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Leaders & Success

A Cut Above Among Diamonds

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Ernest Oppenheimer didn't let his lack of a formal education or the Great Depression keep him from dominating the diamond market.

How did he do it? By selling an image that diamonds were limited.

"The only way to increase the value of diamonds is to make them scarce, that is, to reduce production," he wrote in a memo to associates in 1910.

Oppenheimer promoted this agenda over a 60-year career and became a giant in the diamond world.

As chairman of De Beers Consolidated Mines, he stood over the gem's mining and distribution, says **Usha Haley**, a fellow at the Harvard Kennedy School and author of "Multinational Corporations in Political Environments: Ethics, Values and Strategies."

"He controlled the supply of diamonds through a central selling organization, a single marketing channel for De Beers that gave the illusion that diamonds were a rare commodity and set the price for diamonds, and it continues to do so today," she said.

Oppenheimer's work -- acquiring key mine properties and skillful negotiations with governments -- helped create the modern diamond industry, wrote Jay Epstein in "The Rise and Fall of Diamonds": "Through (his) brilliant financial maneuvers ... the diamond cartel had succeeded in gaining control of virtually all the diamond mines in the world by the early 1950s."

Gone From Germany

Oppenheimer was born in 1880 in Friedberg, Germany. His father, Edward, was a cigar maker. The family was Jewish, and Edward urged his sons to leave the anti-Semitic country. So Ernest left home in 1896.

Landing in London, he became a clerk for Dunkelsbuhler & Co., a diamond brokerage.

He was 16 years old and didn't have the proper schooling for college, yet had a knack for learning. He figured out the business at the lowest level: sorting diamonds.

It "was to be one of the foundations of Ernest Oppenheimer's career," wrote Theodore Gregory in his book, "Ernest Oppenheimer and the Economic Development of Southern Africa."

Evaluating stones is crucial in the business. "When a man really understands something about diamonds, he becomes a diamond merchant, not a valuator," Oppenheimer said.

He pored over correspondence about pricing and classification of diamonds from Dunkelsbuhler's office in Kimberley, South Africa.

In 1902, Oppenheimer left London to run the Kimberley office. He carried a notebook in which he prepared a detailed analysis of diamond mining. He became familiar with the characteristics and profitability of each diamond mine in the area. He also bought diamonds and evaluated claims in nearby mines.

"It was all part of his education in the diamond business," Epstein wrote.

Oppenheimer admired Cecil Rhodes, the British co-founder of De Beers who died in 1902, and wanted to match his success.

Oppenheimer sped up his rise by buying South African diamond mines from German investors. Soon he folded his mine holdings in a new firm, Consolidated Diamond Mines.

Oppenheimer used the mines as leverage to take control of De Beers, the Johannesburg company that to this day is one of the richest diamond mining players. He traded the mines for a large block of De Beers stock and bought more shares later.

Oppenheimer joined De Beers' board in 1926 and soon merged CDM into De Beers. Anglo eventually became the controlling shareholder in the giant company.

"By 1927, he had become the most powerful force in the diamond monopoly," Epstein wrote.

In 1929, Oppenheimer became chairman of De Beers.

He had a "ruthless ambition" to build wealth, wrote authors David Pallister, Sarah Stewart and Ian Lepper in "South Africa Inc.: The Oppenheimer Empire."

"Oppenheimer was an autocratic empire builder, brushing aside, for example, shareholders' objections to the way he spent De Beers profits for gold and industrial developments," they wrote.

De Beers maintained large cash reserves for investing in new businesses such as gold mines, wrote Gregory. "Oppenheimer ... insisted on the necessity of liquidity."

Oppenheimer had a one-track business mind. "The only things in which I'm a gambler are diamonds," he wrote in a 1922 letter to his brother Louis.

Outside of business, Oppenheimer was a philanthropist and politician.

"He had not received a scientific education himself, but he was a firm believer in the necessity of utilizing scientific knowledge and experience of the highest order in business and ... endowing and furthering research both within the world of business and at universities and technological institutes," wrote Gregory.

Oppenheimer was mayor of Kimberley from 1912 to 1915. He was also a member of the South African Parliament from 1924 to 1938. He often used his political connections to further his company's interests.

He once lobbied governments in South Africa and in the Belgian Congo into enacting laws to force independent prospectors and diggers to sell their gems to government diamond buyers. Those buyers then sold their diamonds to De Beers.

Oppenheimer believed De Beers "had to control the (diamond) production from all significant sources, wrote Epstein.

Oppenheimer still faced challenges. The demand for diamonds fell during the Great Depression, and he had to shut down deep mine production throughout South Africa until the luxury market picked back up after World War I.

All the while in the 1930s' down economy, Oppenheimer helped De Beers control the diamond market. A deal with the Belgian government ensured that black, poorly crystallized diamonds from Belgian mines in Congo would be sold to a De Beers unit, wrote Epstein.

Oppenheimer caught a break with the invention of the diamond grinding wheel in the 1930s. The wheel used crushed diamond powder for making cars, planes and machinery. De Beers now had a new market for its bulging diamond stockpiles.

Spreading The Wealth

Oppenheimer favored relaxing the racial bar in South Africa that prevented black workers from getting supervisory positions in the mines. He resisted the racism of his hero, Rhodes. He was also generous, spending liberally on housing and facilities such as hospitals for mine workers.

During a speech to American and British shareholders in 1951, he emphasized the need for the company to

care for its mine workers. "Both from the humanitarian viewpoint 14d from the standpoint 15f practical interests of the industry, it is important that the closest attention be given to the health and well-being of our native employees," he said.

Oppenheimer died of a heart attack in Johannesburg in 1957. He was 77.

In 2007, the Oppenheimer family was tied for second among the wealthiest in Africa with assets of \$5 billion, according to Forbes magazine and ClickAfrique.

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