushed the idea that a diamond is a sign of love, fortune and influence. For example, in 1947, their sophisticated advertising strategy resulted in the releasing of the tagline, "A diamond is forever", which is, in fact, not true as diamonds can be tarnished, cracked or splintered. This simple, yet misleading logo was a great success, and is still in use. Some of De Beers' methods of advertising include visiting schools to feed young girls false information about diamonds, and ensuring that well-known personalities are seen wearing the biggest and most sparkling diamonds. Falsifying the true meaning of a diamond in order to increase their profits shows a deliberate intention to deceive as they stand to gain an advantage from this unethical behaviour.

As a result of De Beers' deceitful advertising, they faced lawsuits in different countries. Even though De Beers claim that they are not guilty of doing so, they chose to settle to prevent doubt and future legal action costs. The settlement is worth \$295 million.

De Beers has overlooked a number of these principles. They failed to apply **the transparency principle**, as this principle states that employees should operate business in an honest and transparent manner. The **dignity principle** has also been breached, as shown by the worldwide misrepresentation that a diamond is a status symbol, therefore not respecting the dignity of society at large. In terms of the **citizenship principle**, employees and managers of De Beers assisted the company in misleading society, therefore they were not acting as responsible citizens within the community. **Ethical responsibility** is the expectation that society

has of the company. De Beers was faced with the question of whether they should do the right thing and act ethically with the expectation that profits will follow, or if profit should be set as the principal goal regardless of what ethical mannerisms are overlooked. The former option is usually chosen when morality becomes a subordinate to strategy. By De Beers choosing to disregard ethical behaviour, they took the risk of misled customers becoming aware of their unethical actions, resulting in lawsuits.

Virtue theory encompasses elements by which a company should stand by in order to operate in the best interests of its stakeholders, namely integrity, respect, excellence. In terms of integrity, De Beers did not attempt to what is right, but instead focused on personal gain, therefore not adhering to the uppermost ethical standards. In terms of respect, they did not value the perceptions and expertise involved in order to merge with the best ideas and insights, as they had only one main goal in their business: profits. In terms of excellence, which is achieving a high quality result by constant improvement and excellent implementation, De Beers stuck with their strategy, despite the fact that it was wrong to have a hefty profit.

We could also possibly say that they manage amorally, meaning that they do not factor ethics into their decisions and merely focus their decisions on what will apply to their particular business practices. We can tell that moral management has not been used within De Beers, as this involves the case when management shows high integrity in their business actions.

We can also look at De Beers in terms of **Teleological Theories**. If De Beers had been honest and open, they would have had a better end result. Since they weren't, a bad result is reflected in customers choosing to boycott De Beers due to their developing reputation for misleading society.

(d) Discrimination and Child Labour-

Rhodes had realized that the mining operations required a lot of cheap labor. They contributed to the establishment of numerous taxes, including a poll tax, so that the larger black population would have to get some cash to pay those taxes. Most of the blacks who lived in their villages did not belong to a cash economy had to find a job to get this cash. They walked to the DeBeers mines, with the purpose of hopefully raise that money in a short period of time and return to their villages. These thousands of "migrant workers" were victimized by the living conditions and was always suspected of stealing diamonds and fed with some bread and cold tea for hours of work. Almost all of them live in extreme poverty, earning an average take home pay of less than a dollar a day. Child labor is also common and safety conditions are very often de-humanizing.

DeBeers is therefore also guilty of corrupting and aiding the evil operations of South Africa's **Apartheid** system. It gives the impression that it supports helping out those involved and affected by the company, but it seems as though De Beers believes in Milton Friedman's Stakeholder Theory. Friedman believed that the only social responsibility a manager has is to optimize the business's resources in a way that enhances the level of profitability of the business

De Beers also appears to support **ethical egoism**. They just needed people to mine the diamonds that they sold for millions, whilst paying their employees the minimum wage and increasing their profits. Hence using **workers as means**.

Conclusion:

The highly unethical corporate conduct of DeBeers requires restitution to the whole world. However, let us limit ourselves first to the interest of the most needy: the blacks of South Africa who for so long labored under its yoke. They should be made beneficiary of DeBeers' wealth. But what is more likely is that Mandela's Communist African National Congress (ANC) will shamefully protect DeBeers against the population in exchange for massive financing for its operations.

Experts claim that the illegal sale of blood diamonds has produced billions of dollars to fund civil wars and other conflicts in various African nations. Most of the time, the people behind these civil wars and rebellions oppose legitimate governments and desire control over the area's lucrative diamond industry.

Remember that not all African diamond mines are corrupt. For example, the African nation Botswana has been able to thrive thanks to a successful diamond mining industry.

Even many harsh critics of the current state of the African diamond trade tend to agree that shutting out the diamond industry would have a negative effect on many innocent people in the peaceful nations of Africa that rely on diamond mines for their livelihood. Several previously war-torn nations are finally out from under the thumb of diamond warlords.

The director of the award-winning 2006 film "Blood Diamond" starring Leonardo DiCaprio referred to the Paradox of Plenty, perhaps better known as the Resource Curse, cast upon Africa by scrambling sorcerers with wands of imperial wantonness. These global opportunists who happened upon shiny stones near the bed of the Orange River in South Africa or the Kono and Kenema districts of Sierra Leone would forever execrate the economic development of African people.

Next time you're considering buying diamond jewelry and the sales person brags about the stones being "conflict free," remember there's no such thing and opt for its synthetic sister, Cubic Zirconium, a gem of peace.

De Beers has harvested people's ignorance and reaped great profits from it, while committing unspeakable human rights abuses, and unethical behavior. It's a classic example of corporate greed.