

THE AMERICAN ANTI-CORRUPTION INSTITUTE



CONFLICT GOLD

CONFERENCE PAPER

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CONFLICT GOLD

Gold is a form of global currency and acts as a medium for exchange in criminal transactions. It provides reliable returns and easily smuggled and traded – both physically and virtually.² As gold is easily smuggled in high volumes, it is frequently used as a money laundering vehicle by armed groups, criminal networks, and corrupt actors, who can then mask its origins by melting it together with other gold.³

Conflict gold is “located in conflict-affected and high-risk areas, where they may contribute, directly or indirectly, to armed conflict, including terrorist financing, human rights violations and hinder economic and social development.”⁴

Gold refineries, traders, and regulatory agencies, should respect human rights, observe applicable rules of international humanitarian law in regions of armed conflict, avoid contributing to conflict, and enhance transparent mineral supply chain.

INTERNATIONAL REGULATIONS

The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas is the de facto international standard.⁵ Since its adoption in May 2011, the Guidance has become the leading industry standard for companies looking to live up to the expectations of the international community and customers on mineral supply chain transparency and integrity.

The world’s most influential gold market authority is the London Bullion Market Association (LBMA). It is a trade group that holds a significant influence over the market. The major international banks that dominate gold trading trade only with metal from refineries the LBMA has accredited.

THE LBMA THREATENS TO BLACKLIST UAE AND OTHER CENTERS

On November 6, 2020, the LBMA issued a letter addressing countries with large gold markets laying out standards they must comply with on money laundering and where they source their gold or be blacklisted.⁶ The letter addressed China, Hong Kong, India, Japan, Russia, Singapore, South Africa, Switzerland, Turkey, UAE, the United Kingdom, and the United States. However, Reuters stated that serious issues of Dubai was the main driver to issue such an unprecedented and critical letter. “Unless they shape up, the LBMA by early next year will say refiners cannot source from Dubai.”⁷ LBMA asked the recipients to

- 1- Declare their support for the LBMA’s standards by Dec. 11, 2020, and
- 2- Share an action plan for the implementation by the end of January if they have not been met.

During 2018, the refineries of Dubai exported 212 tonnes of gold worth 13 billions UD dollars to mainly Switzerland. There are more than 10 gold refineries in Dubai. None is certified by the LBMA and most lack any accreditation of their gold policies.

The Financial Action Task Force (FATF), which sets standards and promotes the effective implementation of measures to combat money laundering and terrorist financing, has criticized the UAE's controls. Cash transaction are common in the UAE and the FATF concluded last April that the UAE does not do enough to combat money laundering.⁸

A Reuters investigation last year found gold worth billions of dollars had been smuggled to Dubai from Africa, much of it mined by artisanal labourers who often work in difficult conditions. Once the gold has reached the UAE, it can then enter the global market.

THE SENTRY ADVISORY REPORT

In its November 2020 advisory report entitled "Understanding Money Laundering Risks in the Conflict Gold Trade From East and Central Africa to Dubai and Onward," Sentry, an investigative and policy team that follows the dirty money connected to African war criminals and transnational war profiteers, issued the following recommendations:⁹

- 1- The UAE government should close the regulatory loopholes that allow for trade in conflict and high-risk gold. The US government, the European Union (EU), and gold industry actors such as the LBMA should engage the UAE's authorities to require proof of payment for gold being imported into the country, require all gold refiners with a presence in the UAE to undergo independent, third-party audits, and ban cash transactions for gold above small amounts.
- 2- The UAE government should address priority issues from the latest FATF evaluation relevant to the conflict gold trade. These include increasing the collection and use of financial intelligence; better educating designated non-financial businesses and professions (DNFPBs) on suspicious transaction monitoring and reporting obligations; implementing better mechanisms to allow for investigating cases of suspected money laundering; and enhancing understanding of "immediate and pressing" threats, such as the foreign proceeds of crime.
- 3- Gold refiners and electronics, jewelry, and automotive companies should conduct enhanced due diligence on their suppliers and refer to the red flags in the FATF gold typology report, as well as those listed in this advisory, to assess risks when purchasing gold from the UAE.
- 4- Financial institutions should carry out enhanced due diligence on customers who deal in gold, including miners, refiners, jewelry shops, and gold traders. This should include enhanced transaction monitoring in line with a risk-based approach, particularly around related-party transactions and for payments to or from countries listed in this advisory as source, transshipment, or destination.

EY ORDERED TO PAY WHISTLEBLOWER \$1.1M IN DUBAI GOLD AUDIT CASE¹⁰

In one of the UK landmark rulings, court rules accountancy firm breached code of ethics in its dealings with a refiner. The claim [was brought by Amjad Rihan](#), an ex-EY partner, who revealed

that silver-coated gold had been shipped from Morocco to avoid export restrictions and precious metal obtained from other countries such as Sudan, the Democratic Republic of the Congo and Iran without due diligence.

In his judgment, Kerr said: “Gold is used in the banking industry, for investment purposes; in the jewellery industry; and in the electronics industry, for manufacturing. It is recognised internationally as being among the ‘conflict minerals’ attractive to criminals and terrorists because it is relatively easy to move and holds its value well.”¹¹

Commenting on the Morocco transactions, Kerr said: “I accept as a fact that the defendants were responsible for suggesting to Kaloti that it should draft its compliance report in a manner that masked the reality of the Morocco gold issue, removing the reference to Morocco and changing the coating of gold bars with silver to documentary irregularities. I regard this as professional misconduct.”¹²

###End###

¹ Read more about Mike Masoud on <https://blog.theaaci.com/mike-masoud/> Email: Mike@THEAACL.com

² Financial Action Task Force, “*Money Laundering / Terrorist Financing Risks and Vulnerabilities, Associated With Gold*,” July 2015, available at: <https://www.fatf-gafi.org/media/fatf/documents/reports/ML-TF-risks-vulnerabilities-associated-with-gold.pdf>

³ Ibid

⁴ OECD, *A GLOBAL STANDARD, Towards responsible mineral supply chains*, Accessed on November 27, 2020, http://mneguidelines.oecd.org/Brochure_OECD-Responsible-Mineral-Supply-Chains.pdf

⁵ Ibid

⁶ Peter Hobson, *Exclusive: Gold market authority threatens to blacklist UAE and other centres*, Accessed on November 27, 2020, <https://www.reuters.com/article/gold-lbma-exclusive-int/exclusive-gold-market-authority-threatens-to-blacklist-uae-and-other-centres-idUSKBN27S0MA>

⁷ Ibid

⁸ Financial Action Task Force, *United Arab Emirates' measures to combat money laundering and terrorist financing*, Accessed on November 27, 2020, <http://www.fatf-gafi.org/publications/mutualevaluations/documents/mer-uae-2020.html>

⁹ Sentry, *Understanding Money Laundering Risks in the Conflict Gold Trade From East and Central Africa to Dubai and Onward*, November 2020, Accessed on November 27, 2020, <https://thesentry.org/reports/conflict-gold-trade/>

¹⁰ Owen Bowcott, *EY ordered to pay whistleblower \$11m in Dubai gold audit case*, the Guardian, April 17, 2020, Accessed on November 27, 2020, <https://www.theguardian.com/business/2020/apr/17/ey-ordered-pay-whistleblower-11m-dubai-gold-audit-case>

¹¹ Ibid

¹² Ibid