



Gold laundering



Mark Pieth
President of the Board

What is gold laundering?

On its way from the ground to your wedding ring or mobile phone, gold passes through a chain of transactions and transformations. It is traded, collated, processed, shipped or smuggled across borders – all multiple times by different actors – and then refined.

One of the challenges caused by the complexity of supply chains is that the gold we buy is easily disconnected from anything criminal or unethical that may have happened in the past.

The trading of gold can therefore be misused in similar ways that criminals use complex financial transactions to obscure the money's origins in crime and corruption.

What are potential risks in gold supply chains?

Environmental risks in the gold industry range from deforestation to contamination of land, air and water with mercury and cyanide. When mines are decommissioned, there is a risk of acid, radioactive water seeping out and contaminating the local area. All too frequently, there are also accidents involving collapsed or leaking chemical pools.

Profits from illegal gold mining can be higher than those from drug trafficking. Gold is known to have fuelled serious conflict, for example in the Democratic Republic of the Congo and Sudan. Gold has also been used to fund violent organised crime, in particular in Latin America.

An estimated one million children work illegally in the mining industry, from underwater gold mining in the Philippines to digging and panning amid heavy dust and mercury, for example in Tanzania and Uganda.

Another potential risk related to all types of mining is the displacement of indigenous communities. This can happen after governments try to attract foreign investment by granting mining licences or simply through corruption and intimidation.

Strong incentives to mitigate the risks

Aside from laws on responsible business conduct and conflict minerals, the gold industry is mostly self-regulated. Companies may choose to commit to voluntary standards developed by industry associations including the LBMA, Responsible Jewellery Council and World Gold Council. This voluntary system relies on third-party audits and is not enforced by law.

However, there are strong non-legal incentives to mitigate the risks in gold supply chains.

Thanks to the work of investigative journalists and NGOs such as Human Rights Watch and Public Eye, awareness of the issues is growing fast. Younger generations are embracing ethical consumerism and demanding products that haven't harmed the planet or its people.

Some jewellers and watchmakers, such as Chopard and A. Favre & Fils, whose owner Laurent Favre is a founding member of the Swiss Better Gold Association, have started to pledge that they will only source gold from certified "green" or "ethical" sources.

Investors are also increasingly attentive to the environmental, social and governance risks of the gold trade.

In my book *Gold Laundering* I highlight the role of refineries, particularly in Switzerland, where most of the world's gold is refined. This is not because the refineries are involved in illegal activities, but because they are located at a critical point in the gold supply chain.

After the gold has been refined, it is almost impossible to trace its true origin. This makes gold refineries potentially powerful players in efforts to ensure that gold supply chains are as clean as possible.

Spot-cleaning is not a solution

When companies act alone to escape a common problem, their actions may have unforeseen and potentially negative consequences for others and in the long term.

An example is the action of one Swiss refinery that, with the aim of ensuring a more traceable and transparent gold supply chain, imposed a blanket ban on all gold from small-scale miners.

Boycotting small-scale mining, however, will harm and not help the estimated 100 million people worldwide who rely on it for their livelihoods. It is also not an action that will help the industry or consumers concerned about human rights. Small-scale mining contributes around 20 percent of the world's newly mined gold and large-scale gold mining is not risk-free.

Collective Action: a golden opportunity

By coming together in Collective Action, major players in the gold refining sector and other stakeholders can find real, practical solutions to some of the risks and problems I have listed above.

How about this as a first step? Most stakeholders agree on the urgent need to strengthen the third-party audits that are supposed to enforce the system of self-regulation. The OECD and others have criticised these audits as weak, leaving the whole approach of industry self-regulation open to question.

Other areas of potential collaboration and support could be technologies to eliminate the use of mercury or blockchain technologies to increase the transparency of supply chains. Developing common due diligence standards and processes to lighten the burden on legitimate gold traders, and help flag bogus ones, could be another.

Many such useful efforts are already underway by different actors in different parts of the world. Coming together will give them the critical mass they need to succeed.

A pathway to responsible sourcing

Ensuring that gold supply chains are as clean as possible – and demonstrating this to consumers – will take time and effort. If there were easy answers, we would have them by now.

There are also clearly limits to what the private sector can do alone. Collective Action initiatives by refineries and mining companies must complement, and be complemented by, concerted efforts by governments

such as tighter regulations, stronger customs checks and enforcement against organised crime. NGOs and civil society organisations still have an important part to play.

At the end of the day, “laundering” gold through tangled supply chains doesn’t wash the risks away but makes them harder to identify and mitigate. Collective Action can help to bring the risks and problems to light and find ways to truly clean them up, so we can wear our jewellery and use our phones with a shining conscience.

Find out more

- Basel Gold Day, a one-day workshop at the University of Basel in Switzerland, will gather gold industry leaders and experts to explore “How to obtain clean gold: the consumer perspective”.
- My book on Gold Laundering was published in 2019 in English (*Gold Laundering*) and German (*Goldwäsche*) by Salis Verlag. See baselgovernance.org/publications/gold-laundering-dirty-secrets-gold-trade-and-how-clean

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