

TRYING TO STOP A BLOODY BUSINESS: THE EU'S POLICIES TO CURTAIL THE TRADE IN NATURAL RESOURCES THAT FUND ARMED CONFLICTS¹

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Abstract

In several of the world's armed conflicts, natural resources are an important source of income for the warring parties. Cutting this stream of revenues has therefore also become an objective of conflict prevention and –management policies of the European Union (EU). However, in contrast to its usual more multilateral leanings the EU is using in this issue field predominantly unilateral measures. The article therefore seeks to explain this policy choice.

By borrowing the Global Production Network (GPN)-conceptualisation from the field of the Economic Geography, the article illustrates how the global context in which the EU acts is becoming increasingly adverse for global measures. Many state actors are hesitant to commit themselves to binding, automatic measures regarding the trade in natural resources. Likewise, European companies, NGOs and consumers are losing leverage on the GPNs of many products that potentially use conflict-financing commodities. This situation decreases the EU's indirect "market power".

As a result of these developments, the only left policy option for the EU to curb the trade in these conflict resources is imposing unilateral measures. This situation, however, creates certain tensions with its self-image as promoter of "effective multilateralism" in the world.

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1. Introduction

In many of the world's civil wars, armed groups are funding their efforts with the trade in natural resources (Rustad and Binningsbø, 2012). Examples in the European neighbourhood include the jihadist group's "Islamic State of Iraq and Syria" (ISIS) financing through oil (Fisher, 2014), or the illegal sale and taxing of coal by separatist forces in Eastern Ukraine (Kramer, 2015). In their quest for sources of income, warring parties are usually not very selective and choose any lucrative commodity at their disposal: diamonds, minerals or timber are only some of the other well-known cases (Le Billon, 2012).

The issue of these so-called conflict resources² does not leave the EU indifferent. In many cases, the financing of warring parties through the trade in natural resources sabotages the EU's external policy objectives: this funding may inflame and prolong armed conflicts, destabilise supply routes for natural resources needed by the European industry and cause environmental damage. A relatively recent update of the Union's Raw Material Initiative included therefore the goal to "examine ways to improve transparency throughout the supply chain and tackle in coordination with key trade partners' situations where revenues from extractive industries are used to fund wars or internal conflicts" (European Commission, 2011, p. 15). Already since the beginning of the 2000s the EU has imposed and promoted different measures that aim specifically on curtailing the trade in some of these conflict resources. The best known case is probably the Kimberley Process for diamonds. However, interestingly enough the past years have witnessed a tendency to more unilateral and bilateral measures, which is unusual given the EU's normal preference for multilateralism to achieve its external policy goals. The question this article therefore seeks to answer is why the EU has turned increasingly to unilateral measures as a means to curtail the trade in conflict resources.

The main argument of this article will be that the EU's policy choices are the consequences of a changing political and economic context that does not leave much alternatives. This does not only include the growing influence of the often cited "rise of the rest" (Zakaria, 2009) within existing multilateral structures, but also their weight as both producers and consumers in the global economy. To explain this argument, the conceptualisation of Global Production Networks (GPNs) will be borrowed from the field of Economic Geography. The extraction of conflict resources is often integrated in broader global economic processes and the situation in which they are extracted can hence indirectly be influenced by

² Conflict resources will be defined as "natural resources whose systematic exploitation and trade in a context of conflict contribute to, benefit from or result in the commission of serious violations of human rights, violations of international humanitarian law or violations amounting to crimes under international law" (Global Witness, 2015).

many of the state and non-state actors that are involved in these networks. Worldwide economic changes can impact the distribution of power in GPNs and limit the EU's influence.

The structure of the article will be as follows. First, it will introduce the issue of conflict resource. There has been published an extensive amount of academic literature on the link between natural resources and armed conflict and this section only seeks to provide a brief introduction to readers, which are less familiar with this topic. Then, the article will turn to the conceptualisation of Global Production Networks and explain how its elements can influence the situation in conflict zones. In the subsequent section the existing policy approaches of the EU will be discussed, how they respond to the different elements of a GPN and what problems they encounter. The following section will elaborate more on these problems and in particular how larger political and economic changes limit the EU's room for manoeuvre. These dynamics will be illustrated in the subsequent section on basis of the example of conflict diamonds. Finally, the article will conclude with a summary of the findings and suggest some implications for the EU's policies in this field.

2. Natural resources and conflict financing

Since the end of the Cold War, the relationship between natural resources and armed conflicts gained more interest in the academic debate. In empirical terms, the role of diamonds in the civil wars in Sierra Leone, Angola or the Democratic Republic of the Congo (DRC), strengthened around that time the idea that natural resources were connected to the onset and duration of civil wars. In particular the work by World Bank's Paul Collier and Anke Hoeffler was highly influential in that context: based on statistical analysis they argued that states with an abundance in natural resources would have a higher probability to experience a civil war (Collier and Hoeffler, 1998; Collier and Hoeffler, 2004). The reasons for this link were discussed in the so-called "greed vs. grievance" debate. Proponents of the greed-argument claimed greedy rebels would take up arms to gain control over these lucrative revenues (Collier, 2000). On the other hand, the defenders of the grievance-argument argued that the presence of natural resources may trigger some effects (e.g. the states tend to be less democratic and economically more fragile) that could motivate people to rebel against the state (Fearon, 2005).

The exact causes of this link between natural resources and a higher occurrence of civil wars (and whether there is one at all) are still disputed. Many of the results are contradicting each other and the results depend to a large extent on the employed statistical choices and datasets (Hegre and Sambanis, 2006). Furthermore, there are substantial differences between the researched commodities. Koubi et al. recently

concluded, after reviewing the existing literature on this link that “resources can play a role in armed conflict, most likely with regard to abundance”, but that “neither the specific contexts (...) in which natural resources may affect conflict onset, intensity, and duration, nor the direction of causality are entirely clear” (Koubi *et al.*, 2014, p. 239).

Most of these studies that analyse the dynamics of violent conflicts, see the fighters of the armed groups as *homines oeconomici*: their violence is not committed in a senseless, anarchic manner but in a functional way with clear material objectives. The absence of a state permits the emergence of war economies in which armed groups grab their opportunities for economic benefits. Natural resources can provide a profitable source of income among others: belligerents may e.g. control a mine or alternatively levy some “tax” on the local population to work there. In many armed conflicts, these actions are not exclusively carried out by rebel groups, but military units of the state are evenly involved in illegal activities. As long as these “new wars” (Kaldor, 2007) remain lucrative for the involved sides, its continuation can therefore be an objective on itself: once order would be reinstalled in a conflict zone, many of these profitable activities would be harder to continue (Keen, 2012).

Besides being a motivation to continue fighting, natural resources can also make war feasible in the first place (Collier *et al.*, 2009). Waging a war can be an expensive exercise as soldiers need their salary, weapons and ammunition have to be paid etc. Especially when the troops are primarily motivated by the financial rewards of the war economy, it is pivotal for the leaders to generate sufficiently revenues (Humphreys and Weinstein, 2008). Selling natural resources can therefore be an important source of revenues to maintain military muscle.

Due to these special characteristics, ending resource-fuelled wars requires a special approach. In general, three main types of conflict termination instruments have been used in the past: (I) military interventions to take over the control over the resource production areas from the warring parties; (II) economic sanctions or certification regimes to end the trade in a commodity; and (III) the promotion of revenue sharing agreements between the warring parties (Le Billon, 2009, p. 20). However, ending the financing of a conflict through natural resources is not a panacea, as armed groups are usually not very selective in their choice of generating revenues and grab any opportunity at their disposal. If natural resources drop out as source of revenues, they therefore turn to alternatives. One of the most prominent rebel groups at the moment, ISIS, exploits the existing oil wells in Syria and Iraq, but finances itself as well through kidnapping, extortions, trafficking of looted antiques and some form of tax system (Fisher, 2014). Yet, as

part of a broader and comprehensive approach to conflict termination, curtailing the trade in lucrative natural resources can be an effective measure.

Many conflict resources are sold via traders to the international markets and enter the global supply chains of consumer goods. During the 1990s and 2000s, the so-called “blood diamonds” were the best-known case to western audiences, but more recently the case of minerals from the war-stroke Eastern DRC caught a lot of attention. Supposedly, many of these minerals are used in the production of mobile phones, play stations and similar electronica. In other words, the minerals extracted in the remote Eastern DRC can find all their way to the markets in Europe, North America or Asia (Nest, 2011). In the next section these possible connections between resource-fuelled armed conflicts and global economic processes will be discussed more in detail.

3. Conflict resources in Global Production Networks

In order to see how the trade in conflict resources is related to the outside world and how it can also be influenced by external actors, the GPN-conceptualisation is a helpful instrument (Henderson *et al.*, 2002). GPN places a special emphasis on the embeddedness of production in networks “whose interconnected nodes and links extend spatiality across national boundaries and, in so doing, integrates parts of disparate national and subnational territories” (Coe *et al.*, 2008, p. 274). These networks are made off a broad array of actors, next to state actors and international organisations, also actors such as firms, civil society, consumers and labour can be part of it (Coe *et al.*, 2008, p. 272). In other words, GPN analysis looks principally on the inter-related actions of involved actors, which are themselves embedded in the broader structures and institutions of the global economy. As an analytical tool it studies in particular the different elements that can influence the actions and decisions of the involved firms. In the specific cases of GPNs in which conflict resources can be an element, all these actors and their actions and interactions can thus echo in the places where the critical resources are extracted.

Wielding power can take different forms in these networks and “the relative power of actors within a network depends, in large part, on the extent to which each possesses assets sought by the other party and the extent to which access to such assets can be controlled” (Coe *et al.*, 2008, p. 276). More specifically, it can be categorised under three different labels: institutional, corporate and collective power.

Firstly, institutional power is executed by actors like nation-states or multilateral institutions, which have the ability to “influence the investment and other decisions of lead companies and other firms in GPNs” (Henderson *et al.*, 2002, p. 450). The power of the EU also falls under this category. Possible measures in the field of conflict resources may include sanctions on some commodities and companies, transparency requirements or economic incentives. By setting specific rules, firms can be discouraged from trading in potential conflict resources or using them –directly or indirectly- in their production processes. This power depends also on the ability to enforce these rules: in many armed conflicts both the state and its neighbours have only “limited statehood”. Studies about the trade in natural resources have shown that in many countries in Africa and Asia illegal exports may amount to as much as 50 percent of legal exports, mainly as a result of rampant corruption (Vézina, 2014). This situation facilitates the trafficking of conflict resources and makes it easier to smuggle them into legal supply chains with forged documentation.

Secondly, corporate power “is the extent to which the lead firm in a GPN has the capacity to influence decisions and resource allocations –vis-à-vis other firms in the network- decisively and consistently in its own interest” (Henderson *et al.*, 2002, p. 450). In more general terms, a “parameter setting actor” (Gereffi *et al.*, 2005, p. 98) in a sector –e.g. IKEA in the furniture industry or Walmart in the retail business- can thus exercise power by requesting its providers to comply with certain standards to exclude products from its supply chain that may include potential conflict resources.

Thirdly, collective power is “the actions of collective agents who seek the influence companies at particular locations in GPN’s, their respective governments and sometimes international agencies” (Henderson *et al.*, 2002, p. 450). In the case of conflict resources this includes primarily advocacy NGOs that work on the issue of armed conflicts and natural resources. Their power is based to a large extent on the demands and interest of consumers and the ability to influence them. It is assumed that many consumers do not only consider the product’s price in their purchasing decisions, but also look on soft factors such as the brand’s image (Gulbrandsen, 2006). Morally reprehensible behaviour, e.g. environmentally or socially ruthless business policies, can tarnish the brand’s image and cause some consumers to stop buying products from this company. The actions of corporations in conflict zones is also under public scrutiny (Haufler, 2010a). An example is the “no blood on my cell phone” campaign in which NGOs denounced the use of coltan from the Eastern DRC in the production of mobile phones and sought to mount pressure on (then) mobile phone giant Nokia. Hence the power of NGOs is based on the ability to influence consumer behaviour, for example by *naming and shaming* companies in public that make themselves guilty of ethically questionable behaviour.

A response to possible pressure from the public has been the emergence and diffusion of private certification schemes in the past decade (Potoski and Prakash, 2005). Companies seek to let their behaviour certify in order to provide proof that they comply with social or environmental standards. In the field of natural resources extraction, various environmental labels have been developed, such as for example the Forest Stewardship Council's certificate (FSC), which seeks to ensure that timber is harvested in a sustainable way. Many of these certifications are developed in cooperation with NGOs, which provide their reputation to give them credibility. To sum up, NGOs seek thus to pressure companies -and also states- into using their power for their aims. A warlord in Africa, who enriches himself with conflict resources, is probably not particularly impressed by western NGO campaigns, but when they lead to certification systems (corporate power) or sanctions regimes (institutional power) he can theoretically feel the indirect consequences.

4. The institutional power of the European Union

Until now this article has spoken more in general about the role of conflict resources in the global economy. In this section, the ability of the EU to influence these GPNs will be discussed more in detail. These measures to curtail the trade in conflict resources are framed within the EU's broader conflict prevention and -management policies. Already the milestone 2001 Gothenburg Programme that led the groundwork for the further development of the EU's activities in this field, mentioned the aim of tackling the "illicit trade in high-value commodities" (Council of the EU, 2001). Especially the United Kingdom introduced these ideas within the EU and is until today one of the large promoters of policies concerning natural resources both on the European and global level. The policies of the EU frame measures to curtail the trade in conflict resources within a broader approach to conflict prevention and -management. At the 2013 UN Security Council Open Debate on Conflict prevention and natural resources, the EU summarised its position and stated that "experience shows that, to curb the linkages between instability and violent conflict in mineral-rich countries, a more comprehensive approach is needed, deploying the full range of development, trade, security and diplomatic instruments at the disposal of the international community, and ensuring a human rights perspective" (UNSC, 2013, p. 31).

In the second section some possible measures to curtail the trade in conflict resources have already been briefly mentioned: (I) military interventions; (II) economic sanctions; and (III) the promotion of revenue sharing agreements. Due to its characteristics as a "civilian power" the EU is not proactively participating in military interventions to gain control over natural resources that feed armed groups. What comes

closest to such measures is the EU's actions to support Government forces directly or indirectly. EUSEC RD Congo, for example, supports Security Sector Reform to restructure the notorious ineffective Congolese army and the EU has as well provided salary supplements to prevent the military from engaging in criminal activities. But these policies are part of a broader package and not exclusively dedicated to the issue of conflict resources. Likewise, the promotion of revenues sharing agreements is a policy which is usually no part of the EU's policies to end resource-fuelled conflicts. Similar measures are now under criticism: various scholars criticise a culture of impunity that amnesties and reintegration-policies have created for example in the DRC, where armed groups were rewarded for their violence. As Laudati reports some armed rebels groups even deliberately seek to increase their notoriety to get a better bargain at the negotiation table (Laudati, 2013, p. 45). Furthermore, as described in section 2 are natural resources rarely the only motivation to fight but rather to fuel its continuation.

Economic measures are the most common policy the EU employs to deal with the issue of conflict resources. As an actor the EU possesses some institutional power to influence the GPNs of these commodities. The most obvious policy tool is EU-sanctions/ restrictive measures. Due to the EU's preference for multilateral solution it usually prefers to implement resolutions of the UN Security Council or to upload its own preference to the multilateral level (Portela, 2005, p. 85). An example of UN sanctions that have been implemented at the EU-level is the measures against charcoal from Somalia since 2012, due to their role in funding Al Shabaab (UNSC, 2012; Council of the EU, 2012). However, UN-sanctions that are targeting special commodities are not very common. In most cases, specific persons or entities are on the sanctions list for breaching existing UN sanctions. To give another example: a couple of gold trading houses and gold export companies in the DRC and Uganda are on the sanctions list because they had bought directly and indirectly gold from militias in the war in Eastern DRC (Council of the EU, 2010, p. 11ff). As these militias were subject to UN sanctions, the economic activities were assessed as illegal funding of the armed conflict.

In cases in which the UN Security Council does not impose clear sanctions, the EU occasionally sets up its own autonomous or additional sanctions (Portela, 2005, p. 85). According to Portela it is not always clear to what extent some of these sanctions are supplementary imposed by the EU or rather a specification of the often vaguely formulated UNSC Resolutions (Portela, 2010, p. 20). One example of "upgraded UN-sanctions" concerning natural resources is the sanctions against Côte d'Ivoire in 2011, which sought to dry out the funding of the government of Laurent Gbagbo and surpassed the sanctions imposed by the UN Security Council (UNSC, 2011). On the UN sanctions list were only a number of individuals but the EU

(and particularly France) also wanted to target the government's economic assets. Consequently, the EU sanctions list included as well a number of economic entities related to the country's trade in natural resources³, such as the Autonomous Ports of Abidjan and San Pedro from where the countries cocoa and coffee products were shipped for export (Council of the EU, 2011).

However, a commonly shared problem of such sanctions regimes is the lack of transparency in the origin of many natural resources from these resources. The limited presence of state actors makes it often comparably easy to illegally traffic these conflict resources to other places where they are relabelled. Consequently, the promotion of transparency in the supply chains is often perceived as an adequate answer to this problem. The past decade has witnessed a broader emergence of the norm of transparency as some form of "Swiss army knife" (Haufler, 2010b, p. 55) that resolves all problems related to the resource curse and the issue of conflict resources is no exception to that. Anticorruption and transparency standards and norms are expected to directly and indirectly criminalise the activities of officials, private and companies involved in the trade of conflict resources and lead this way to better natural resource governance. Likewise, they permit the identification of conflict resources in a supply chain. Different organisations, such as the United Nations or the OECD, have developed guidelines how companies need to act in a responsible way in conflict zone.

In these cases the EU is thus using the corporate power of other actors for its aims. By imposing transparency rules on companies or operators active within the EU, these actors need to go downstream to find ways to proof the origin of their goods. In other words, it is another form of "external governance" (Lavenex and Schimmelfennig, 2009, p. 794), based on "Market Power Europe"(Damro, 2012). An example of the EU's roundabout way to curtail the trade in conflict resources (and other illicitly produced natural resources) is its measures against illegal logging. In 2010 the EU Timber Regulation went into force, which obliges all operators that import timber and most timber products to the Single Market to provide evidence that it has been harvested in accordance with the legal standards of the country of origin. With some countries the EU agreed on bilateral Voluntary Partnership Agreements, whose certificates could serve as a waiver for these provisions. But in the other cases the industry therefore needs to find ways to produce credible transparency mechanisms. One tool can be existing certification schemes, such as the

³ PETROCI (National Petroleum Operations Company of Côte d'Ivoire); SIR (Ivorian Refining Company); CGFCC (Coffee and Cocoa Trade Management Committee) and APROCANCI (Côte d'Ivoire Association of Natural Rubber Producers).

labels of the FSC. In other words, the main actors that bring the timber to Europe have to use their corporate power to establish or implement such standards at the lower tiers of their supply chain.

Likewise, policy measures of the EU can also be built on the collective power of European consumers and NGOs. An example is the European Commission's draft proposal for a Conflict Mineral Regulation. The suggested regulation did not include any mandatory requirements or rules, but offered importers of certain minerals the opportunity to become certified by the Commission and the Member States as "responsible importer". The proposal does not provide any direct financial incentives to do so, except the idea that the importer could use this label as a tool to distinguish itself from its competitors (European Commission, 2014). In other words, being certified as a "responsible importer" would be an insurance against possible campaigns of NGOs.

To sum up, the ability of the EU to influence the GPNs of certain products foots on two different bases: its institutional power and its ability to channel the weight of Europe's companies and consumers in a certain way. But as the next section will illustrate both pillars are suffering from broader global changes.

5. The limits of European power in GPNs

The previous section has described several of the measures the EU imposes to curtail the trade in conflict resources. However, the so-called "rise of the rest" and the emergence of a more multipolar order changes the configuration of institutional, corporate and collective power in the GPNs of many products. Consequently, these changes are also reflected in the EU's room of manoeuvre for policies with respect to conflict resources.

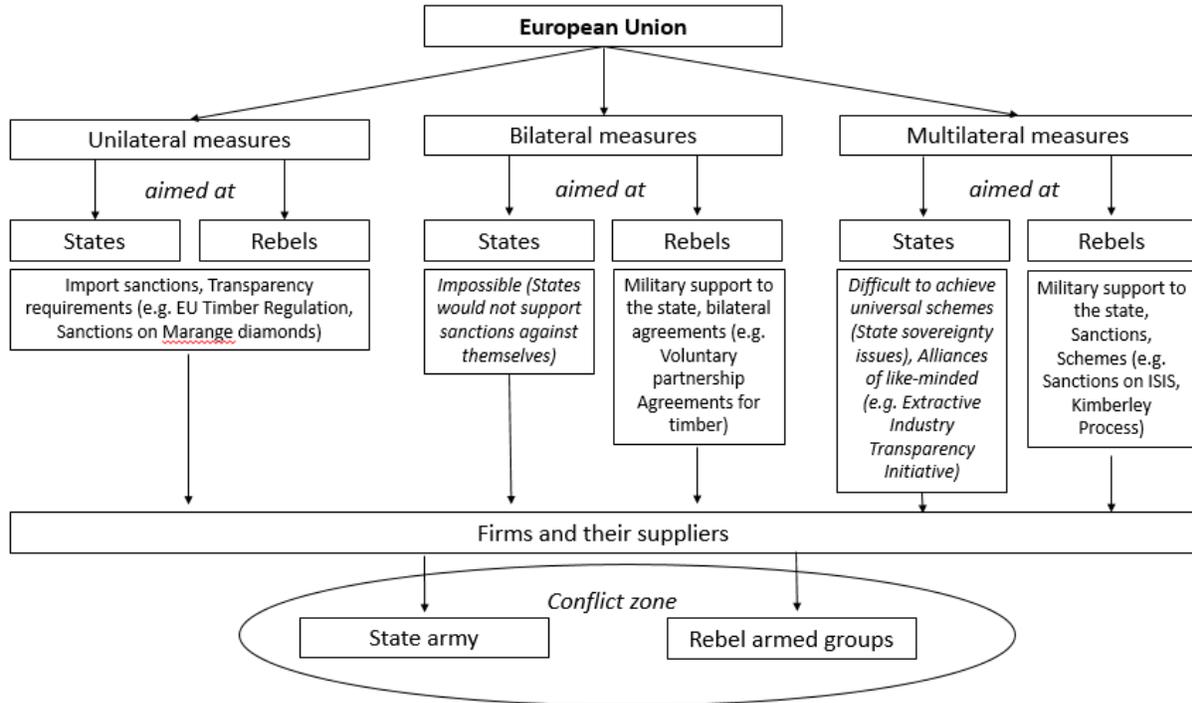
In terms of institutional power, it is hard to find global agreements on binding rules in the field of natural resource governance, particularly when this might affect state actors. These problems are part of the broader clash between the proponents of liberal internationalism and the defenders of state sovereignty. The EU, and other western actors, seek to promote global transparency regulations such as the Extractive Industry Transparency Initiative (EITI), arguing that these measures will help to end the "resource curse". However, most non-western state actors consider such rules as possible infringement of their sovereignty. On the one hand, the BRICS –and especially China and Russia- are blocking everything that they perceive as an assault on the concept of state sovereignty (Laïdi, 2012). On the other hand, many former colonies in Africa, Asia or South America suspect western political and economic interests behind proposals to create external public or private transparency standards for their natural resource production.

These differences between the West and “the rest” could be clearly observed in the 2013 Open Debate on Conflict Prevention and Natural Resources. The EU (and the western state actors) argued that the “implementation of legitimate methods of exploitation and trade for concerned minerals should be encouraged by specific incentives”(UNSC, 2013, p. 32), which would include e.g. transparency schemes. But China remarked as its first point that “the domestic sovereignty of States over their natural resources must be respected”(UNSC, 2013, p. 15). Russia went even farther and stated that it viewed it “as dangerous attempts to introduce automaticity in the sanctions mechanisms or to introduce, through the Security Council and not in line with its mandate, quasi-sanction instruments by broadening the practice of the certification of raw materials.”(UNSC, 2013, p. 16). Primarily due to resistance from Russia, the UNSC could not even reach an agreement on a Presidential Statement. Even a compromise formulation that clarified that it would only affect “countries in armed conflict and post-conflict situations that pose a threat to international peace and security” could not bring them aboard as they perceived this statement already as a potential infringement of state sovereignty and a precedent.

Ad hoc measures, especially when they aim at non-state actors, have a higher success rate in the multilateral arena. In fact, it has been Russia who sponsored in February 2015 UNSC Resolution 2199, which aims on cutting off the funding of ISIS and Al-Qaeda affiliated groups by natural resources, such as oil and precious metals. But it is virtually impossible for the EU and its Member States to promote universal binding multilateral automatism, especially when they could potentially target state actors. Likewise, bilateral measures are only realistic if they aim on rebel groups as another state party obviously would not agree to measures against itself.

As figure 1 below shows, this situation only permits the EU to act in a unilateral way against state actors that finance their war efforts with the revenues of natural resources. Against rebels—which are not backed by major powers- there are also bilateral or multilateral efforts possible, but for regimes against state actors the EU can in the international arena only hope for alliances of like-minded states to curb the trade in conflict resources.

Figure 1: Institutional power of the European Union



As previously explained, the EU can as well use its power in a way that it instrumentalises the corporate and collective power of Europe to achieve certain policy aims. But global economic changes are influencing this configuration of power as well.

In terms of corporate power, the emergence of new globally operating companies from outside of Europe and North America is having a profound impact. Many EU-registered firms are still key players in their respective industries, but in contrast to a completely western-dominated global corporate world of thirty years ago, we can observe now a more diverse picture. These structural changes can be detected in Africa from where most conflict resources are originating. After the end of the Cold War many European extractive companies had pulled out of least stable countries and moved its focus to some of the former Communist countries for raw materials. This situation permitted other firms, especially state-supported companies from China, to get their feet on the ground in these countries (Raine, 2009). Today China is for different African countries, such as the DRC, the largest trading partner. Consequently, European companies cannot coerce these countries and their local firms into compliance with certain standards as easy anymore, as they have alternative buyers now.

The emerging economies are not only gaining weight as producers in many GPNs, but as well as markets. As a consequence the desires and demands of their consumers are also gaining more importance than

the traditional markets. Many private certification schemes initially have been created as a response to pressure from NGO's that vocalised a presumed demand for from western consumers for transparency measures. Whether such a demand socially and environmentally responsible products really exists, or whether it is rather a construct by civil society and most consumers do not care about these things is empirically not so clear yet (Gulbrandsen, 2006). A large problem of these studies that it is hard to check whether the respondents "put their money where their mouth is" and are not just giving socially desirable answers. However, the sheer idea has been sufficient to mount some pressure on firms.

It is as well unclear to what extent consumers in the emerging economies let their purchasing decisions influence by such considerations. In surveys in which respondents were asked to which extent they thought that consumers could have a significant impact through their purchasing decisions, some BRICS scored higher than western countries (Cone Communications and echo, 2013, p. 29)⁴. But among many industry actors lives the idea that consumers in the emerging markets are less concerned about this aspect of their consumptions. At the same time, most NGOs in this field are still almost exclusively western-based and only start slowly to address audiences in these markets. As a consequence, provided that they sell most of their products in these emerging markets, many firms feel less compelled to invest in costly certification schemes as western NGOs have less leverage on them.

To sum up, these developments limit thus the impact of the EU on the global scale: as the EU is –in relative terms- economically less important it holds less powers on GPNs by closing its markets through sanctions or by influencing firms and consumers.

6. Case study: Changes in the diamond world

The previous section has explained how structural changes are limiting the EU's ability to curtail the trade in conflict resources. In this section these dynamics will be illustrated with an empirical example, namely the case of conflict diamonds. The emergence and current problems of the Kimberley Process Certification Scheme is a good example how the different powers in GPNs can influence the EU's ability to impose its policies.

The so-called "blood diamonds" are probably one of the best known examples of conflict resources. In particular at the beginning of the 1990s this issue received a lot of media attention due to the civil wars

⁴ Brazil (57%), India (52%), France and United States (25%), Germany (24 %), Canada (21%), Russia (20%), Japan (17%), United Kingdom (14%), China (11%).

in Sierra Leone/ Liberia, Angola and the Democratic Republic of the Congo. In all these conflicts armed conflicts financed themselves with the sales of these gems to the international markets and some experts assessed that up to 15 per cent of the global production could be qualified as a “conflict diamond”. The UN imposed export sanctions on these diamonds, but numerous studies and UN Groups of Expert reports demonstrated that they had only little impact.

In this early phase especially NGOs played an important role by creating global awareness for the link between the human rights violations in these civil wars and the global trade in diamonds (Bieri, 2010; Grant and Taylor, 2004; Smillie, 2010). It is a frequently used tactic by NGOs to create (sometimes empirically rather thin) links between more abstract topics and issues of the daily life of western consumers (Autesserre, 2012). Whereas reports about “just another conflict” in sub-Saharan Africa probably would not have attracted much public attention, pictures from children that had got their hands chopped off by rebel groups in Sierra Leone, indeed created a sense of urgency to act. NGO campaigns deliberately put the message forward that purchasing an engagement ring, would indirectly finance such cruelties and instrumentalised thus the consumer’s collective power to mount pressure on the industry.

No industry is completely resistant to such negative publicity, but the diamond industry is especially sensitive to such accusations due to the character of its product. The value of diamonds is to a high extent socially constructed and depends on its aura of romanticism, glamour and eternity. This situation gave thus an exceptionally high degree of collective power in the international structure of the diamond trade to NGOs and end market consumers.

A peculiarity of the power structure of the diamond world, which is important to take in mind, was its highly concentrated corporate power in the hand of the cartel DeBeers. At the point, when the KP was created, DeBeers controlled almost 90 percent of the trade in raw diamonds. During the 20th century, the company had partly convinced, partly coerced almost all other players in channelling its diamonds through its Diamond Trading Company. Moreover, it bought and stockpiled diamonds until an amount that it was able to influence the market prices by manipulating the global supply. Although DeBeers was frequently criticised for this dominant position, its policies also guaranteed certain stability in the diamond world.

The impetus for the KP came eventually from DeBeers mainly as a response to collective power and a way to distinguish itself in the market as a more ethical player. Together with producing countries of “clean diamonds”, such as e.g. South Africa and Botswana, DeBeers and other industry actors wanted to prevent a doom-scenario in which its products were socially banned. Besides the main industry actors and the

most influential NGOs, also the most important producer and consumer countries were invited to the Process that would culminate in the creation of the diamond world's most important institution.

All the powerful actors in the diamond world shared the idea that diamonds that financed conflicts had to be banned from the legal trade. In the following two years, the participants developed jointly the KPCS. This system is basically an export and import control regime for rough diamonds, which obliges all participating countries to fulfil certain criteria to assure a complete transparency for raw diamonds. Participants are only permitted to trade with other countries that fulfil these criteria to ensure that conflict diamonds cannot enter into this scheme. Once a diamond has been cut, a *System of Warranties* is complementary to guarantee to the final consumer that his purchase fulfils the criteria of the KPCS. Although the KP was designed jointly by the industry, NGOs and states, only state actors have the right to vote in the meetings of the Process.

The beginning phase of the Kimberley Process was one of the exceptional situations in which all powers came together for one objective. All main producing and consuming countries, the large firms and NGOs shared the idea that "conflict diamonds" had to be isolated from the legal trade. As a consequence the Kimberley Process was established and wholeheartedly supported by all these actors. Due to this comprehensive approach, the trade volume of conflict diamonds could be reduced considerably in the following years.

The EU took almost from the beginning a supporting role towards the Kimberley Process, both for economic and normative motives. The EU has an important role in the diamond world as trading hub and place, where many of the most complicated cuts of diamonds are performed. This position is to a very large extent the result of one city: Antwerp. Until some years ago almost 80 percent of the world's diamonds passed the Flemish coastal city, where they were sorted and resold. Even today more than 50 percent of the world's diamonds cross Antwerp (Hoge Raad voor Diamant (HRD), 2013). As a result, the EU was in most of the past years at the same time the largest importer and exporter of raw diamonds (Kimberley Process, 2012). Due to its economic weight in the global diamond industry, the Union carried a significant weight in the KP. Besides the economic argument, also political reasons motivated the EU to embrace the KP from the beginning. The KPCS was considered as a formidable tool of conflict prevention, and –management as it could cut off the funding of rebels (Council of the EU, 2001). Furthermore, diamonds had also been used by terrorist groups, such as Al-Qaida and Hezbollah to safeguard its properties, when they feared that their bank accounts were closed. Shining more light in the trade with

illicit diamonds was thus also framed as part of the “war on terror” in the post 9/11-era (in fact, this argument was initially one of the driving forces for the US-American engagement in the KP).

However, since the creation of the KPCS the previously described broader developments could as well be detected in the KP. Firstly, the situation in the diamond industry is in movement. DeBeers decided some years ago to change its business model and seeks now controlling the entire diamond pipeline from the mine to the final consumer, instead of focusing itself on the trade in raw diamonds. This step was also a result of the discussions about “blood diamonds” and an intent to guarantee certain ethical standards for all its products. But as a result their share has diminished to about 50 percent, which permitted also other competitors to gain more importance.

At the same time, Antwerp’s influence is shrinking. New places such as the United Arab Emirates are gaining importance as trading spots due its good position as hub between Africa, Europe and Asia. India is already the world’s largest producer of cut diamonds and China has the ambition to surpass them in the next years. These transformations have also affected the power of producing countries, as they are less dependent on western countries as trading points now. When Zimbabwe suffered in 2010 EU and US sanctions, it openly declared that it could sell its diamonds easily somewhere else (Staff reporter, 2010).

Furthermore, a massive game changer is the growing importance of the emerging powers in Asia as end markets. Whereas ten years the large majority of the global consumers could be found in North America, the emerging economies in Asia are now becoming more important due to the emergence of a larger upper- and middle class that can permit itself luxury goods. Between 2008 and 2013 the market in China has grown for 20 percent (DeBeers, 2014, p. 20ff). Among many diamond traders exists the perception that the consumers in these countries are less concerned about the issue of “conflict diamonds” as western consumers are. Consequently they think, to quote an anonymous diamond trader “the industry doesn’t have to care about these issues anymore, because consumers in India and China don’t” (Bates, 2011). Albeit there is little empirical evidence for this perception, the idea is influencing the power of NGOs: if the industry does not believe that consumers care about this issue, there are less incentivised to invest much in in the KPCS.

The previously mentioned issue of state sovereignty is also causing differences of opinion in the KP. The KPCS defines at the moment a “conflict diamond” as a diamond that “has contributed to the financing of a rebel group or other entity that tries to overthrow an UN-recognised government” (Kimberley Process, 2002, p. 3). As a result, the process is not able to exclude states whose Governments conduct human rights violations. Already since several years, NGOs and western actors such as the United States and the

EU promote without much success a broader definition that would include for instance more generally violence that is related to the extraction of diamonds. But intents of western states to promote such provisions meet the resistance of crucial actors such as China, Russia, and many African states. As in the case of the debate in the UNSC, they oppose such measures as an attack on their sovereignty over their natural resources. As the KP has a very consensus-based structure it is thus virtually impossible for the western actors to implement their ideas in the institution.

In sum, the problems that have been more generally described in the previous section can also be observed in the KP, which is usually the posterchild of a scheme to curtail the trade in conflict resources. As a consequence the EU has also in the field of diamonds already opted for unilateral measures, for example in the case of the Marange diamonds from Zimbabwe between 2008 and 2014. During this period the state-owned Zimbabwe Mining Development Cooperation was on an EU sanctions list. But the practical impact of such measures is often only limited: most of these diamonds were subsequently anyway sold to China (Vlaskamp, 2013).

7. Conclusion and implications

This principal question of this article was why the EU is using increasingly unilateral steps to curtail the trade in conflict resources, despite its normal preference for multilateral measures. In order to answer this question the article has used the GPN-conceptualisation. According to this approach GPN's can be influenced by three different powers: institutional power (e.g. state actors and multilateral organisations), corporate power (firms) and collective power (NGOs who instrumentalise consumer power).

The article has argued that the global context for the EU to promote its policy objectives in this field is getting more complicated on all three fields. Firstly, most crucial state actors do not want to commit themselves to binding automatism as the issue of natural resources is often very sensitive in terms of state sovereignty. Another problem of institutional power is that many of the producer states in question, and its neighbouring states, only possess limited statehood. In other words, even if they commit themselves to sanctions or similar measures, they are often not able to control these rules.

An alternative policy, promoted in North America and Europe, have been private certifications to guarantee socially or environmentally responsible behaviour. The promotion of transparency in global supply chains is seen as a useful way to name and shame actors that deal in conflict resources. However, global market changes are affecting these alternative policy tools. The corporate power of European firms

is often shrinking as they are in many fields in a fierce competition with new actors from Asia. Likewise, the collective power of Europe's NGO's is diminishing in the rhythm of Europe's shrinking global market share for some products.

These developments limit therefore as well the options for the EU to promote its norms through alternative policy tools. As a consequence it only remains with the option of imposing unilateral measures and hoping that the Union's still significant market power may create a domino effect.

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