We are conscious of our responsibilities not only to our shareholders, to the industry as a whole and to the consuming public, but also to the governments of the countries in which we operate.

-Harry Oppenheimer, De Beers 1995 Annual Report

New Challenges for De Beers in 2000
Throughout the 20th century, De Beers dominated the global diamond market. In 2000, it mined 45% of the world’s diamond output and distributed 50% of the world’s rough diamonds. In the 1990s, De Beers was faced with a number of new challenges. Diamond production had doubled globally in the previous 20 years, pulling ahead of the increase in demand for diamonds. De Beers’ stockpile of diamonds had grown to over $5 billion. De Beers also faced a number of new challenges regarding social issues. Consumer awareness of “conflict diamonds,” also known as “blood diamonds,” was increasingly becoming an important factor for De Beers. Similarly, concerns about labor conditions and child labor, particularly in India, were shaping consumer attitudes.

Overview of the Diamond Value Chain
The diamond value chain consisted of a number of major processes: mining, sorting and classifying, cutting and polishing, manufacturing, and retail. The major diamond mining locations by value in 2000 were Botswana (27% of global value), Russia (20%), South Africa (14%), and Angola (9%). By volume, the major production sites were Australia (24%), Botswana (22%), Russia (19%) and the Democratic Republic of Congo (DRC) (15%). The sorting and classifying step was dominated by De Beers (60% of world supply) and government diamond valuators (most of the balance). Historically, the most expensive diamonds were processed in New York while the least expensive diamonds were cut and polished in India. Manufacturing occurred in a number of countries and much of the world’s finished diamonds were sold to consumers in the USA, Japan, and Europe.
De Beers Social Initiatives Prior to 2000

De Beers was involved in social initiatives basically from its inception, as the company’s founder, Cecil Rhodes, employed and provided assistance to individuals displaced by the Second Boer War. Ernest Oppenheimer, who became Chairman of De Beers in 1929 and was viewed as philanthropic, envisioned the creation of “modern native villages” from which the mines could draw pools of workers. However, Oppenheimer did not personally witness the condition of many of De Beers’ workers until he was challenged to visit a Shantytown outside of Johannesburg in 1956. After the visit, Oppenheimer stepped up his advocacy for change and went so far as to claim “…the purpose of [De Beers] is to make profits for its shareholders, but to do so in a way that makes a real and lasting contribution to the countries and communities in which it operates.”

Prior to 2000, De Beers had undertaken a number of social initiatives in the countries involved in its value chain. In South Africa, the company invested in a biodiversity conservation initiative, HIV/AIDS projects, and employee health and promotion schemes through the De Beers Fund. Harry Oppenheimer, then the company’s CEO, financed an anti-apartheid political party in the 1970’s and 1980’s. In Botswana, De Beers invested in local projects such as medical clinics, schools, and HIV/AIDS awareness through the Debswana Donation Fund. In South Africa and Botswana, De Beers made investments in HIV/AIDS programs for its employees, including policies for infected workers.

In India, De Beers encouraged its clients to invest in social causes, particularly related to education. Indian diamond companies also took active roles in providing health services and awareness programs for their workers.

Throughout the 1990’s, “conflict” or “blood” diamonds came from Sierra Leone, Angola, and the DRC. In Sierra Leone, control of diamond fields shifted between the government and rebel forces. When under their control, the proceeds from the diamonds benefited the rebels and extended the conflict. In 1998, the United Nations banned the importation of diamonds from these countries without certification by the legitimate government. In
2000, De Beers participated in the Kimberly Process, a UN-backed initiative to certify diamonds and to curb trade in “conflict diamonds.”

De Beers in 2000

In 2000, De Beers responded to the new competitive pressures by realigning its strategies and developing new approaches to managing the diamond value chain. To do so, the company went private, and introduced a new four-part strategy for the future. The plan involved stimulating demand, improving efficiency and margins, leveraging the De Beers brand, and implementing a new “Supplier of Choice” strategy.

The Supplier of Choice strategy involved four components for managing the clients, known as sightholders, of De Beers’ diamond trading arm. These four parts included: improving efficiency in the value chain by increasing the number of vertically integrated sightholders; providing more value-added services for sightholders; allowing sightholders the use of the “Forevermark” brand, which was positioned to indicate “adherence to the highest professional and ethical standards”; and ensuring that sightholders complied with the Best Practice Principles (BPP).

The Best Practice Principles set a number of requirements for sightholders. Sightholders were required to ensure that all activities within the value chain were “responsible and ethical” across a broad range of business practices. They were required to comply with strict social and environmental requirements governing the treatment of employees, health and safety, child labor, forced labor, human rights, and the overall impact on the community. Sightholders were also required to track and comply with the Kimberly process for certifying that diamonds were conflict-free.