

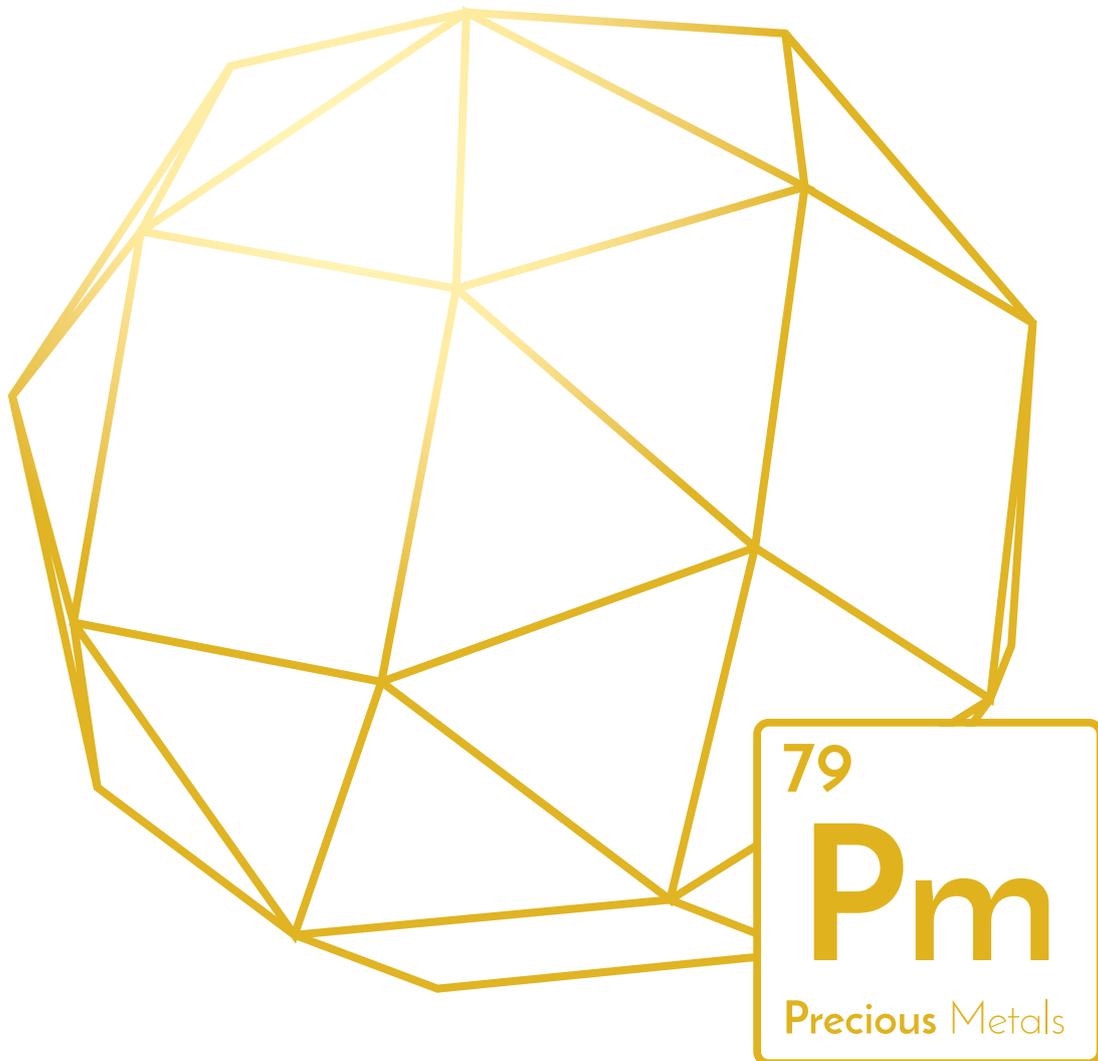


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United Nations  
Interregional Crime and Justice  
Research Institute

# STRENGTHENING THE SECURITY AND INTEGRITY OF THE PRECIOUS METALS SUPPLY CHAIN

## EXECUTIVE SUMMARY FOR POLICY MAKERS



# Strengthening the Security and Integrity of the Precious Metals Supply Chain

## Executive Summary for Policy Makers

### I. The Challenge

1. Illicit trafficking in precious metals generates a number of local and global challenges and threats. It not only harms the mining companies, but also severely hinders the socio-economic development of producing countries while putting local communities at risk. In addition, illicit trafficking increases the precious metals supply chain's vulnerability to the infiltration of transnational organised crime and it is also frequently associated to different serious cross-border crimes.

2. As requested by the ECOSOC Resolution 2013/38, the United Nations Interregional Crime and Justice Research Institute (UNICRI) has conducted a comprehensive study to assess the links between transnational organized crime, other associated criminal activities and illicit trafficking in precious metals. The study represents the assessment component of an international strategy UNICRI has developed to prevent and combat illicit trafficking in precious metals.

### II. The Findings

3. The report is intended to address on a technical level the following research questions and sub-questions:

- What is the extent of illicit trafficking in precious metals?
  - Is illicit trafficking in precious metals linked to transnational organized crime and other associated criminal activities?
  - Is illicit trafficking in precious metals linked to terrorist activities?
  - What are the vulnerabilities of the precious metals supply chain?
- How can illicit trafficking in precious metals be prevented and/or countered?
  - What are the strengths and weaknesses of existing initiatives?

4. The increasing phenomenon of illicit trafficking in precious metals represents a significant source of financing for organized criminal groups that exploit loopholes in national and international legislation and in the precious metals trade. Precious metals, as well as precious gemstones, represent ideal commodities for financing criminal activities given their easy transportability and high value. The development and expansion of transportation infrastructure, banking systems and telecommunication have facilitated the involvement of organized crime in this highly profitable business.

5. According to the cases analysed, the illicit trafficking in precious metals consists of at least five identifiable, complex and interlinked levels of organised criminal actors, namely: individual criminal miners; gangs and illegal mining bosses; bulk buyers at the

national/regional levels in the form of licensed or registered entities; front company exporters; and international intermediary companies and buyers.

6. As gold can be easily extracted and reworked, it is often the subject of illegal artisanal and small scale mining (ASM). Illegally mined gold can be mixed with scrap gold and sold to refiners. After melting, it is virtually impossible to trace the gold back to its mine of origin. By disguising and mixing illegal gold with other sources of the metal, it easily enters the legal supply chain. On the contrary, it is extremely rare that platinum group metals (PGMs) are mined by ASM, given the complexity of the extraction and refining processes involved. On the other hand, PGMs-containing products are usually stolen, illicitly traded and trafficked by organised crime syndicates.

7. With large scale and medium scale miners operating in many of the world's lowest income countries, gold mining operations frequently attract artisanal miners to the same area, who either work mined out areas which are no longer viable, or exploit the same mineral source. The encroachment of artisanal miners often results in violent clashes, safety and health issues and the disruption in mine/community relations.

8. The study identified several crimes related to the mining of precious metals:

-corruption: risks of fraud and corruption are mainly related to procurement, security breaches, loopholes in the regulatory framework (including licences and permits), and logistical management aspects;

-money laundering: the proceeds of crime can be laundered through the purchase and sale of gold, which transactions are concluded most often in cash. Gold can be used as an alternative currency for the purchase of goods that are banned or regulated, such as drugs. Gold is used in money laundering systems based on commercial transactions;

-illegal migration: about 70% of all arrested illegal miners in South Africa are illegal migrants;

-sexual and gender based violence and child labour: women and children are not only exploited as cheap labour, but are subjected to rape, domestic violence and general abuse;

-linkages with armed and terrorist groups: the reliance of some terrorist groups on illicit trafficking in precious metals is mentioned in some reviewed reports, but the data are insufficient.

9. The study assessed the national and international initiatives in place to combat illicit trade in precious metals in different countries. It found that legislative and regulatory frameworks are important instruments for preventing and combating the illicit trade in gold and other precious metals.

10. Some progress has been made in curbing the illicit trade of precious metals through the implementation of certification schemes; mechanisms and acts have been developed. Although some positive steps have been taken in terms of the various due-diligence schemes mentioned in the report, the ease and anonymity with which gold can be illegally traded impedes the implementation of gold tracing schemes.

11. One of the main challenges law enforcement agencies face involves being able to prove that the precious metals found in someone's possession are stolen. Establishing a sample database for purposes of fingerprinting for comparison purposes may contribute in this regard to identify the sources of the precious metals, thus proving or disproving that a crime has been committed. Since it is a key element to combat the illicit trafficking of precious metals, this report analyses gold and PGM products fingerprinting capability as well as the related challenges.

12. The assessment highlights many gaps, including jurisdictional loopholes along the supply chain, general supply chain weaknesses, gaps in law enforcement capacities, a lack of information sharing between national agencies and international organisations, and knowledge and training.

### **Methods**

13. Data collection was implemented through various means and strategies: literature review (more than 200 reports, articles and studies), selected interviews (20+) with industry representatives and government agencies, analysis of case-studies, 2 experts meetings involving approx. 100 people (Turin, September 2015, and Cape Town, March 2016).

14. The fourth and final section is dedicated to the development of a Strength-Weakness-Opportunities-Threats (SWOT) analysis, which highlights strengths, opportunities, and lessons learned from existing policies, recommending a sound strategy for combating illicit trafficking in precious metals, to be tailored to the different stakeholders.

### **III. Way forward**

15. To address gaps identified, optimise available tools and develop additional instruments for combating the illicit trade in precious metals, it is recommended that an effective and appropriate precious metal regulatory system is established and implemented. The following specific objectives are crucial for developing a comprehensive strategy to combat trade and trafficking in precious metals:

- Reinforcing national capacities for comprehensively securing the integrity of the precious metal supply chain;
- Reinforcing cooperation between the Private and Public sectors;
- Enhancing knowledge and awareness of identified threats, and the effectiveness of existing countermeasures;
- Establishing an international mechanism to secure the integrity of the precious metal supply chain (a National Precious Metals Action Plan). While functioning as an objective on its own, the Plan also will support the first three mandatory objectives.

16. The report highlights the fact that the precious stones supply sector share common challenges with the supply sector of gold and PGM. Consequently, the strategy on precious metals also can address the challenge posed by precious gemstones.

*Bibliographic information can be found on UNICRI Precious Metals portal: <https://pm.unicri.it/>*