

**Casestudy:**  
***CONFLICT DIAMONDS***

**NIZA/Fatal Transactions**  
**versus**  
**ABN Amro**

Since October 1999, the Netherlands institute for Southern Africa (NIZA) has been campaigning against the trade in diamonds from conflict areas in Africa. NIZA called ABN Amro to account for its alleged involvement in the trade in diamonds from, among others, Angola and the Democratic Republic of Congo (DRC). The revenues were allegedly used for financing wars.

**Societal Interface Management Challenges**

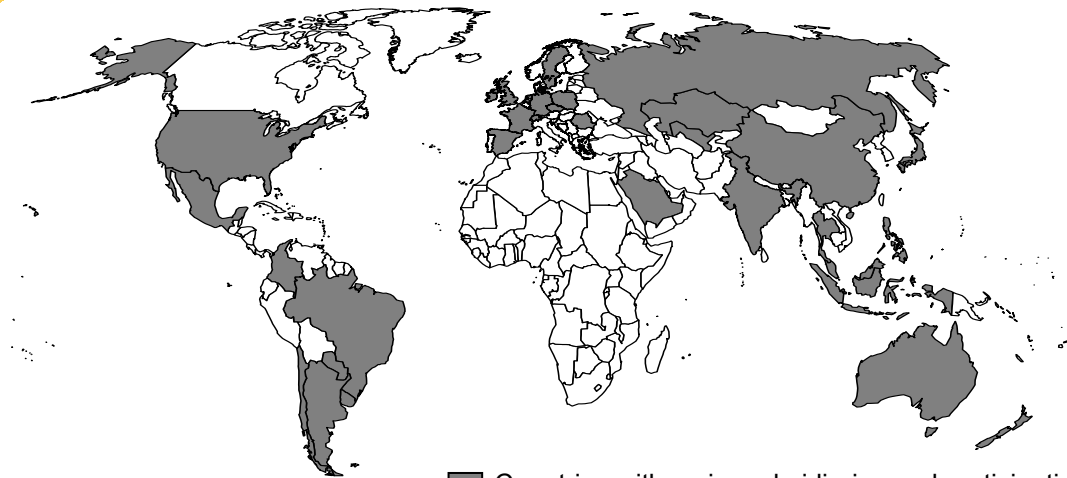
<b>PUBLIC</b> ✶ <b>PRIVATE</b>	<b>PROFIT</b> ✶ <b>NON-PROFIT</b>	<b>EFFICIENCY</b> ✶ <b>ETHICS/EQUITY</b>
<p>Governments and citizens wage war, not companies</p> <p>African governments are responsible not foreign companies</p> <p>Official supervisors do not take responsibility: who should institute certification?</p> <p>Endorsement of UN resolutions/not?</p> <p>Who carries out border controls, governments or companies?</p>	<p>Interest in Africa fuelled by the numerous NGOs concerned with the troubled continent</p> <p>Dutch, Belgian and American NGOs approach to issue different?</p> <p>Reputation risks on market for luxury products different from mass market</p> <p>Active involvement/or not in WDC and/or WBCSD?</p>	<p>Diamonds are the core business of ABN Amro Bank is significant player in the industry</p> <p>Can realise high margins without direct involvement in trade</p> <p>War, martial law, human rights</p> <p>It is often said that an increase in trade prevents war</p> <p>Transparency; trust is important in this industry</p>

This case has been written by Alex van der Zwart with Rob van Tulder (RSM Erasmus University). This case applies the methods and theories as used in the book "International business-society management: linking corporate responsibility and globalization" (2006, Routledge), [www.ib-sm.org](http://www.ib-sm.org). The Dutch newspaper articles in this case have mostly been translated into English.



### **ABN Amro**

With its headquarters in Amsterdam, ABN Amro is a large, internationally-oriented bank. ABN Amro occupies a strong position particularly in the Netherlands and United States. Worldwide, the bank holds sixth place and in Europe, it holds third place. Traditionally, the Amsterdamsche Bank, one of the founders of ABN Amro, was strongly represented in the Amsterdam and later also the Antwerp diamond sector. Following the difficulties of a diamond branch in 1999 and 2000, ABN Amro restructured its diamond banking activities. At present, the International Diamond Division of ABN Amro in Antwerp is an international division which advises and supports ABN Amro diamond desks worldwide. ABN Amro is one of the largest links in the diamond trade. ABN Amro is listed on the Euronext and is one of the funds of the AEX Index.



■ Countries with major subsidiaries and participating interests

Source: ABN Amro Form 20-F year ended march 31, 2004 p F-78



## Conflict

Since October 1999, a number of European societal organisations, including Amnesty International, have been campaigning alongside the Netherlands institute for Southern Africa (NIZA) against the illicit trade in diamonds from countries such as Angola, the Democratic Republic of Congo (DRC), Liberia and Sierra Leone. At the time, a worldwide UN embargo on the export of diamonds from Angola was in place. A ban on Sierra Leone and Liberia diamond trade followed subsequently. The NIZA defines 'conflict diamonds' as diamonds which are used (by governments or rebel groups) to finance conflicts in which human rights are systematically violated. These diamonds are therefore indirectly stained with blood.<sup>1</sup> As a result of bloody civil wars in African countries, the origin of diamonds suddenly became more important than the almost supernatural power these gems hold for consumers. Rebels in Angola, DRC and Sierra Leone who had gained access to the diamond mines were financing their wars by selling diamonds illegally. The trade in conflict diamonds took place via the surrounding countries.<sup>2</sup> At present, Liberia is not permitted to export diamonds at all and Sierra Leone and Angola may do so only if a legitimate authority issues a certificate which states that the diamonds had not been bought from rebel movements. As yet, the UN has not instituted sanctions against the DRC.



### NIZA and Fatal Transactions

The Netherlands institute of Southern Africa (NIZA) conducts research into social, economic and political issues in Southern Africa (e.g. Angola and Namibia). The foundation is dedicated to improving human rights in Southern Africa. The institute participated in the 'Fatal Transactions' campaign which focused on the trade in conflict diamonds in Africa. The campaign was initiated by Global Witness in London and supported by NGOs such as Medico (Germany), Intermón (Spain) and Novib (Netherlands). Amnesty International was also involved in the issue. NIZA housed the national and international secretariat in the campaign.



On 25 May 2001, the NIZA published the findings of a research study 'ABN Amro and the diamond trade', which was carried out by SOMO on behalf of the NIZA (SOMO, 2001). The research formed part of the campaign Fatal Transactions.<sup>3</sup> ABN Amro gave its full cooperation in the research study. In the study it emerged that total bank debt of the global diamond industry at the end of 1999 amounted to 5,7 billion dollars. ABN Amro financed a third of this amount.<sup>4</sup> The prominent role that ABN Amro fulfilled in the diamond industry raised questions about the extent of the bank's involvement in financing the 'conflict trade' and which measures it took to prevent involvement (SOMO, 2001).

<sup>1</sup> 'Diamonds under fire', Het Financieele Dagblad (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 1 July 2000.

<sup>2</sup> [www.niza.nl/fataltransactions/index.html](http://www.niza.nl/fataltransactions/index.html), consulted on 23 January 2002.

<sup>3</sup> [www.niza.nl/nl/press/pb010517.htm](http://www.niza.nl/nl/press/pb010517.htm), consulted on 23 January 2002.

<sup>4</sup> 'Cutting Center Banking Debt and Stocks', estimations made by Peter Gross of ABN Amro, Tacy Ltd Diamond Industry Consultants April 11, 2000. See: [www.diamondconsult.com/TACY-articles/apr11008.htm](http://www.diamondconsult.com/TACY-articles/apr11008.htm), consulted on 21 January 2002.



It was reported that vested interests in the industry had stood in the way of reporting blood diamond traders and that the enormous incomes that were generated enabled presidents to remain in power and rebel leaders to finance their wars. Deceased Zairean President Mobutu (now the Democratic Republic of Congo, DRC) financed his regime largely with diamonds.<sup>5</sup> The NIZA and SOMO argued that, so long a sound international certification and monitoring system lacked, ABN Amro had to do more to acknowledge and meet its social responsibilities in this sector (SOMO, 2001).

A significant player in the network of diamond traders is the Antwerp Diamond Bank (ADB). This bank is the only one which focuses exclusively on the diamond trade.<sup>6</sup> A diamond trader cannot approach just any bank. There are special diamond banks and banks with special diamond divisions, such as ABN Amro. Banks can therefore play a role in financing the trade and processing of diamonds, and in providing storage, transport and customs services. ABN Amro branches in Antwerp, New York, Mumbai, Moscow, Bangkok, Hongkong, Singapore and Tokyo in particular, have large diamond desks. The SOMO study revealed that ABN Amro does not offer any transport, storage or customs services, neither does provide it loans

for mining explorations in Africa. No indications could be found to suggest that the bank had any interests in African diamond mines (SOMO, 2001). The bank, however, is involved in purchasing and trading rough diamonds via its offices in Antwerpen, diamond cutting in India, and diamond trading and retail in Tokyo, New York and Hongkong.



ABN Amro financed at least one diamond dealer, Omega Diamonds in Antwerpen, who sold diamonds from ASCORP, the official trade organisation in Angola. ABN Amro checked the the documents of the diamonds. These had to be issued by official institutions such as the Diamond Office in Antwerp. The diamond trade is a small, closed sector, an inner circle, where people talk a lot and where trust plays an important role - so say the diamond traders. If someone were found to trade in conflict diamonds, they would be expelled from the international diamond market.<sup>7</sup> The UN set up three panels of experts to monitor

compliance with the sanctions against Sierra Leone and Angola. The UN also compiled a list of forty diamond dealers who acted as agents of the Revolutionary United Front (RUF) in

<sup>5</sup> Lindijer, K. (2000), 'Blood attached to African diamonds', *NRC-Handelsblad* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 20 January 2000.

<sup>6</sup> High Court for Diamond, *Antwerp facets* (Flamish paper, HEADING ORIGINALLY IN DUTCH), March 2001, p. 29-30.

<sup>7</sup> 'Diamonds under fire', *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 1 July 2000.



Sierra Leone and who violated the sanctions. None of the dealers appeared to be a client of or supplier to ABN Amro.

### **Self regulation**

According to ABN Amro, self regulation in the diamond sector is most effective. Strict regulations are in place and business relations are maintained only with reputable companies, such as De Beers and Ascorp. Two thirds of the customers of the ABN Amro Antwerpen diamond desk are sight holder of De Beers in Londen. But according to the NIZA, ABN Amro could not sufficiently guarantee effective self regulation and the bank could do more to curb the illegal trade in diamonds. Several NGOs, including Global Witness, the NIZA and Novib were of the opinion that ABN Amro could pay more attention to its social responsibility in the internal diamond trade by playing a much more active role in regulating the diamond trade it finances.

On 2 June 2000, the South African diamond firm De Beers, and supplier to ABN Amro, took far-reaching steps to prevent diamonds from African war zones entering the market. The largest diamond firm in the world decided to withdraw completely from Angola.<sup>8</sup> Buyers to whom De Beers supplied rough diamonds were presented with a contract which included sanctions on trading in diamonds from conflict areas.<sup>9</sup> De Beers changed its rough diamond purchasing policy to prevent ‘conflict diamonds’ turning up at the sales branch of De Beers in London, the Central Selling Organisation (CSO). De Beers also decided to close all buying offices in Africa and to stop purchasing African diamonds on the open market.

Although it concerned only a small quantity of diamonds, De Beers and ABN Amro wanted to avoid embarrassing the whole diamond industry and themselves. In 2001, the Board of De Beers introduced a universally applicable code of conduct. ABN Amro also launched initiatives so as to preserve the trust of its stakeholders and fulfil its role as socially responsible bank. One of the initiatives was to assist in the ‘Kimberley Process’<sup>10</sup> during which the diamond industry set up a certification and monitoring system to combat the illicit trade in conflict diamonds.<sup>11</sup> On 1 January 2003, the system was launched which only permits trade in certified diamonds.

### **Demonstrable indicators of reputational damage**

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#### **Consumer market**

In the first three years since the issue first presented itself, no contracts were severed with suppliers suspected of being linked to the illicit trade in diamonds. ABN Amro did report that it received e-mails from concerned private customers who requested more information about the bank’s involvement in the matter. No private or institutional customer relinquished relations with the bank as a result of the issue. In 2001, earnings declined by more than 23 percent after exhibiting an increase for four years (ABN Amro, 2001). Earnings capitalisation – earnings per share and return on capital employed - displayed a similar decline in the course of 2001. In addition to the affair surrounding conflict diamonds, ABN Amro was also confronted with allegations of financing deforestation practices on palm oil plantations and

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<sup>8</sup> ‘Blood attached to African diamonds’, *NRC-Handelsblad* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 20 January 2000.

<sup>9</sup> ‘De Beers boycotts diamonds from conflict areas’, *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 2 June 2000.

<sup>10</sup> [www.kimberleyprocess.com](http://www.kimberleyprocess.com), consulted on 2 November 2002.

<sup>11</sup> [www.abnamro.com/Pressroom/releases/en/html/2001-05-23-en.asp](http://www.abnamro.com/Pressroom/releases/en/html/2001-05-23-en.asp), consulted on 28 January 2002.



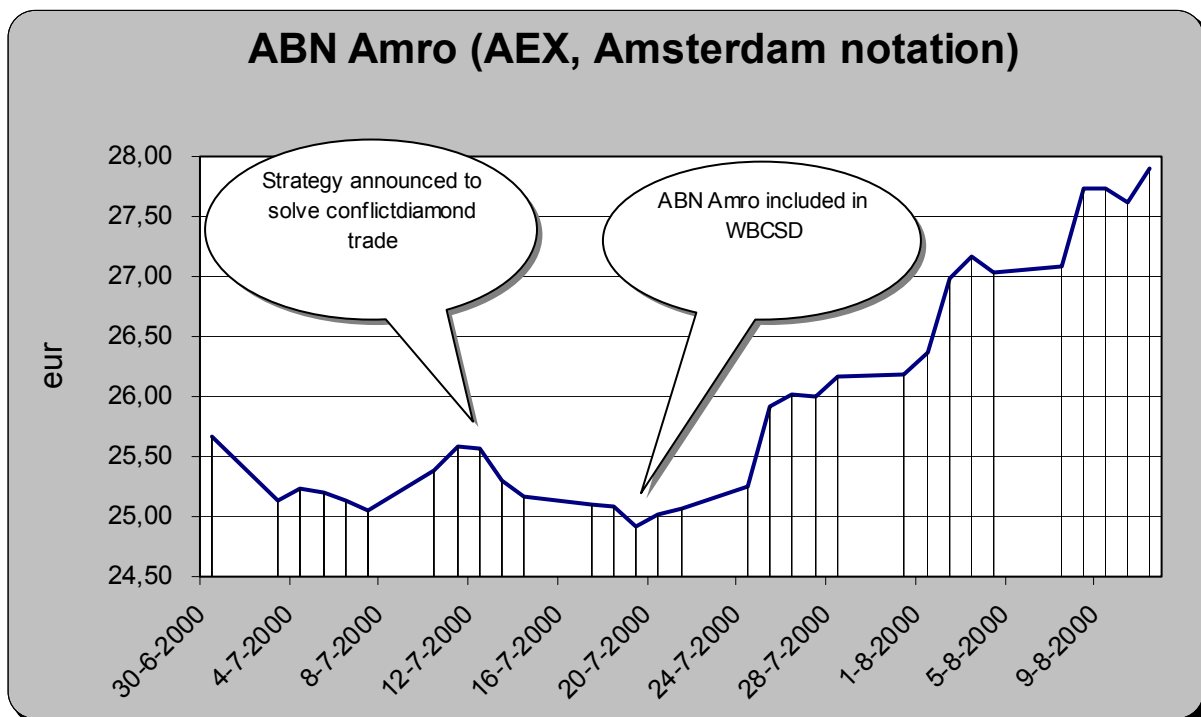


questionable mining practices (Freeport Mine in Irian Jaya). A relation between these affairs and the decline in earnings cannot be substantiated. It is clear, however, that 2001, the period during which the diamond conflict reached its height, was a difficult year for the bank. The global economic decline, together with the tragic events of 11 September 2001 and the financial problems at a number of large companies, certainly did not create favourable market conditions for the diamond industry. In addition, there was also the further implementation of the bank’s restructuring programme.<sup>12</sup>

**Capital market**

For this case, two moments were selected to analyse the share price and market value of ABN Amro on the AEX (Amsterdam exchange):

**14 July 2000.** In a letter to their clients, four diamond banks in Antwerp, ABN Amro included, stated that they have made a commitment to refrain from financing any activities that can be related to the trade in diamonds from conflict areas.<sup>13</sup> The banks expected their clients to avoid transactions they have knowledge or should have knowledge of as involving conflict diamonds. The banks reserved the right to end their relations with the client should these diamonds be traded. The moment of this announcement, the ABN Amro share price decreased while the AEX Index, which the share forms part of, actually increased. Could investors have interpreted this as an admission of guilt? On 20 July, ABN Amro announced its full membership to the World Business Council for Sustainable Development (WBCSD). The decline in the share price came to a halt and prepared for an impressive increase of several percent in one week, in opposition to the declining trend of the AEX Index. The figure below depicts the price movements of the ABN Amro share during this period.

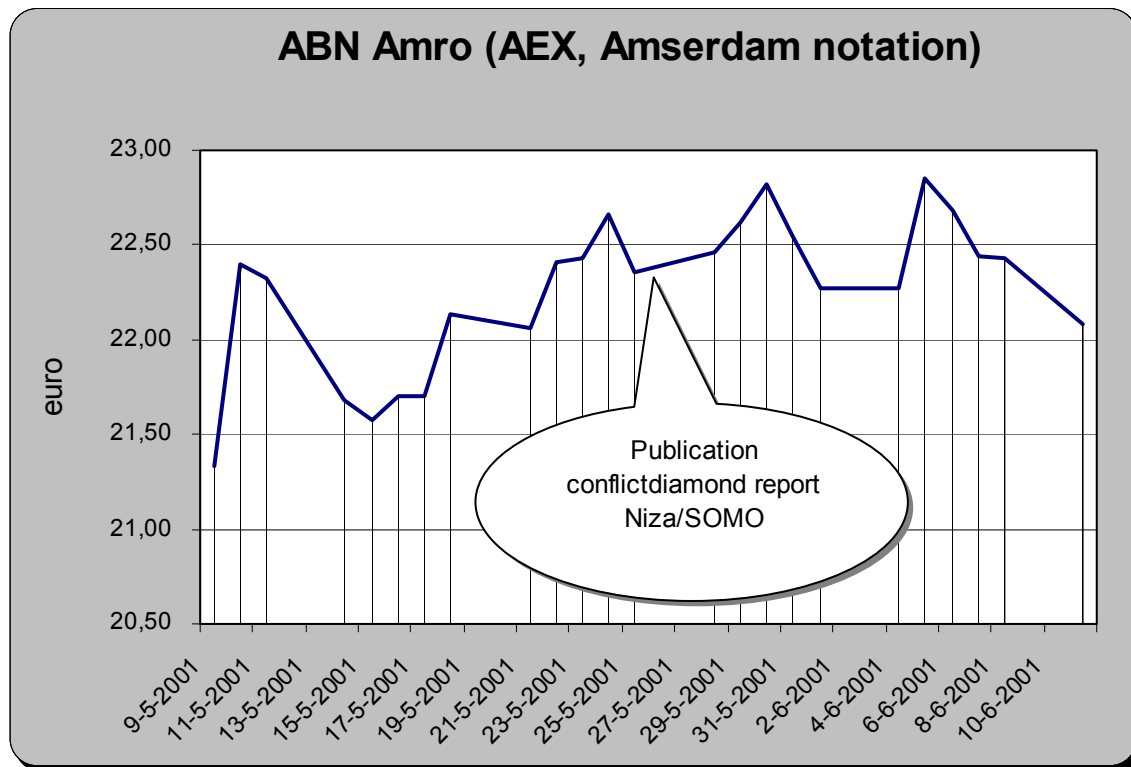


<sup>12</sup> [www.abnamro.com/annualreport/2001/index2.html@folder=6.htm](http://www.abnamro.com/annualreport/2001/index2.html@folder=6.htm), consulted on 11 July 2002.

<sup>13</sup> ‘Banks avoid diamonds from conflictareas’, *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 14 July 2000.



**25 May 2001. On 25 May 2001.** The NIZA published the report surrounding ABN Amro's alleged involvement in the trade in conflict diamonds. Het Financieele Dagblad reported extensively on the publication. The share price barely moved. The AEX Index also seemed unaffected. The price movements around 25 May 2001 are depicted in the figure below.



### Labour market

The annual corporate image research conducted by Intermediair (Intermediair, 2002: 30) shows that the bank's attractiveness as employer declined in the course of the years. In 1998, ABN Amro took in second place and it maintained this position for two years running, only to slide back to third place in 2001. The changing perception of potential employees became manifest in 2002 when the bank slid to fifth position, falling behind companies like Ahold and Shell (Intermediair, 2002: 30). In the annual report, ABN Amro reported that 2002 had been a turbulent year for the bank. Current employees also expressed their concern (ABN Amro, 2001: 2). This, however, can largely be attributed to the internal restructuring project.

### Demonstrable indicators of disciplining

The attitude that the Board of ABN Amro adopted can be described as one of bridging. Both at the outset of the controversy as well as during its development, ABN Amro cooperated with the SOMO study. The bank adopted an active stance within the diamond industry to combat the trade in conflict diamonds and illegal diamonds. As largest diamond banker, ABN Amro did not attempt to shirk its responsibilities. ABN Amro also undertook several (disciplining) initiatives to manage the issue.



- ABN Amro occupied a prominent position in the World Diamond Council (WDC), the organisation by means of which the diamond industry intended combat the trade in conflict diamonds and promote legal trade.
- On 14 July 2000, four diamond banks in Antwerp, including ABN Amro, announced their commitment to refrain from financing any activities related to the illicit trade in diamonds from conflict areas (such as Liberia, Angola, Sierra Leone).<sup>14</sup>
- On 20 July 2000, ABN Amro joined the World Business Council for Sustainable Development (WBCSD). The WBCSD is a coalition of approximately 130 companies in 20 countries. These companies are committed to sustainable development, namely the integration of economic growth, environmental protection and social advancement.
- Active participation in the ‘Kimberley Process’ whereby certification and monitoring systems were developed to prevent trade in conflict diamonds.
- ABN Amro now endorses all UN resolutions to end the trade in conflict diamonds and illicit diamonds.
- In July 2000, at a conference on the diamond trade, the World Federation of Diamond Bourses (WFDB) and the International Diamond Manufacturers Association (IDMA) jointly submitted a resolution on conflict diamonds. This resolution called for an international certification and monitoring systems to regulate the import and export of rough diamonds. It proposed that rough diamonds be sealed in the countries of origin before being exported to the trade and/or cutting centres. The resolution was approved by the delegations, including ABN Amro.
- ABN Amro has had corporate values since 1997. The four values are: integrity, teamwork, respect and professionalism. A more detailed code of conduct is being developed.<sup>15</sup> Since November 2001, broader social business principles complement the corporate values. The company regards these principles, which include human rights, as guideline for ethical and social issues. The creation of long-term shareholder value rests on two mutually reinforcing pillars: performance and reputation.<sup>16</sup> The principles form the point of departure for dialogue with stakeholders. The bank will also be assess middle management on their compliance with the code of conduct. As from 2003, part of their income will be determined by it.

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<sup>14</sup> ‘Banks avoid diamonds from conflictareas’, *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 14 July 2000.

<sup>15</sup> Berkhout, K. en M. van Nieuwstadt (2001), ‘Companies reluctant of codes of conduct: ethics as guide’, *NRC-Handelsblad* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 16 June 2001.

<sup>16</sup> [www.abnamro.com/annualreport/2001/index2.html@folder=48.htm](http://www.abnamro.com/annualreport/2001/index2.html@folder=48.htm), consulted on 12 July 2002.





## Outcome

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### Whose interests were met?

The attention and investigations the issue of conflict diamonds generated, have eventually led a range of banks, including ABN Amro, and diamond firms to develop initiatives to combat the illicit trade in diamonds. At first glance, the interests of the NIZA were acceded to most.

### Issue resolved?

The issue of money flows to fund questionable practices still exists, although ABN Amro has receded somewhat from the moral spotlight. No evidence of the bank's direct involvement in the trade in conflict diamonds has come to light, but banks are increasingly becoming the subject of scrutiny in connection with indirect financing of illegal and terrorist activities via the diamond trade; links with the Al Qaida network have even been cited.<sup>17</sup> After 2,5 years' negotiations between 52 countries, the diamond industry and NGOs (the 'Kimberley Process'), a resolution was adopted which make a certificate compulsory as from 1 January 2003. The certificate states the origin of the diamonds. It is to ensure that diamonds are no longer used to finance war. Several NGOs have expressed satisfaction with the first round of negotiations, but are critical of the fact that no agreements have been reached on an independent monitoring system. No disciplinary system has been established for countries or companies who violate the resolution.

### The aftermath

Issues will always exist, also for ABN Amro. Society's perception of a company plays an important role in the event that an issue arises. Perceptions, however, are dangerous and unpredictable. A company should continuously scan its environment for trends that could pose a threat to its reputation, such as financing the trade in diamonds or chopping down rain forests or its presence in countries with a dictatorial regime. ABN Amro bank managers indicated that they could not pinpoint the boundary of the bank's responsibility. Is it, for instance, up to a bank to introduce border controls in the diamond trade or is it the responsibility of the local government? And which supervisory body should oversee the diamond trade?<sup>18</sup> Banks are continuously confronted with dilemmas given that in the financial services sector in particular, profitability enjoys a self-evident priority although time and again it has to be weighed against other values. NGOs only have to focus on their single issue. This complaint was raised especially in connection with the pressure NGOs exerted on ABN Amro with regard to the joint financing of the Freeport Mine in Irian Jaya, West Papua. According to spokespersons of ABN Amro, the wake-up call came in 1998.<sup>19</sup> The American mining firm, FreeportMcMoran, was accused of excessive environmental degradation in the area surrounding the mine.<sup>20</sup> As a result of this and the alleged financing of deforestation projects in Indonesia, guidelines have been set down for forestry projects. In 2002, guidelines for mining and the production of oil and gas followed. Since 2002, ABN Amro is listed on the Dow Jones Sustainability Index (DJSI) and the FTSE4Good Index.

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<sup>17</sup> Farah, D. (2001), 'Al Qaeda Cash Tied to Diamond Trade', *Washington Post*, 2 November 2001. See also <http://westafricawitness.tripod.com/alqaeda.htm>.

<sup>18</sup> Pressrelease by ABN Amro of 23 May 2001, to be found at [www.abnamro.com/Pressroom/releases/en/html/2001-05-23-en.asp](http://www.abnamro.com/Pressroom/releases/en/html/2001-05-23-en.asp)

<sup>19</sup> Ramaer, J. (2001), 'ABN Amro discovers the clean loan', *De Volkskrant* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 6 November 2001.

<sup>20</sup> 'Business practice mining-company shock ABN CEO Kalff', *FD* (DUTCH NEWSPAPER, HEADING ORIGINALLY IN DUTCH), 7 May 1999.