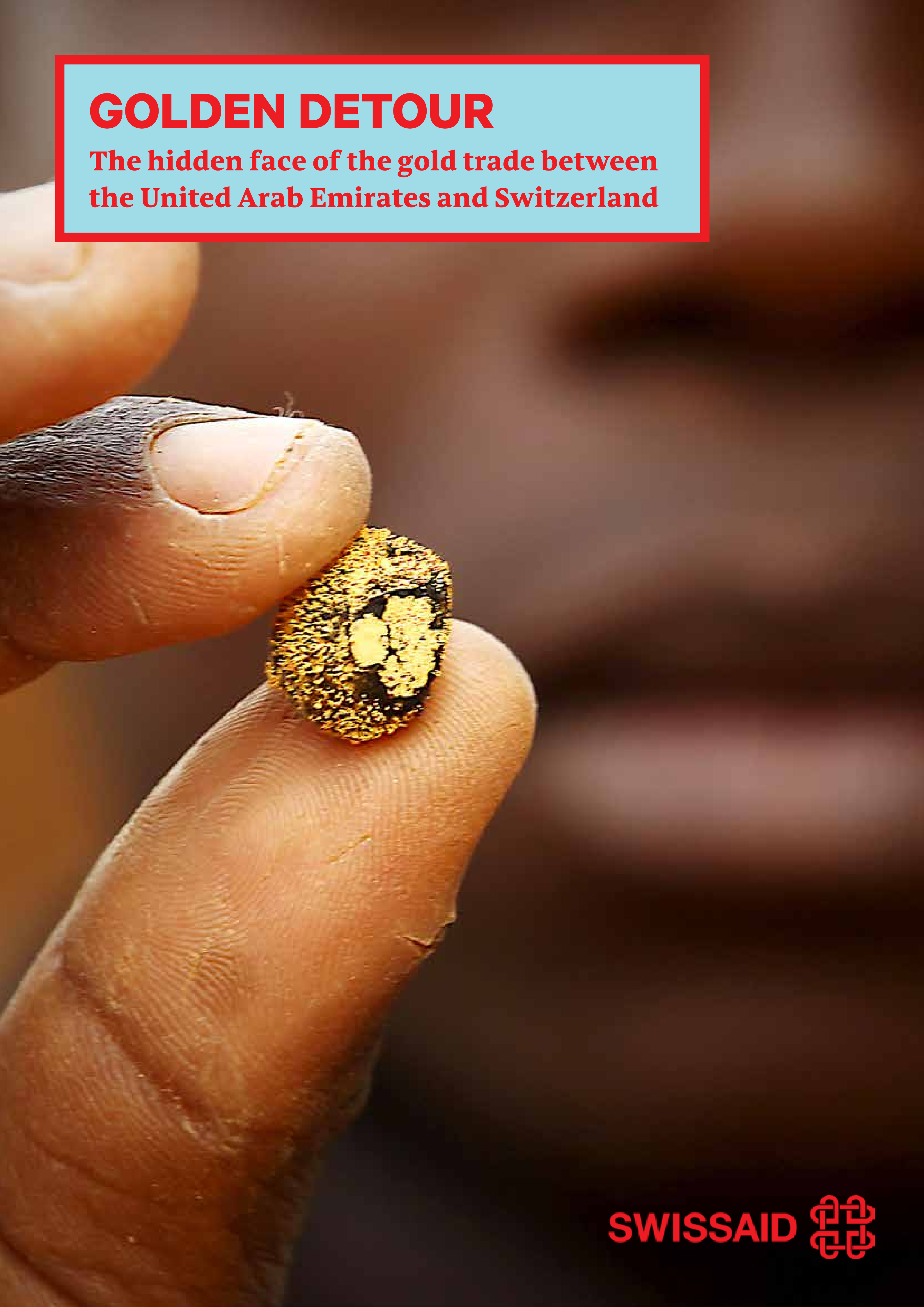
GOLDEN DETOUR

The hidden face of the gold trade between the United Arab Emirates and Switzerland



SWISSAID

Table of contents

Abbreviations

- AGR: African Gold Refinery
- AMLA: Anti-Money Laundering Act
- COPM: Central Office for Precious Metals Control
- DMCC: Dubai Multi Commodities Centre
- DGD: Dubai Good Delivery
- DRC: Democratic Republic of the Congo
- EPMR: European Partnership for Responsible Minerals
- EY: Ernst and Young
- FARC: Fuerzas Armadas Revolucionarias de Colombia (Revolutionary Armed Forces of Colombia)
- FATF: Financial Action Task Force
- FCA: Federal Customs Administration
- GDL: Good Delivery List
- IPMR: International Precious Metal Refiners
- KML: Kaloti Metals Logistics
- KSMH : Kaloti Suriname Mint House
- KYC: Know You Customer
- KYP: Know Your Product
- LBMA : London Bullion Market Association
- OECD: Organisation for Economic Co-operation and Development
- PGR: Premier Gold Refinery
- PMCA : Precious Metals Control Act
- PMCO: Precious Metals Control Ordinance
- RCOI : Reasonable Country of Origin Inquiry
- RGG: Responsible Gold Guidance
- RJC: Responsible Jewellery Council
- RMAP: Responsible Minerals Assurance Process
- RMI: Responsible Minerals Initiative
- RSF: Rapid Support Forces
- SBGA : Swiss Better Gold Association
- SFAO: Swiss Federal Audit Office
- SFS : Centre for a Secure Free Society
- SRO: Self-Regulatory Organisation
- STP: Society for Threatened Peoples
- UAE: United Arab Emirates

Methodology

This study is the result of a survey and analysis conducted by SWISSAID in Switzerland and the United Arab Emirates between October 2019 and July 2020. Many gold sector stakeholders were interviewed during a trip to Dubai at the beginning of 2020. The survey was also supplemented by a number of visits and interviews in the famous gold souk. The British non-governmental organisation Global Witness also carried out a parallel survey on the gold trade.

After extensive documentary research, the researchers interviewed more than a hundred people active in the gold trade: refiners, trading companies, assayers, shipping firms, auditing companies, government representatives, watch and jewellery groups, experts from the academic world, journalists, representatives of civil society, banks, as well as international organisations and associations such as the OECD and the LBMA. The research is also based on Comtrade and Swissimpex statistics along with international databases on the gold trade.

Finally, the investigators analysed the responses to questionnaires sent to some 30 stakeholders: refiners, banks, trading companies, technology companies and jewellers. The main results of the study were sent to several companies and organisations concerned to enable them to respond to the issues raised.

This report is divided into six parts. The first focuses on the gold trade in the United Arab Emirates. The second deals with the activities of the Kaloti Group. The third examines the situation of Swiss refineries. The fifth focuses on buyers at the end of the supply chain and the sixth analyses Swiss legislation.

Credits

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Introduction

December 2019, at the premises of the Swiss administration in Bern. One year after the publication of the Federal Council's gold report, a meeting of the most important players in the gold sector is to take place. Everyone is present: authorities, civil society, academics, international organisations, global industry associations as well as the world's largest gold refineries based in Switzerland. After hours of discussion, a question suddenly interrupts the hitherto courteous debate:

"Who still imports gold from Kaloti?"

The question is followed by a lengthy moment of silence. The uneasiness is palpable, particularly among refinery representatives. For once, no one takes the floor to repeat the endless refrain: "For confidentiality reasons, we cannot provide information about our customers and suppliers". Yet Kaloti, the global giant in precious metal refining in Dubai, is not just any supplier. No one wants to be officially associated with its dubious sourcing and deplorable image. The fact that the refiners present prefer to keep quiet is because they nurture doubts about their competitor's practices. They will never, however, make them public. The moderator puts an end to the tense atmosphere by noting that there will be no answer. The representative of the world's largest precious metals refinery has just had a narrow escape.

In the gold sector, everyone knows the historical and questionable relationship between Kaloti and Valcambi. Following several scandals, including the loss of Dubai's standard of good practice, the Emirati group has lost a great deal of credibility in the eyes of gold industry players. A large majority has now turned its back on it, but not everyone.

Valcambi, Switzerland's largest refiner and world leader in the industry, has never officially announced that it is terminating its relationship with Kaloti. Barricaded behind the padlocked information of the customs authorities and under cover of confidentiality, Valcambi, based in Ticino, has continued to operate with impunity.

Through numerous testimonies and documents, this study uncovers the reality on the gold trade between the United Arab Emirates and Switzerland and looks in part at this questionable relationship. It denounces the hypocrisy of a system in which stakeholders resort to intermediaries to conceal the origins of the gold, rather than sourcing it directly. Yet these practices fuel the worst human rights violations...

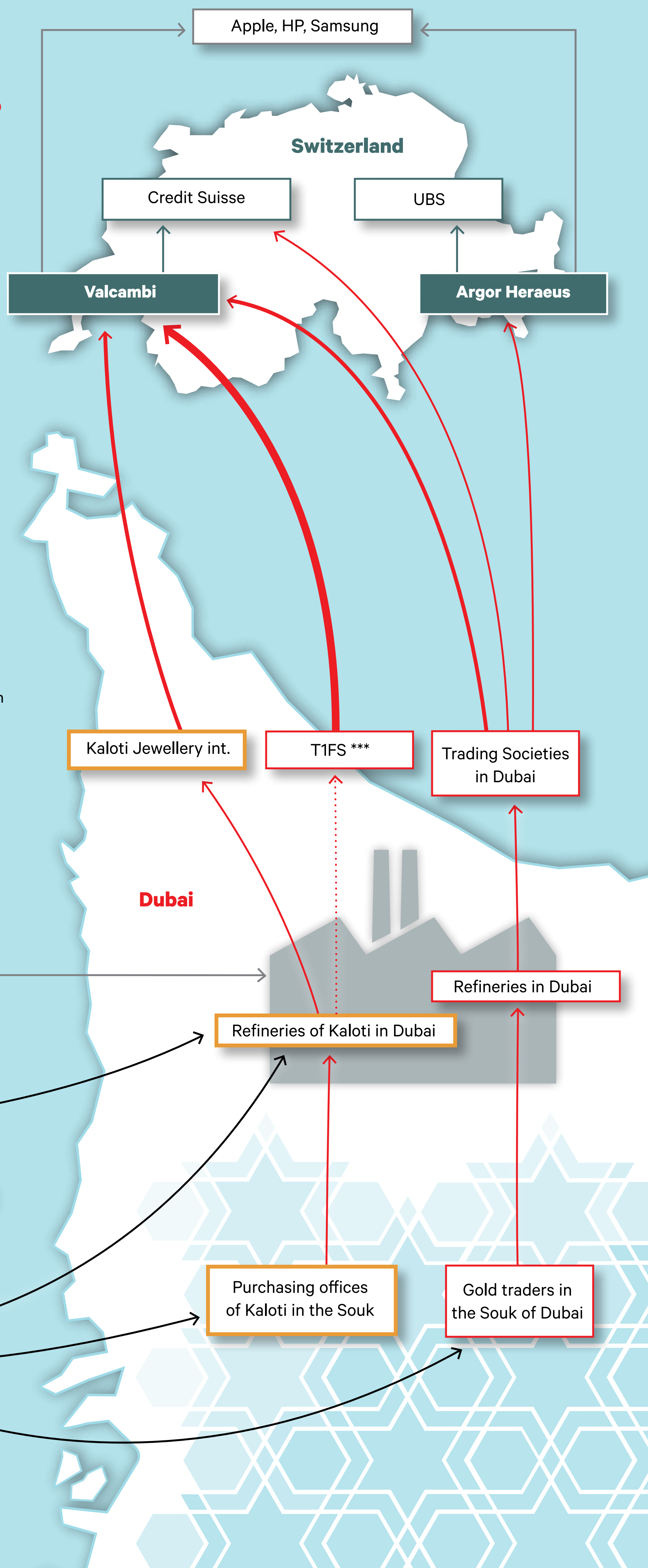
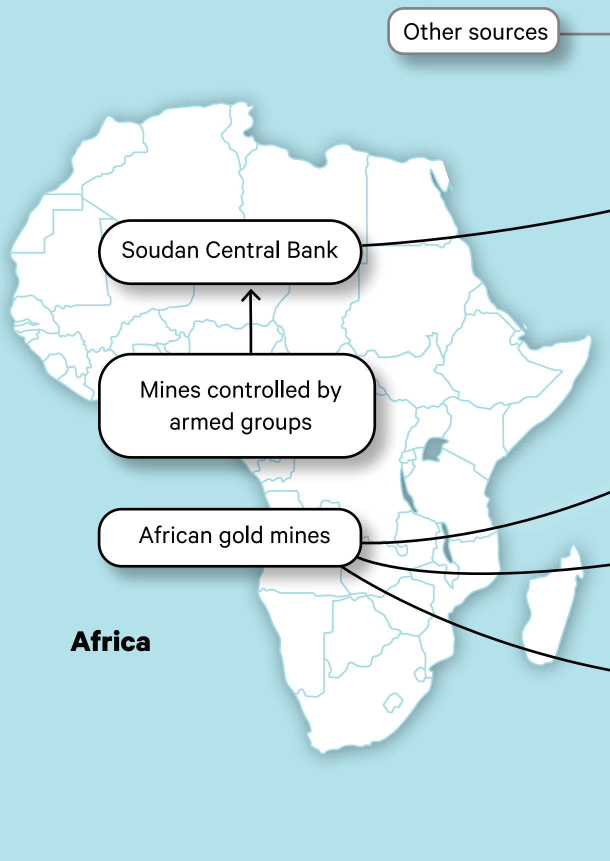
Gold transactions between the UAE and Switzerland (quantities refer to the years 2018 and 2019)

UAE exporters	CH importers	Quantities (tonnes)
Ashoka	Argor-Heraeus	0.5
Vintage Bullion DMCC	Argor-Heraeus	2
International Commodities DMCC	Argor-Heraeus	> 0.5
Ashoka	Valcambi	7.5
Vintage Bullion DMCC	Valcambi	5.5
International Commodities DMCC	Valcambi	10
Intl FC Stone	Valcambi	3
Kaloti Jewellery International Group	Valcambi	16 (2018) ; 4 (2019)
Dijllah jewellery FZCO	Valcambi	1
Trust One Financial Service	Valcambi	19 (2018) ; 44 (2019)
Axiom Limited	Valcambi	2.5
Emperesse Bullion	Valcambi	> 0.5
Vintage Bullion DMCC	Credit Suisse	5

* In the absence of a round figure, the quantities mentioned in this table have been rounded down to the lower 0.5.

** According to information obtained by SWISSAID, the 44-tonne transaction in 2019 is thought to come either directly from the UAE or from the UK.

*** The fact that Trust One Financial Services belongs to the Kaloti Precious Metals group has not been established, but there are extremely close personal ties between these two companies.

Key results

As the main hub of the international gold trade, Switzerland refines and processes two-thirds of the world's precious metals and maintains intensive trade relations with the United Arab Emirates (UAE). The UAE was the largest gold exporter to Switzerland in 2019 (in terms of value), last year, for example, sending 149 tonnes of gold worth 6.8 billion Swiss francs to be refined in here.

From smartphones to gold mines controlled by armed groups in Sudan, SWISSAID has retraced several supply chains involving Swiss refineries. For the first time, this study reveals the identity of the companies behind the gold trade between the UAE and Switzerland, shedding light on a seemingly unthinkable relationship between certain Swiss refineries certified by the international standard of best practice in the industry (London Bullion Market Association – LBMA) and Emirati companies with dubious practices and sourcing linked to conflict gold.

Swiss refineries: very different procurement practices that raise questions

- **Valcambi,** the world's largest refiner of precious metals, is based in Ticino and is the main Swiss importer of gold from the UAE. A large proportion of its imports come from questionable suppliers such as Dijllah and the internationally active Kaloti group.
- **Argor-Heraeus,** located in Ticino, also imports gold from the UAE. However, the group explains that it is going to reassess certain business relationships after warnings from several interlocutors, including SWISSAID. It acknowledges that it is sometimes difficult to know the origin of this precious metal and that there is a risk of importing questionable gold from the Dubai souk.
- **PAMP,** also in Ticino, imports only gold bars certified by the LBMA international standard via the UAE.
- **Metalor,** in the Canton of Neuchâtel, categorically refuses to source from the UAE as it is unable to trace the origins of the metal and believes that there is a risk of importing illegal gold.

Massive loopholes in Swiss legislation

In Switzerland, there are significant shortcomings in the control of gold imports and in the supervision of refiners. The latter are not required to ensure that the gold has been produced without violating human rights. Customs statistics definitely lack transparency and do not make it possible to determine the real origin of gold imported into Switzerland via Dubai.

From Africa through Dubai to Switzerland, the myth of "recycled" gold

- The Valcambi refinery, and to a lesser extent Argor-Heraeus, imports gold from Dubai-based trading companies such as Ashoka and Intl FC Stone. While these refineries claim to import only recycled gold from the UAE, the study shows that **some of this gold is believed to come from African mines and the Dubai souk.** The gold is processed by refineries in the UAE with which the Swiss companies have no direct links, which makes it impossible for them to trace its origin and ensure that it its mining takes place under acceptable conditions.
- In 2018, half of the gold transiting through Dubai came from the African continent (402 tonnes). **Much of this gold is exported illegally from African countries** before being declared in the UAE.

Valcambi-Kaloti: a dubious relationship and defective due diligence

- **Valcambi** obtains its supplies each year (16.5 tonnes in 2018 and four tonnes in 2019) directly from Kaloti, a group that has been accused of supplying illegal gold. In 2015, the Emirati group was removed from the DMCC standard in force in Dubai for its questionable practices discovered during the Ernst & Young cover-up audit case.
- **Trust One Financial Services (T1FS)** is the largest supplier of gold from the UAE to Valcambi (19 tonnes in 2018 and 44 tonnes in 2019). It has very close personal links with Kaloti, with one of its executives also a director within the UAE group.

Kaloti's questionable sourcing has not been discontinued

- **In the UAE,** the Emirati group has a purchasing office in the gold souk from which it imports large quantities of gold from Africa. Our on-site investigation shows that through this office, Kaloti exposes itself to very significant risks, thereby opening the door to potentially risky gold imports.

- **In Sudan,** Kaloti has been the main client of the Central Bank and the Khartoum refinery for several years. The UN Panel of Experts clearly mentions that this bank buys gold from the conflicting parties in Darfur. Sudanese armed militias, implicated in war crimes and human rights abuses, have sold gold from the mines they control to the government institutions from which Kaloti sources its supplies.

- **In Suriname,** Kaloti has a refinery (KSMH) jointly owned with a high-risk government. Five years after its inauguration, the KSMH does not refine gold and may never do so. The contradictions between the interests of the Emirati group and the mandates of the Suriname government raise questions about the actual practices of this "refinery". It has been accused of being linked to money laundering and dubious gold certification activities. .

- **In the United States,** the Emirati group's affiliate company went bankrupt in 2018 because it could no longer obtain bank loans. Banks were unwilling to take the risk of financing transactions that could be linked to illegal gold. This firm was sourcing gold in Latin America from several dubious suppliers.

Dubai: platform for high-risk gold

- **Controls by the customs authorities in the emirate are very weak,** with gold carried in hand luggage remaining common practice. It would therefore still be easy to pass through UAE customs with gold of illegal origin.
- The gold souk is still an **entry point for illegal gold,** with traders still readily accepting gold of dubious origin without due controls. The on-site investigation shows that it is easy to **launder conflict gold.**
- Several trading companies and refineries in Dubai have **questionable practices,** some of them sourcing from suppliers linked to gold from the conflicts in the DRC.
- UAE gold stakeholders are **subject to lax and fragmented legislation.** The Dubai Multi Commodities Centre is a powerless regulator faced with a conflict of interest.

Shortcomings in the due diligence of stakeholders at the end of the supply chain

- Banks, technology industries, jewellers and watchmaking groups apply very different due diligence procedures. The vast majority of the 15 companies analysed **do not have the necessary procedures in place to avoid having potentially problematic gold in their supply chain.**

Industry self-regulation is insufficient

- The audits to which refineries are subject are **not sufficiently transparent.** The London Bullion Market Association (LBMA) has **limited powers** and is not able to identify suppliers to its member refineries.

THE UNITED ARAB EMIRATES:
a hub for risky gold

Dubai: a gold trading centre

Dubai, nicknamed the "City of Gold", is a central hub for the international gold trade. Thanks to attractive legislation and the establishment of good physical, financial and commercial infrastructure, between 25%[1] and 40%[2] of the world's gold passes through Dubai. According to Comtrade statistics, the United Arab Emirates (UAE) imported 923 tonnes of gold in 2018 worth 27 billion USD.[3] Of these imports, 402 tonnes of gold arrived from African countries (see chart 1).[4]

The largest city in the UAE enjoys an excellent geographical position and is equipped with excellent infrastructure. Its airport, one of the largest in the world, plays a central role in this trade[5] with direct connections to the majority of gold exporting countries. Drawn to these infrastructures and a favourable tax system, more than 4,000 companies are active in the gold sector in Dubai.[6] According to a recent report from the emirate of Dubai, 2,498 companies are active in the gold jewellery sector; 1,184 in gold trading; 392 as goldsmiths; and less than ten in refining activities.[7]

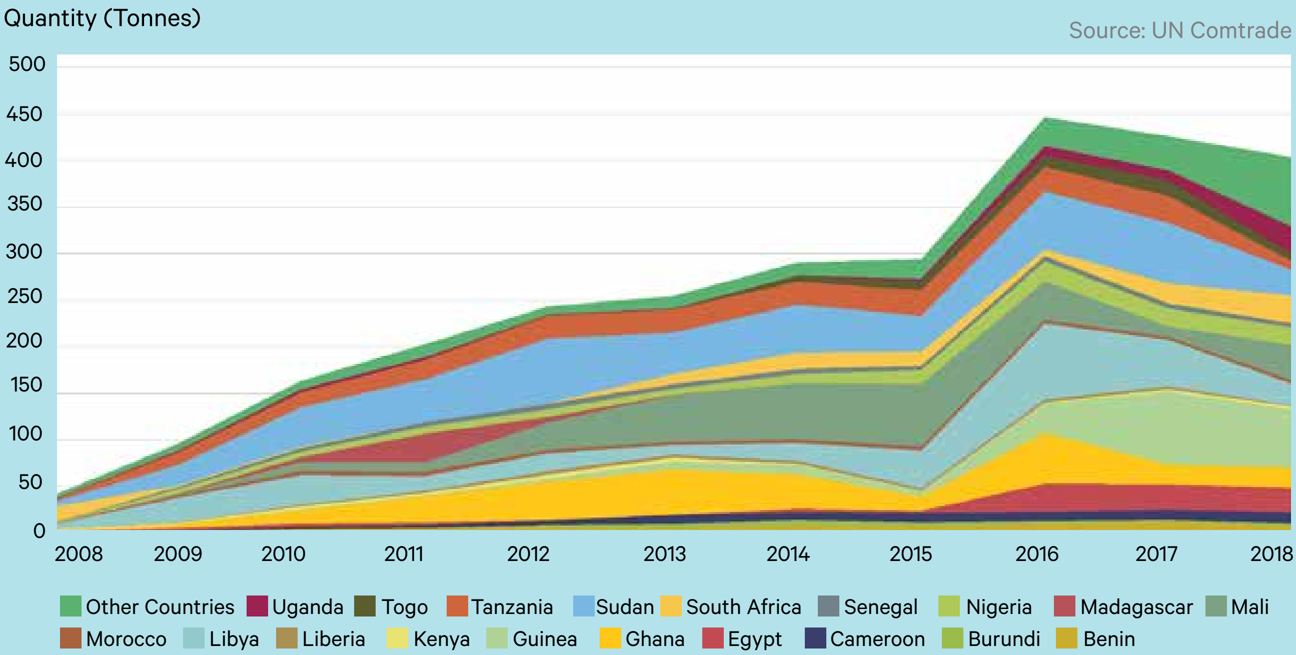
In order to overcome its historical dependence on oil and become one of the most important international trading centres in the world, more than 37 free zones have been created in Dubai.[8] The largest is the Dubai Multi Commodities Centre (DMCC). This was established in 2002 by Sheikh Mohammed bin Rashid Al Maktoum, Emir of Dubai and also Prime Minister of the UAE. In order to make the emirate a central location for global gold trading, the founding of the DMCC was accompanied by the creation of the Dubai Gold and Commodities Exchange (DGCX), highly secure gold vaults and a standard for refineries.[9] Today, the DMCC is home to 17,000 companies and more than 60,000 employees.[10]

Dubai: gateway to the international market for African artisanal gold

Over the past ten years, exports from African countries to the UAE have risen sharply, as shown by chart below.[11] Several reports have demonstrated that some of this gold has been produced in violation of human rights and the environment and has been used by armed groups in the financing of conflicts, such as in the DRC, Sudan and Burkina Faso.[12] Much of this gold is illegally exported from African countries before being declared in the UAE.[13] This results in very significant loss of income for producer states that do not benefit from the wealth of their subsoil mineral assets.

While artisanal gold mining can be the source of the worst violations, it can also have a very positive socio-economic impact when carried out in a responsible manner. With the development of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (hereafter OECD Guidance)[14], the OECD was the first organisation to openly support the artisanal mining sector. When asked about the benefits of buying gold from artisanal

United Arab Emirates gold imports from African countries between 2008 and 2018.

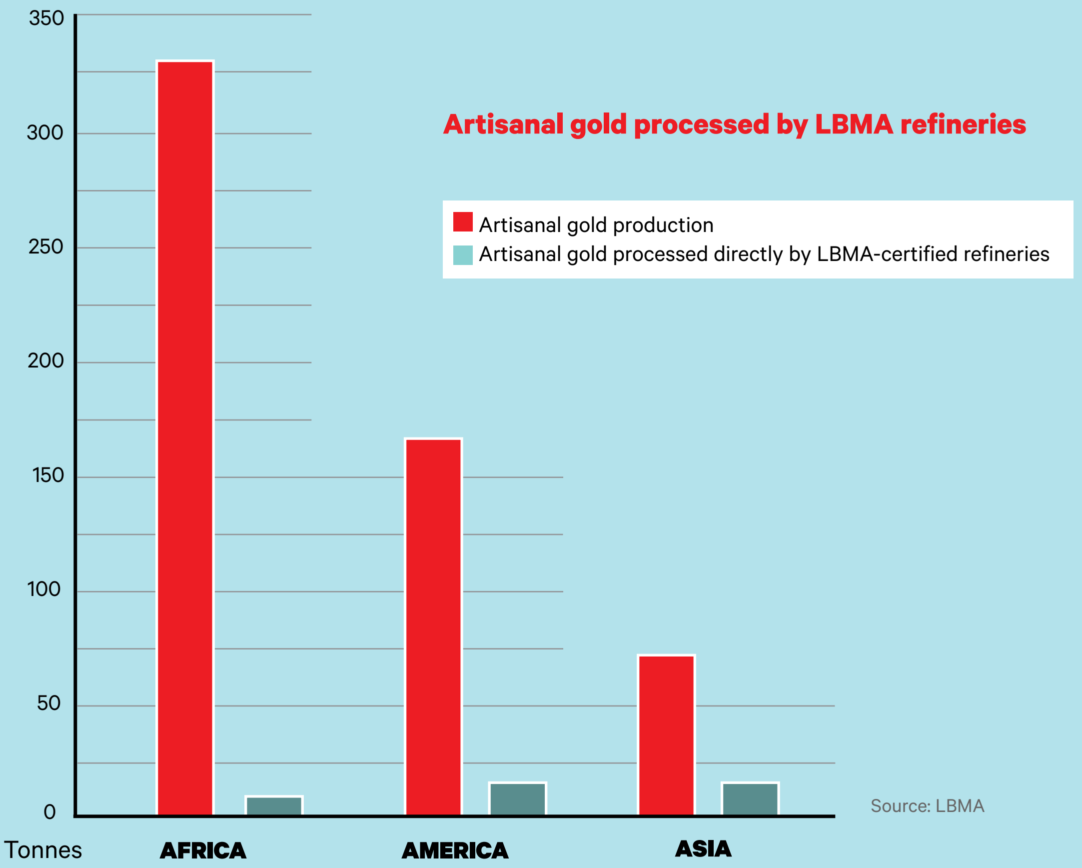


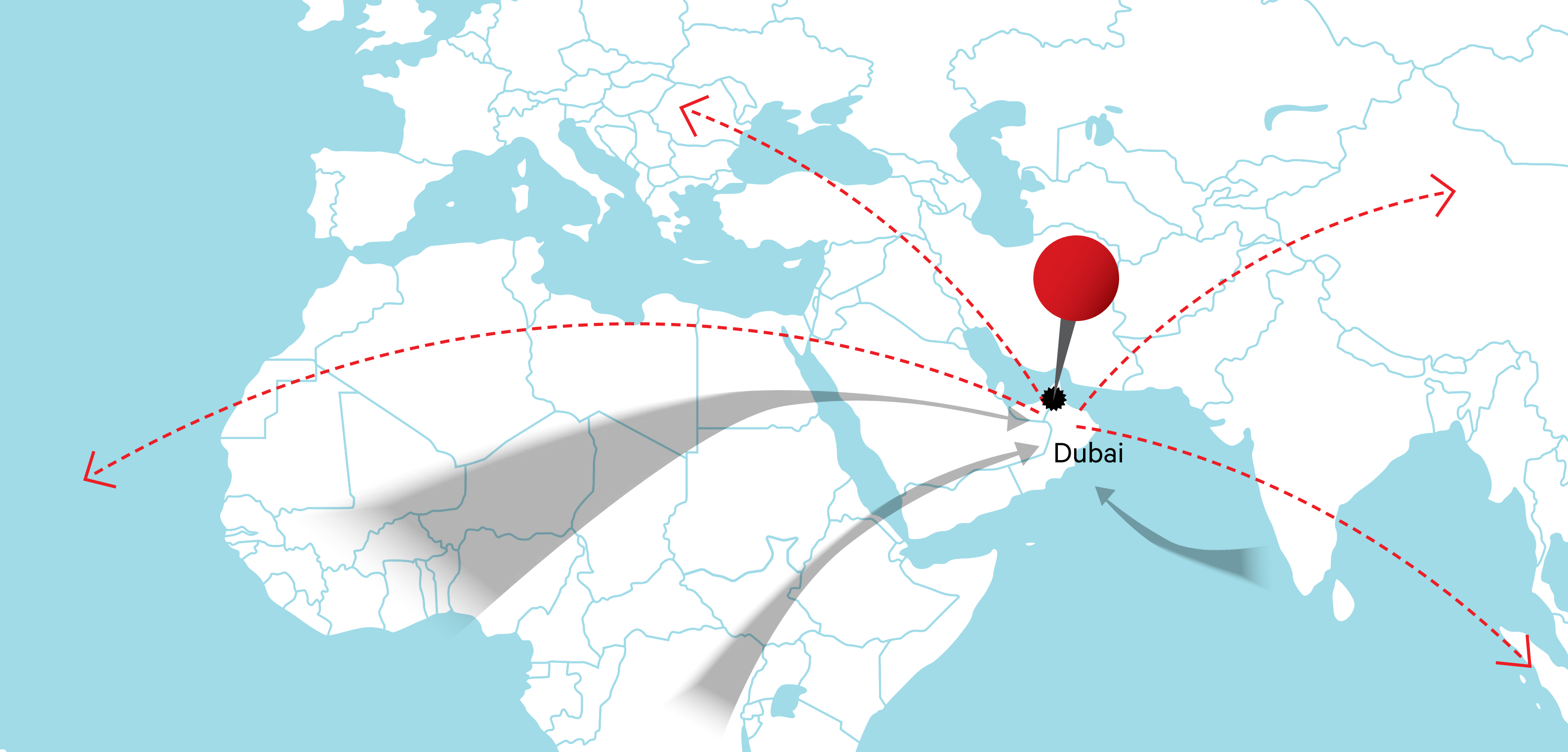
miners, the OECD responds in its booklet as follows: "In producing countries, responsible production and sourcing of ASM gold has the potential to foster sustainable economic development in mining communities, increase public revenues, reduce the share of gold that finances conflict, human rights abuses and illicit activities of armed groups (...)".[15]

Based on these statements, the world's largest gold refineries should source their gold directly from artisanal mines in order to participate in local economic development and fight human rights violations. However, the reality is quite different, as shown by the chart below.

Only a few tonnes of African artisanal gold are exported directly to LBMA-certified refineries, the industry benchmark standard. The vast majority of this gold goes to Dubai, where some Swiss refineries obtain their supplies, thus avoiding complicated due diligence work on the African continent. This demonstrates a certain hypocrisy on the part of these Swiss companies in proclaiming loud and clear that there is no African artisanal gold in their supply chain when they are in fact sourcing "recycled" gold from Dubai. When questioned on the subject, they generally reply that this gold does not come from Africa but in most cases from scrap gold, such as old jewellery.[16] While these assertions turn out to be partly untrue, as the current study shows, these refineries forget that the gold in these jewels could have been found just a few months earlier in an African gold mine controlled by a jihadist group.

The refineries being called out are not the only players in the supply chain that need to be held accountable. Banks, the technology industries and the major watch and jewellery groups cannot assume that they are being supplied with "ethical" gold. They must commit themselves financially to the formalization of artisanal and small-scale gold mining (ASM). Michael Mesaric, CEO of Valcambi, the world's largest precious metals refinery based in Switzerland, emphasizes this point: "To engage in ASM, we need to have the commitment of the buyer. The LBMA does not understand this. If I would be paid 60 mio dollars to legitimate and formalized ASM miners, in 5 years' time 40 to 50 % of all ASM miners could have access to the international market and would be formalized".[17]





Weak customs controls

Despite being criticized for many years, the controls performed by customs authorities in Dubai remain very weak. The ease of customs clearance is a key factor in encouraging the importation of gold from illegal origins. The UAE allows gold to be imported in two forms: by cargo (freight), entrusted to a freight agent; or in a passenger's hand luggage.

Concerning the importation of gold in hand luggage, the UAE customs authorities do not provide explanations regarding the procedures.[18] In Dubai, such gold is generally declared as there is no incentive to smuggle.[19] Hand luggage is X-rayed and there is no tax.[20] According to a United Nations report dated 2016, the name of the country of origin is simply checked with the boarding pass and no other documents are required.[21] In a response letter to the UN Panel of Experts on the Democratic Republic of Congo (DRC) in 2017, the UAE authorities stated that individuals carrying gold in their luggage must provide their address and a copy of their passport, declare the identity and address of the exporter and give the name of the consignee of the goods.[22] For their part, the industry players questioned by SWISSAID say that, in addition to a passport, they simply have to present a certificate from the country of origin and an original invoice.[23] If a fine is paid, it would even be possible to be exempt from presenting a certificate of origin.[24] Numerous false passports or falsified certificates are also said to be in circulation.[25] All the actors interviewed, particularly in the Dubai gold souk, claim that passing through customs is never a problem.[26]

Transporting raw gold in hand luggage is one of the most common methods of bringing illegal gold to Dubai.

Transporting raw gold in hand luggage is one of the most common methods of bringing illegal gold to Dubai.[27] The numerous flights from African countries to Dubai and the lenient visa policy fuel these practices.[28] The UN Group of Experts on the DRC states that "the easy access for gold smugglers in Dubai's market is the consequence of the loopholes in the United Arab Emirates control system and legislation for hand-carry gold".[29] The report also denounces UAE law which "does not consider smuggling activity to be a crime".[30]

In response to these criticisms, the UAE has recently introduced new procedures for screening gold in hand luggage, particularly from the DRC. But according to the 2019 UN Group of Experts' report, "not all procedures have been fully implemented".[31] The FATF (Financial Action Task Force) intergovernmental body's report, published in April 2020, states that "the value of seizures is likely lower than would be expected in the UAE, which is one of the major transit points for gold internationally. While open sources report that gold is being smuggled from West Africa to the UAE, there were no seizures or confiscations in this regard".[32] It would therefore still be easy to pass through UAE customs with gold of illegal origin.

Once declared at the airport, precious metal transported by cargo is usually transported directly to the refineries and any transported in hand luggage is overwhelmingly destined for the souk.

The Dubai gold souk: a gateway for illegal gold

A central element in Dubai's gold trade, the souk is a major market point of entry for illegal gold. In the course of its investigation, SWISSAID found that retailers still accept gold of dubious origin without any controls. These practices, which have been denounced by several reports in the past, are still ongoing.

The main gold souk is located in the historic district of Deira and represents a must for tourists. Composed of several alleys lined with shops filled with sparkling jewels, it houses more than 380 retailers.[33] You can find ingots and jewellery in all shapes and colours, but you can also sell your gold very easily. Located in a more air-conditioned setting, the "Dubai Gold & Diamond Park" is another important souk. It is adjacent to the jewellery manufacturing plants where hundreds of employees work in harsh conditions.

Based in the Deira souk, Arakkal Bullion, Burashed Jewellery LLC, Amaan Jewellery Trading LLC and Fast Bullion Jewellery Trading LLC have explained to SWISSAID that they accept gold from all countries without any problems.[34] The vast majority of the ten or so retailers interviewed do not require any specific documents and simply recommend that their suppliers have the necessary papers for customs clearance in Dubai.[35] Fast Bullion Jewellery Trading LLC is the only company met with to require a KYC (Know Your Customer) document from their suppliers. After discussing the issues, it is SWISSAID's understanding that this document serves primarily to avoid receiving gold of dubious quality (i.e. being deceived regarding the purity of the gold) and not to ensure the legal origin of the gold. The company has told SWISSAID that it has no objection to the import of illegally ex-

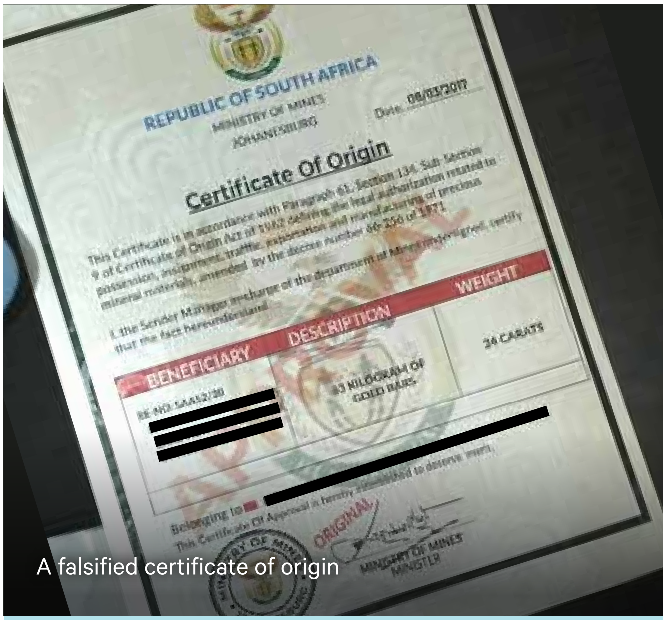
ported gold.[36] Burashed Jewellery, on the other hand, says that it obtains a large part of its supplies from Africa.[37] A few years ago, this retailer used to collect gold directly from the countries where it was mined, particularly from armed groups in the DRC. But due to various problems, however, they now prefer to wait for the brokers to deliver the gold to them. Several reports confirm that illegally exported African artisanal gold is easily sold in the Dubai souk.[38] A UN report also mentions that the Group of Experts met in this souk with people from the Great Lakes region who admitted having helped smugglers to sell their gold illegally in Dubai.[39]

Gold laundering

In the course of its interviews, SWISSAID observed that it is possible to obtain gold of dubious origin and to "launder" it into gold certified by a recognised international standard. This relatively simple practice is particularly prevalent in the souk and is said to be quite common.[40] The broker brings the "problematic" gold to a retailer in the souk. On his side, the retailer pays cash for an ingot that is LBMA or DMCC DGD (Dubai Good Delivery) certified on the market. The retailer gives the certified gold to the customer in exchange for the doubtful gold brought by the broker and the payment of a premium. The premium for LBMA certified gold bullion would be USD 4 per ounce.[41] The interest value of this practice for the buyer lies in the extremely attractive price, well below the market rate, paid for the "problematic" gold. The problematic gold is said to be sold on the local market or sent to India. LBMA or DMCC DGD certified refineries thereby find themselves inadvertently implicated in this gold laundering through their ingots. When questioned on the subject, they acknowledge the problem without being able to control it.[42] In selling their ingots, the refineries control the first buyers where the transactions are recorded, but subsequently lose track. For

▸ DMCC standards

Stakeholders in the gold sector in Dubai can voluntarily affiliate to DMCC certifications. Launched in 2014, the "Responsible Market Participant" is open to all players in the gold market, including traders, jewellers and aggregators. The "Dubai Good Delivery (DGD)", founded in 2005, and the "Market Deliverable Brand (MDB)", created in 2014, are specifically intended for refineries. The MDB has recently been taken over by the DGD and there is now a single standard for refineries in the UAE.



A falsified certificate of origin

The example of conflict gold laundering in Dubai

By posing as a simple buyer, SWISSAID discovered that it is easy to obtain gold from conflict regions via Dubai. A gold trader in Kampala, Uganda, who was contacted explains that he obtains most of his gold from armed groups in the DRC. The interest of the DRC lies mainly in the very attractive prices. While the profits are higher and he has long-term relationships with these people, the trader acknowledges that it is not easy to work with these armed groups.

The process is simple. The trader drives with his security team to the eastern DRC to collect gold from different mines owned by armed groups. The gold easily crosses the border and is refined in Kampala. The trader then flies to Dubai with it in his hand luggage. The passage through customs is straightforward because he has a certificate from the country of origin and a contract signed with the buyer of this gold in Dubai, usually located in the gold souk. As can be seen in the photo above, the certificate of country of origin comes from South Africa. While the trader refuses to disclose the process involved in falsifying this document, he explains that he always uses this same country to export his gold, without any problems. When questioned regarding having this gold certified by an international standard, he suggested using the procedure described below. The old bids shared by the trader specify that the deal involved gold "nuggets", a type widely used in mines located in conflict zones of the eastern DRC.

example, SWISSAID checked that it is not possible to buy ingots in cash from the PAMP office in the Deira souk. A few offices further away, however, White Lily Gold and Diamond LLC sell PAMP gold ingots that can be paid for in cash. Above and beyond the problematic gold laundering, the ability to easily buy certified gold in cash paves the way for to money laundering.

Several gold blending operations are also said to take place within the souk. According to a report by the Partnership Africa Canada (PAC) organisation, gold from countries declared problematic, such as the DRC, is sometimes mixed with gold mined in countries considered acceptable, such as South Africa and Ghana.[43] Similarly, mined gold is thought to be mixed with scrap gold on occasion and sold to refineries without detection.[44]

While it is obvious that questionable gold does indeed enter the souk, the question is where it is taken thereafter? According to the testimony gathered, there are several smelters inside the souk and some even speak of a full-fledged refinery.[45] Certain retailers also have their own foundries located on the floor above their offices, like Fast Bullion. After melting down all the gold collected, the merchants use it for their own jewellery making, selling it to refineries or offices that deal directly with the former.

All the refineries based in Dubai are sourcing gold from the Deira Souk.

Several sources confirm that all the refineries based in Dubai obtain their gold supplies from the Deira Souk.[46] Refineries that are not "Dubai Good Delivery" (DGD) certified are thought to use much larger quantities of gold from the souk than DGD certified refineries which are more concerned about the origin of the gold.[47]

Dubai refineries

Refineries play a central role in the gold trade. They obtain their supplies from various sources and refine the precious metal to a very high degree of purity to produce ingots, medallions and coins. Once refined, the provenance of the gold cannot be physically traced. Refineries therefore have a particular responsibility in the supply chain.

It is difficult to know the exact number of refineries operating in Dubai. There is little information available and the DMCC and UAE authorities have not responded to SWISSAID's requests. Based on interviews in Dubai and information from the UAE commercial register[48], a non-exhaustive list of refineries has been compiled. It is divided into three categories according to the assessments that SWISSAID can make based on the information in its possession:

- Active refineries
- Refineries that are active but where there is doubt about their real refining activity
- Refineries that may have ceased operations

These refineries are based in Dubai and Sharjah (north of Dubai), although some of their headquarters, such as that of IPMR, are in Abu Dhabi.

This table shows that currently none of the refineries located in Dubai are LBMA certified, i.e. registered on the Good Delivery List (GDL) of the London-based association. Emirates Gold is an "LBMA associate member"[49], which means that it is audited according to LBMA criteria but is not recognized as a GDL member. Only three refineries have DMCC Dubai Good Delivery (DGD) certification. The others have no certification, with the exception of Sam Precious Metals. The analysis of these key actors in the gold trade in Dubai can thus be divided into two categories: DGD-certified refineries and non-certified refineries. Kaloti and MTM&O are analysed in part 2 of the report. Part 3 will deal with the relationships of some of these refineries with Swiss companies.

Name	Certification	Former certification
Emirates Gold DMCC	DGD, LBMA associate member, RMI	
Al Etihad Gold Refinery DMCC	DGD, RMI, RJC	
IPMR (International Precious Metals Refiners) LLC	DGD	
Al Kaloti Jewellers Factory LTD		DGD (2010-2015)
MTM&O Gold Refinery DMCC		
Sam Precious Metals FZ LLC	RJC	
Gulf Gold Refinery FZE		MDB (2015-2017)
Dijllah Gold Refinery FZC		DGD (2017-2018)
Al Rawais Gold Refinery		
Fujairah Gold FZC		MDB (2014-2019)
Premier Gold Refinery LLC		
Motiwala Gold refinery		
Ary Gold Factory & refinery		
Agor Precious Metals		
Gulf Gold Refinery Services		
Kamana Gold Refinery		
TG Gold Refinery DMCC		
AL Ghurair (Giga Gold) Refinery		DGD (2008-2010)
Al Gaith Gold Refinery		DGD (2009-2012)
ICON Gold Refinery FZCO		

DMCC Dubai Good Delivery certified refineries

Al Etihad Gold Refinery, IPMR (International Precious Metal Refiners) and Emirates Gold are the three UAE refineries registered with the DMCC DGD. The latter was founded by Swiss citizen Mohamad Shakarchi in 1992.[50] SWISSAID has had informal discussions with some of these refineries and their customers.

Based on the information gathered, SWISSAID is not able to judge the due diligence procedures of these refineries. These companies claim to be doing a particularly important job in tracing the gold supply chain and acting in case of doubt. In its 2018 audit report, Emirates Gold, for example, states that it stopped three supply chains in West Africa because it did not obtain the necessary information from suppliers.[51] Several LMBA-certified refineries nonetheless explained in confidence to SWISSAID that they harbour doubts regarding the DGD standard and the practices of these refineries.[52] Apple also decided to remove Al Etihad and IPMR from its supply chain as of December 31st 2019, while maintaining Emirates Gold.[53] The brand briefly explains that any such removal of refineries was due either to audit-related issues or because they were initially erroneously or unintentionally reported by suppliers. But even in the latter case, Apple has taken steps to ensure that these refineries will not re-enter its supply chain in the future.

Most of the gold sourced by DGD refineries is recycled, but some also comes from African or South American artisanal mines. They have little access to industrial mines, reserved almost exclusively for LBMA-certified refineries.[54] DGD refineries acknowledge that they also obtain their supplies from the Dubai souk, where they require a large number of documents enabling the provenance of the gold to be traced. Most of the time, they refuse newly mined gold from the souk and accept recycled gold, while scrupulously verifying that this gold is not mixed with newly mined gold. These refineries explain that their due diligence work is complicated by the circulation of fake documents.[55]

The three refineries did not wish to share the quantities of gold they process. On its website, Emirates Gold claims to process more than 200 tonnes of gold annually.[56] However, the respondents believe that the refinery in question actually processes much less.[57] An IPMR audit report indicates that the company processed 95.4 tonnes of gold in 2018 from 33 suppliers.[58] This is supposedly only recycled gold.[59]

Some DGD-certified refineries have explained that they refuse large quantities of gold because they are unable to trace its provenance.[60] The standards and audits to which they are subject do not allow them to accept this type of gold. As a result, they believe they are losing important markets because suppliers prefer to turn to less vigilant refineries that are not as demanding in terms of due diligence. The DGD refineries thus feel that they are facing unfair competition from other refineries in Dubai, which are not subject to any controls and are fuelling the well-known issues plaguing the gold trade.

Non-DMCC Dubai Good Delivery certified refineries

In addition to the three DGD-certified refineries, the table identifies 14 refineries (including those where there are doubts about their refining activity) that are not subject to the DGD standard. Among them, Sam Precious Metal is the only one to be affiliated to a standard: the Responsible Jewellery Council (RJC) Code of Practices (COP)[61], a minimum standard.[62] Several players in the gold sector (refineries, trading companies and transport companies) have told SWISSAID that they categorically refuse to work with these uncertified refineries because they are suspicious of their practices[63]. Some of these refineries adopt dubious practices and organise their sourcing from problematic suppliers.

By refusing to be affiliated to a standard, these refineries are not subject to an external audit. However, they are perfectly eligible to adhere to the DMCC DGD standard. Indeed, several of them have obtained it in the past: Kaloti, Dijllah, Al Ghurair Giga Gold and Al Gaith.[64] Fujairah Gold and Gulf Gold Refinery were members of the MDB standard.[65] There is no public explanation as to why these refineries were delisted or chose not to join.

By refusing to be affiliated to a standard, these refineries are not subject to an external audit.

Most of these refineries belong to larger corporations active in trading and finance, as well as the production and sale of jewellery. In fact, the history of these companies often began with the manufacture of jewellery before the refining activities were launched. An actor in the gold sector in Dubai told SWISSAID that some groups have set up their own refineries in order to conceal the true provenance of their gold.[66] In addition, many of these refineries have trading offices or subsidiaries in the gold souk.

The purpose of this chapter is not to analyse the practices of all these refineries, but rather to show a few examples illustrating the legitimate doubts regarding these companies.

Refineries' links with conflict areas in the DRC

Agor, Premier and Motiwala all imported gold of questionable origin from Uganda.[67] This gold comes from the African Gold Refinery (AGR), created by Belgian Alain Goetz. Published in 2018, a report by "The Sentry" NGO shows that AGR has imported large quantities of gold from the conflict zones in the DRC.[68] In early 2020, Alain Goetz and his brother were convicted of money laundering and fraud by a court in Antwerp.[69] They were given an 18-month suspended prison sentence for the fraudulent activities of the Belgian Tony Goetz refinery, one of their many companies. Although the AGR refinery is now blacklisted, it continues to export gold to Dubai.

Founded in 2006, Agor is a company registered in Dubai and co-owned by Alain Goetz.[70] On its website, it offers refining and trading activities and mentions its links with NV Tony Goetz.[71] According to "The Sentry", Agor imported 1.4 tonnes of gold worth 56.5 million USD from the AGR refinery between 2015 and 2016.[72] It is well worth noting that Agor has the same address and phone number in Dubai as Goetz Gold LLC. Goetz Gold LLC imported 14.6 tonnes of gold from AGR between 2016 and 2017.[73]

Premier Gold Refinery (PGR) LLC was established in 2014. On its website, it states that its due diligence is based on the standards of the LBMA, OECD and DMCC.[74] However, there is no record of any audit, despite this being required by the afore-mentioned standards. SWISSAID found out from the UAE Commercial Register that the company is also owned by Alain Goetz.[75] The refinery reports that it accepts mined gold from many local and international suppliers.[76] In the course of its investigations, SWISSAID discovered that a trading company, PGR Gold Trading LLC, imported gold in October 2019 from the problematic AGR refinery in Uganda.[77]

Dubai is also home to Motiwala Gold Refinery. The latter does not have a website, but several sources have confirmed that it is active.[78] Five companies are registered in Motiwala's name in the Dubai commercial register.[79] The links between Motiwala Gold Refinery and Motiwala Jewellers seem obvious. Muhammad Ayaz indicates that he is a partner in both companies.[80] The Sentry's report states that Motiwala Jewellers imported gold from the AGR refinery in 2017.[81] According to the Swiss NGO 'Society for Threatened Peoples' (SPM), Motiwala Jewellers also received dubious gold from the DRC in 2014.[82] Documents reveal that Motiwala is one of Kaloti's main suppliers. Transactions of USD 527 million in cash took place between the two parties in 2012.[83] A former manager of an LBMA refinery told SWISSAID that there is a high probability that Motiwala is still working with Kaloti.[84]

"Refinery" companies that are not really what they claim to be

Above and beyond the problematic links of these three refineries with AGR and the dubious gold from the DRC, other companies presenting themselves as "refineries" have questionable practices. The address of Kamana Gold Refinery, registered in the commercial register since 2018, refers to a simple warehouse and the email address is unprofessional.[85] TG Gold Refinery has a website where the published certificates and email address do not match the company name.[86] TG's initials strangely match those of Tony Goetz, but there is no evidence that he is behind this company.

Gulf Gold Refinery Services (GGRS) is owned by TLI Global Group, whose holding company is based in Mauritius.[87] The British-owned group has mining concessions in Africa and South America[88]. Under the "Refinery Services" section of their website, the group explains that it has a production capacity of 100 tonnes and the possibility of refining gold to 999.9.[89] However, in an email reply to SWISSAID, CEO William Mckeag states that their refinery is under construction and that they are currently working with partner refineries.[90] A special note on their website confirms this.[91]

Importing gold in hand luggage seems to be a common practice of this company. In a document dated 2019, it explains the procedures to be followed for the import of gold in hand luggage.[92] The CEO explained to SWISSAID that the group imports more than 500 kg of gold per week from East Africa, particularly from the DRC and Uganda, without any problems[93]. He also mentioned working with several refineries in Dubai, including Kaloti and Motiwala. The Al Etihad refinery told SWISSAID, backed by supporting evidence, that it had categorically refused to work with this company.[94] A former manager of an LBMA refinery confirmed the problematic practices of Gulf Gold Refinery.[95]

Dijllah's doubtful practices

The Dijllah Group says it has several companies: Dijllah Jewellery FZCO, Dijllah Jewellery DMCC and Dijllah Gold Refinery FZC.[96] Some of these entities are located in the Deira Gold Souk. With a production capacity of 400kg of gold per day,[97] the refinery was DGD only certified between December 2017 and December 2018.[98] Adherence to a standard for such a short period raises several questions. A 2017 audit report indicates that Dijllah received 33.7 tonnes of gold for refining in 2016, of which 5.2 tonnes (15%) was mined gold.[99] The report states that Dijllah did not receive this gold directly from the mines but that all its supply comes from its customers based in Dubai. Buying mined gold that does not come directly from the mine involves significant risks, particularly in terms of its traceability. In addition, the report explains that USD 17 million[100] was paid in cash for gold purchases and USD 61 million[101] was received in cash as a result of sales.[102]

The same audit report states that five cases of non-compliance with medium risk were reported in relation to risk identification and supply chain management.[103] These issues apparently did not prevent the refinery from being DGD certified one year after this critical audit. The continuation of these practices is questionable as the certification that had been obtained ended one year later. When asked about the reasons for delisting, Dijllah simply replied that it had not applied for certification for 2019.[104] The Aptiv company, active in the automotive sector, states in its report published in 2019 that there is reason to believe that the Dijllah refinery obtains its supplies from the DRC or neighbouring countries.[105] For its part, Apple decided to remove the Dijllah refinery from the list of its suppliers in 2019.[106]

These few examples demonstrate that some refineries based in Dubai have questionable practices and are indirectly linked to human rights violations and the financing of conflicts. Gaining an understanding of how these companies can operate in Dubai without any control involves looking at the legislation in force as well as questioning the actions and role of the DMCC.

SWISSAID attempted to contact the DMCC in Dubai.

Laxist and fragmented legislation

How can one explain the laxity of the authorities on the activities of these refineries? Several reports and various interviews confirm the lack of measures regulating the gold trade in Dubai.[107] Above and beyond the problems related to customs controls and the possibility of easily importing gold carried in hand luggage, the rules to which the refiners are subject are inadequate. SWISSAID has tried to contact the DMCC and representatives of the UAE government on several occasions without success. Their lack of commitment is evidenced by the fact that the UAE is not one of the countries that has committed itself to the implementation of the OECD Guidance.[108]

The first problem lies in the legislative framework governing the gold trade in the UAE. It is fragmented between the federal level, the different emirates and the free zones. At the UAE level, trade in precious metals is regulated by Federal Law No. 11 of 2015.[109] This law contains a loophole, as it stipulates that 'unwrought articles' are not covered by the hallmarking provisions.[110] The legislation on security and commodity trading[111] states that all transactions must be reported on a daily basis. Although this means the government should have a detailed view of possible problematic transactions, there are no known public cases in which this was addressed.[112] In October 2019, a new policy was adopted to strengthen the UAE's competitiveness in the gold market.[113] This policy includes the establishment of a UAE international gold standard and the establishment of a federal platform for gold trading and tracking its sources. However, the measures concerning traceability are not clearly defined and seem far from being the priority of this new policy.

The Dubai authorities' relevant powers include the competence to create free zones within their territory,[114] which increases the risk of attracting illicit financial flows. These zones provide opportunities for unregulated and virtually unmonitored trading platforms.[115] Companies based in these free zones are regulated by their own framework. They benefit from special tax regimes and are exempt from UAE federal company law.[116] The free zones also house warehouses, the surveillance of which can be problematic. In a US State Department report, the gold trade in the UAE is explicitly cited as vulnerable to money laundering.[117] The FATF report states that the UAE is considered a "cash-intensive economy", which exposes the country to "certain inherent money laundering and terrorist financing risks".[118] The FATF has identified issues in the supervision of certain high-risk sectors in the UAE, such as gold dealers.[119] According to its report, as a major global financial centre trading hub, the UAE must take urgent action to effectively stop the criminal financial flows it attracts.[120]

> "The UAE are exposed to certain inherent money laundering and terrorist financing risks." [118]
>
> FATF, 2020

DMCC: a powerless regulator with suspected conflicts of interest

Above and beyond the various levels of legislation, the role of the DMCC is problematic in that it faces a conflict of interest. On the one hand, it is responsible for promoting and facilitating the gold trade, while on the other hand it is supposed to regulate and control it. A former manager of an LBMA refiner explained that the problem is well known in the industry and that discussions have been going on for years to separate the DMCC into two entities.[121] In the case between the auditor Amjad Rihan and his former employer EY, the High Court in London referred to this conflict of interest in its April 2020 approved judgment. The judge concluded that the DMCC was "obviously not impartial and unbiased" and that it had pressured EY to conceal or minimise Kaloti's misdeeds.[122] The judge found that "The DMCC was trying to manipulate the process and to manipulate EY Dubai for the purpose of promoting Dubai's gold refining industry and cloaking its darker side".[123]

Another important shortcoming is the affiliation to the DMCC DGD standard. As demonstrated in the previous part of this document, only three refiners adhere to this standard while the others operate with impunity. The DMCC is thus significantly deficient in its role as a regulator of the gold sector.

In 2016, the DMCC Rules for Risk Based Due Diligence in the Gold and Precious Metals Supply Chain ("DMCC Rules")[124] were developed to replace the previous DMCC Guidance[125] introduced in 2012.[126] Based on the OECD Guidance, these provisions include the establishment of a supply chain management system, supply chain risk identification and assessment, third party audits and annual reporting.[127] These rules are mandatory only for accredited members of the DGD standard[128] and the effectiveness of the implementation of these measures depends on the DMCC and not on the UAE authorities.[129]

In a study published in 2018, the OECD estimated that in 2016, only 45% of the DMCC Guidance and 29% of the implementation of these rules were fully aligned with the five-step due diligence framework required by the OECD.[130] Following these initial criticisms, a new assessment in 2018 showed that the DMCC rules were now 84% aligned, but without providing any information on implementation.[131] Despite this progress, significant gaps remain and the OECD has made several recommendations, in particular: enhancing the vetting and capacity building of auditors to strengthen audit consistency and rigour; providing more explicit clarification to DMCC refiners and auditors that all Annex II risk areas should be considered during risk assessment and risk mitigation activities; clarifying with DMCC refiners and auditors that on the ground risk assessments should always be undertaken on red-flagged supply chains.[132]

About 2,000 companies active in the trade of gold and precious metals are based in the DMCC free zone in Dubai.[133] These companies are not obliged to implement the DMCC Rules, but simply to sign a Letter of Undertaking.[134] This letter commits the companies to putting in place a responsible sourcing policy; to observe all relevant national and international laws and regulations; and to acknowledge that they have received a copy of the DMCC Rules (formerly DMCC Guidance).[135] The OECD report states that to date the DMCC has not taken any follow-up or enforcement actions.[136] While the OECD acknowledges that this is an important first step in raising awareness in the gold industry, a simple "Letter of Undertaking" is woefully inadequate for these companies to implement the DMCC Rules. In addition, refineries located in the Emirate of Sharjah are not even required to sign this letter.

The Kaloti group perfectly illustrates the problem. It has its headquarters and a refinery in the DMCC free zone and a second refinery in Sharjah. Since it is not DGD certified, the group can operate freely and is not obliged to respect and implement "DMCC Rules". Nonetheless, in light of the next chapter and chapter "Non-DMCC Dubai Good Delivery certified refineries", it is urgent that these rules be made legally binding.

KALOTI:
a high-risk gold empire

The story began with selling jewellery

Kaloti is a global group with a history that perfectly illustrates the problems associated with the gold trade in Dubai. After being removed from the DGD standard list by the DMCC,[137] the Emirati group has become much more discreet, as evidenced by its website, which has been partially frozen since 2016.[138] More than five years after the events, a closer look at the family business reveals that some of its practices remain as questionable as ever.

Having started as a simple jewellery seller, Munir Ragheb Mousa Al Kaloti (Munir Kaloti for short) created one of the largest international companies active in the gold sector. Forced to leave Jerusalem due to the Israeli-Palestinian conflict, he fled to the UAE in 1968.[139] At a time when there was no gold trade in Dubai, he began producing and selling jewellery in 1988. Together with his son-in-law Monzer Medakka, who had just returned from Italy with a jewellery diploma,[140] they founded the Kaloti Jewellery International Group.

After the construction of a gold refinery in the emirate of Sharjah in 1991[141], the family group was running the largest jewellery factory in the UAE by the mid-1990s.[142] In 2000, the business developed into gold bullion trading[143] and the group registered its first company in the DMCC free zone in 2004.[144] It then expanded rapidly with the establishment of subsidiaries in Hong Kong (2007), Turkey (2009), Singapore (2010), an affiliate in Miami (2011) and a refinery in Suriname (2015).[145] Representative offices for the group have been created in Peru and in Bolivia.[146] In the course of its research, SWISSAID also discovered that Kaloti has extremely close ties with a discreet company registered in London: Trust One Financial Services (see part 3).

Kaloti is now an integrated group with a presence across the entire value chain. From financing, trading, logistics, gold analysis and refining to jewellery manufacturing, it has its own companies operating worldwide.[147] Kaloti's head office is located in Dubai in the famous Almas Tower, home of the DMCC.[148] This tower also houses the financial wing of the company, headed for a time by Jeffrey Rhodes, a leading figure in Dubai's gold trade.[149] The Bullion Office of Kaloti and Kaloti Jewellery LLC are to be found in the Gold Souk, located in the Deira district of Dubai.[150] Kaloti has also created its own shipping company named Kaloti Trans DMCC.[151] In a brochure, the Emirati group indicates that it has its own armoured security vehicles.[152]

Kaloti is now an integrated group with a presence across the entire value chain.

Kaloti, a family story

The founder, Munir Kaloti, has several members of his family working for the group. One of his sons, Osama Munir Ragheb Kaloti,[153] is the General Manager of Kaloti Jewellery LLC.[154] One of his daughters is married to Monzer Zouher Medakka,[155] co-founder and currently co-CEO of Kaloti Precious Metals.[156] Another member of the family, Dina Kaloti, is the Director of Compliance for Kaloti Jewellery International.[157] She is married[158] to Tarek Zouhair El Mdaka who is co-CEO of Kaloti Precious Metals.[159] Awni Kaloti, another family member, is Managing Director of Kaloti Metals & Logistics in the United States.[160]

Two Dubai refineries owned by the Emirati leader

Kaloti is considered the largest refiner in the UAE, although it is difficult to ascertain its precise production quantities and market shares. In 2011, the Emirati group claimed to import 40% of Dubai's gold,[161] whereas Amjad Rihan, a former Ernst & Young auditor (see page 24), indicated in 2019 that Kaloti held 50 to 55% of the gold market in Dubai.[162] According to a specialist in the sector, the group's dominant position could be partially explained by its dubious activities enabling it to accept gold from any and every origin.[163] The fact that it is not DGD certified constitutes an advantage in that there are less constraints. In 2013, Kaloti was at the centre of a USD32 billion gold empire.[164]

Kaloti is considered the largest refiner in the UAE.

Kaloti has two refineries in the UAE. The first is the group's historic refinery in Sharjah, north of Dubai. It has a refining capacity of 300 tonnes of gold per year[165] and is registered as Kaloti Gold Factory LLC.[166] Another DMCC document indicates that the name of this refiner is Kaloti Jewellers Factory LTD.[167]

The second refinery is located in the DMCC free zone. With a refining capacity of 1,400 tonnes per year, it cost USD60 million to build.[168] Presented as one of the largest gold refineries in the world, its construction began in 2013 with a ceremony attended by the DMCC and the media.[169] The pride and joy of the group, this new gem was to enable it to triple its gold production.[170] When its Sharjah refinery was removed from the DGD list by the DMCC, Kaloti abruptly cut off all communication about the inauguration and operation of its new refinery. During its search in Dubai, SWISSAID had difficulty identifying it before it realised that it had a discreet name: MTM&O Gold Refinery. Although officially registered on the National Economic Register since 2017,[171] the name Kaloti does not appear there, unlike the group's other subsidiaries. Some sources believe that this name was chosen to hide the group's past, while others see no particular reason for this.[172] The name MTM&O is said to reflect the names of its four co-owners: Munir, Tarek, Monzer and Osama. While investigating onsite, SWISSAID found that the refinery is impressive and appears to be very active. The name Kaloti does not appear, but the motifs on the wall surrounding the refinery are reminiscent of those of the group.

Kaloti's new refinery has a discreet name: MTM&O Gold Refinery.

The information concerning the activity of these two refineries is contradictory. Shazib Majeed, Senior Financial Accountant at Kaloti, informed SWISSAID that both refineries are indeed active.[173] A former manager of an LBMA refinery visited the Sharjah refinery a few years ago. According to him, the MTM&O refinery is idling and all the group's gold is reportedly refined in Sharjah, an inconspicuous place out of sight.[174] Another source says the opposite is true, as the Sharjah refinery has given way to the new one.[175] In its response letter to SWISSAID, Kaloti explains that the Sharjah refinery is closed and has been replaced by a new one.[176]


Kaloti Precious Metals: a global group
London
Trust One
Financial Services **
Istanbul Office
(Europe Branch)
Miami (Associate office) *
Kaloti Metals & Logistics, LLC
Hong Kong Office (Asia Branch)
Kaloti Jewellery
International Ltd (HK)
Lima (Associate office) *
Kaloti Metals & Logistics
Paramaribo Office
Kaloti Suriname Mint House
La Paz (Associate office) *
Transquidana
Singapore Office
Kaloti Jewellery International
(Singapore) Pte. Ltd.
Dubai (Head office)
• Kaloti Jewellery International DMCC
• Gold Factory & Testing Laboratory (Sharjah refinery)
• MTM&O Gold Refinery • Bullion Office • Financial Institutions Branch
• Kaloti Jewellery LLC (Gold souk branch) • Kaloti Trans DMCC
* Following the bankruptcy of Kaloti Metals & Logistics, these subsidiaries may no longer exist.
** The fact that Trust One Financial Services belongs to the Kaloti Precious Metals group has not been established, but there are extremely close personal ties between these two companies.


Kaloti's companies and activities in Dubai
A Refinery in Sharjah – Kaloti Gold Factory
B Purchasing office in the Deira gold souk
• Kaloti Jewellery LLC
• Kaloti Bullion Office
C Dubai International Airport
D Kaloti headquarters in the Almas Tower
• Kaloti Jewellery International DMCC
• Kaloti Financial Institutions
E Refiner in Dubai – MTM&O Gold Refinery
Shipping is probably done by the company named Kaloti Trans DMCC.
Broker hand-carrying gold
Gold sent by air (in hand luggage or freight cargo)
SHARJAH
AL MAJAZ
A
B
AL KARAMA
C
DUBAI INTERNATIONAL AIRPORT
MIRDIF
DUBAI FESTIVAL CITY
INTERNATIONAL CITY
AL QUOZ
AL SUFOUH
ACADEMIC CITY
D
E
MOTOR CITY

The first revelations and removal from the DMCC standard

Kaloti obtained the "Dubai Good Delivery" certification in 2010 and has been an associate member of the LBMA since 2004.[177] These certifications were undermined when the group's questionable practices came to light in 2014. A report by Ernst & Young (EY) audit company was leaked and revealed in a Global Witness study.[178] This document showed that Kaloti, without carrying out the necessary checks on suppliers, paid out USD5.2 billion in cash, representing more than 40% of the value of all its transactions in 2012.[179] Numerous transactions were made without due diligence and presented risks of money laundering and conflict financing, particularly in Sudan and the DRC.[180] Kaloti also classified mining gold as recycled gold.[181] According to the Global Witness study,[182] a report by rance 2 television channel[183] and statements made by former EY auditor Amjad Rihan,[184] Kaloti purchased four tonnes of silver-covered gold exported from Morocco with falsified documents. The gold was said to have been coated in silver to deceive authorities and avoid gold export restrictions in Morocco.[185] A BBC report explains that this precious metal actually came from criminal groups laundering the proceeds of drug traffickers.[186] Having been challenged on this issue, Kaloti indicate that they have "never bought, stored on their property or, indeed, ever seen gold bars coated with silver (from Morocco or anywhere else)".[187]

Faced with the damning results of the audit, Kaloti tried to get rid of these embarrassing findings. A 2020 ruling by the UK High Court of Justice in London[188] found that the Emirati group colluded with their regulator DMCC and their auditor. EY's senior executives tried to avoid reporting the case to the LBMA, contrary to the audit guidelines of the London-based association to which Kaloti was subject as an associate member.[189] EY helped Kaloti conceal its involvement in the handling of the illegal gold by rewriting certain passages of the compliance report.[190] In mid-audit, EY also wrongly accepted the audit procedural changes made by the DMCC.[191] As a result, instead of being classified as "non-compliant low risk", EY's final report stated that Kaloti was "compliant with low risk deviation", which allowed the refinery to be "fully compliant" with the DMCC standard.[192]

EY helped Kaloti conceal its involvement in the handling of the illegal gold by rewriting certain passages of the compliance report. [190]

Following this case, Amjad Rihan, an auditor at EY, resigned and filed a complaint against his former employer for trying to cover up the truth. In April 2020 and after a long trial, the EY auditing company was finally sentenced to pay him USD10.8 million.[193] Kaloti "strongly disputes many of the matters of fact which were presented to the Court by the parties and which were demonstrably untrue", according to the company.[194]

After EY's cover-up audit, Grant Thornton (GT) audited Kaloti's gold operations for the period from October 2013 to October 2014.[195] Following this report, the DMCC removed the Sharjah refinery from the list of DGD-accredited refiners in 2015.[196] In its response to SWISSAID, KALOTI indicates that: "There have never been any grounds to justify the removal of expulsion of Kaloti from the DMCC GDL".[197] In a press release, the DMCC nonetheless explained that Kaloti Gold Factory LLC did not meet the criteria required to maintain this certification.[198] Kaloti considered at the time that this exclusion would not have a significant impact on its ability to conduct its operations.[199] It even stated that its new refinery would apply for DGD status.

Five years later, neither of the group's two refineries in Dubai and Sharjah holds DGD certification. As a result, they are not subject to any mandatory audit by the DMCC. When questioned on adherence to the standard, Kaloti explains that: "the DMCC publicly invited Kaloti Jewellery Factory (the Sharjah refinery) to apply to re-join the GD list without restriction, but as this refinery was in the process of being shut (as indeed it now it) to be replaced by a new one, it made absolutely no commercial sense for Kaloti to reapply".[200]

The two Kaloti refineries are not subject to any mandatory audit by the DMCC.

With regard to the new refinery, Kaloti indicates that "Any new refinery must have 3 years production and meet the DMCC criteria before it can apply to be a DMCC GD refiner and the new refinery has not yet completed this period of operation".[201] Registered in 2017 in Dubai,[202] the new refinery would soon have the possibility of joining the standard if it meets the criteria.

Kaloti has also lost its LBMA associate member certification and is not on the list of 109 refiners that are compliant with the Responsible Minerals Initiative.[203] According to the information provided on its website, the group's sole remaining affiliations consist of membership of the Shanghai Gold Exchange (SGE)[204], the Borsa in Turkey[205] and the New York Mercantile Exchange (NYMEX).[206]

Kaloti's questionable sourcing issues

Margins are low in refining operations and refiners need large volumes to make money. In response to this challenge, Kaloti has developed a large supply network. According to a 2014 audit report, Kaloti obtains its gold in two ways: from its purchasing office in the souk and through international deliveries directly to its refinery.[207] The Emirati group is also said to source gold from suppliers with premises inside the souk in Dubai, according to a 2015 audit report.[208]

While it is not possible to determine the origin of all the gold refined by Kaloti, SWISSAID's research shows that a significant proportion comes from artisanal mines and risky sources where some of its "responsible" competitors avoid sourcing their supplies. According to an audit report from 2014, Kaloti indicated that it had made site visits to low- and medium-risk suppliers in South America, West Africa and the Indian subcontinent.[209] When challenged by SWISSAID, Kaloti mentions the OECD's encouragements to support artisanal gold mines and states that "it engages with responsible ASM miners, employing all appropriate OECD due diligence protocols".[210] Sourcing artisanal gold is a positive practice supported by SWISSAID and other civil society organisations, but this must be done while applying rigorous due diligence measures.

Several sources, including a former manager of an LBMA refinery, who has good relations with group representatives, state that Kaloti's supplies of mined and recycled gold are constantly evolving in line with the market and opportunities.[211] By way of example, Shazib Majeed, Kaloti's Senior Financial Accountant, told SWISSAID that his girlfriend owns a gold company which sometimes works with Kaloti.[212] It sources newly mined gold and recycled gold in Ghana, Malaysia and Thailand, among other places.

The Emirati group is thought to have a multitude of relationships with trading companies and jewellery groups in Dubai, some of which have dubious practices. Links with Motiwala have been revealed in the past by the NGO SPM[213] and the CEO of Gulf Gold Refiners explained to SWISSAID that he works with Kaloti.[214] The dubious practices of these two companies are explained on page 17-18. The research undertaken by SWISSAID on sourcing appear to show that some of the group's dubious practices have not been discontinued.

The Kaloti purchasing office in the souk

The gold souk in Dubai is an important hub for the trade in illegal gold, particularly from Africa. It is in this location that Kaloti has had its own purchasing office for several years. SWISSAID visited this office on the second floor of the "Gold Centre".[215] The account of the visit to this purchasing office was presented to Kaloti which responded in detail in its letter to SWISSAID.

The entrance to the office bears the simple inscription KJ (Kaloti Jewellery). Inside, several posters prohibit the taking of photographs or filming. SWISSAID asked the first employee encountered whether Kaloti agrees to purchase gold from Tanzania. There was no reply, but instead direct referral to one of the office managers. Surprised that there was no gold to be presented to him, the Kaloti employee said that he could not accept gold from Tanzania because this country was on the list of countries from which the group refused to source gold. When asked about the possibility of having Tanzanian gold passed through another country before being exported to Dubai, the employee said that Kaloti would accept the gold without any problem providing the papers were in order, namely a declaration of the country of origin and an invoice. Kaloti defends itself in its letter by stating that even if the employee, whom it describes as a "junior" clerk, attempted to accept gold from an origin which was unacceptable to the group, the gold would be red-flagged in the subsequent process and the trade would not proceed.[216] It added that export documents from the authorities in the first country would identify the original source and that the Kaloti procedures could not be circumvented.[217] It is surprising to see such a discrepancy between what the employee said and Kaloti's letter. Moreover, it is risky to rely on a simple export document which can be easily falsified, as stated by several players in the sector[218] and as SWISSAID shows in this study (see page 13).

Posted on the wall inside the office, the list of countries from which Kaloti refuses to source its gold includes Tanzania, Kenya, DRC, Uganda, southern Sudan and Iraq. For Sudan there is a mention that transactions can only take place through government institutions. A second list mentions several countries where reinforced due diligence must be applied. The Kaloti employee explained to SWISSAID that the list was based on the OECD guidance for countries where gold should not be sourced. This position is surprising, to say the least, because, as Louis Maréchal, OECD expert on responsible business conduct, points out: "The OECD makes no recommendations on countries from which gold should or should not be sourced. Moreover, it draws attention to the fact that such lists can contribute to the marginalisation of communities and companies working responsibly in countries at risk and lead to the adoption of embargo and boycott strategies by some private sector actors".[219] The statements in Kaloti's letter show fundamental discrepancies with the explanations provided by the purchasing office employee. In its letter, Kaloti perfectly describes the role of the OECD guidance and rightly states that this international organisation does not publish a list of prohibited jurisdictions. The Emirati group indicates that if the employee stated to SWISSAID that the list reflects the OECD directives regarding countries where gold should not be sourced: "it would not have been an accurate reflection of reality, Kaloti's policies or their attitude toward responsible sourcing".[220]

None of the West African countries are mentioned on these two lists, whereas countries such as Burkina Faso, Mali or Niger are home to jihadist groups controlling certain gold mines.[221] The Kaloti employee confirmed to SWISSAID that there is no problem with importing gold from Burkina Faso. For its part, the Emirati group says that it is not the responsibility of clerks in the souk to decide which jurisdictions Kaloti deal with and that these decisions are made by senior management.[222] The group confirms that the second list displayed in its purchasing office concerns high risk jurisdictions that Kaloti is potentially willing to source from pursuant to enhanced due checks and if it can ensure that the relevant supply chains would be conflict free.[223] While several West African countries export illegal gold and host mines controlled by armed groups, it is surprising that they do not appear on this list. It is legitimate to question whether Kaloti is applying enhanced due diligence to its sourcing in this region and has sufficient information to do so. With regard to the DRC, Kaloti seems to be more aware of the risks. It rightly explains in its letter that it is possible to source conflict-free gold from this country.[224] It refuses to do so, however, because it says that it does not have access to sufficient on the ground intelligence and area-specific expertise to complete enhanced due diligence in the DRC.[225]

Kaloti states that it applies the OECD guidance and mentions that once the client has fulfilled the due diligence criteria and an account has been opened, he can deliver through shipment or at the souk office. [226] Shaukat Hussein, former head of security for Kaloti until 2019, notably explains that he had to collect the gold carried in hand luggage.[227] On the basis of this information, it can be assumed that gold carried in hand luggage does not appear to be a problem for the Emirati group.

Through the purchasing office, Kaloti takes very great risks, leaving the door wide open to the importing of potentially questionable gold.

It appears obvious that Kaloti, through this purchasing office, takes very great risks, leaving the door wide open to the importing of potentially questionable gold. An individual with an account at Kaloti can sell potentially dubious gold in this office based on a mere invoice and a declaration of the country of origin – both of which are easy to fake. A retailer encountered in the souk confirmed to SWISSAID that Kaloti imports large quantities of gold from Africa every week through its office.[228]

Above and beyond these risky practices, a French television[229] investigation casts doubt on the "zero tolerance" approach to cash transactions adopted by Kaloti in 2014.[230] Officially interviewed in the Almas Tower offices, a senior corporate executive explains that Kaloti pays its gold suppliers only by cheque or bank transfer. He even says that, as the biggest buyer on the market, the Emirati group has more rules to follow than its competitors. But in visiting the gold souk, France 2 investigators discovered another reality. Statements by Kaloti employees show that cash transactions are still possible.

In its letter to SWISSAID, Kaloti defends itself by first of all explaining that the person in question was an Urdu-speaking "junior clerk" speaking very poor English.[231] It states that "at worst, the clerk misinformed the report or, more likely had misunderstood the reporter's question".[232] Kaloti writes that its clerks have no authority to accept gold from anyone who has not previously passed relevant anti-money laundering checks and been formerly taken on as an account.[233] It also says that there are several control procedures before gold is accepted and that there have been no cash transactions for gold since August 2013.[234]

Kaloti distances itself from statements made by its employees and gives a very different version of its control practices and procedures.

In the same way as with the SWISSAID visit, it is astonishing that Kaloti distances itself so markedly from statements made by its employees and gives a very different version of its control practices and procedures.

Kaloti, Sudan and its conflict gold

In the course of its history, Sudan has been ravaged by deadly conflicts in which the struggle for control of raw materials has played a major role. After the independence of Southern Sudan in 2011, the Khartoum regime lost its main oil reserves and relied on the gold industry.[235]

At the head of the country for more than 30 years before being ousted in 2019, former President Omar al-Bashir is the subject of an arrest warrant from the International Criminal Court. He is accused of crimes against humanity and war crimes in the Darfur conflict which caused more than 300,000 deaths[236] in the first decade of the 2000s.[237] Despite being internationally isolated, the former Sudanese president has still managed to sell his country's gold through government institutions. His main partner is a well-known global company: Kaloti.

The Emirati group has been sourcing from Sudan for many years. Several reports claim that in 2012 it had already purchased more than 57 tonnes of gold from dubious suppliers,[238] which the group disputes.[239] The Central Bank of Sudan, which has held a monopoly on exports since 2013, has become a privileged partner of Kaloti. Some of the gold transiting through this financial institution comes from mines controlled by armed groups.[240]

Kaloti: a partner favoured by the central bank and its refinery

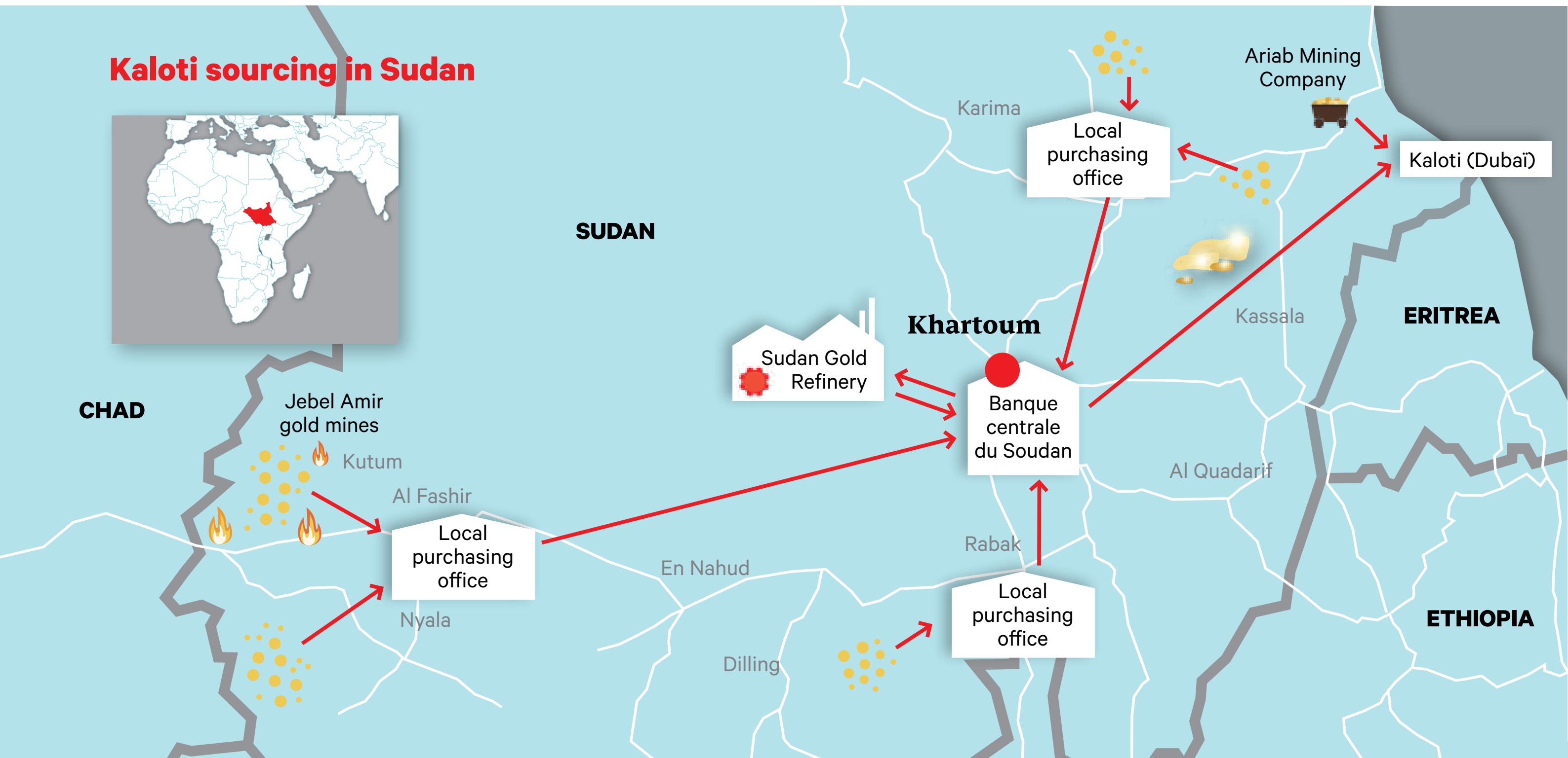
In 2012, the country's first gold refinery was inaugurated by President Omar al-Bashir.[241] With a production capacity of 328 tonnes of gold per year, its construction is part of the government's desire to develop the gold sector.[242] Based in Khartoum, the gold refinery is owned by the Central Bank of Sudan (70%), the Ministry of Finance and National Economy (15%) and the Ministry of Mines (15%).[243] It is managed directly by the Central Bank.[244] The government's takeover of the gold sector went hand in hand with the establishment of a monopoly on gold exports in favour of the Central Bank in 2013.[245] As the only entity able to export this metal, it has set up centres to buy gold from artisanal miners before refining it in Khartoum and exporting it.[246] Its monopoly on gold exports was reduced in 2017[247] before being definitively abandoned in 2020.[248]

> "Kaloti Precious Metals is the major customer for the Central Bank of Sudan." [250]
>
> Sudanese Ministry of Finance and National Economy (2015)

Kaloti has sourced gold from the Central Bank of Sudan and its refinery in Khartoum in recent years. A confidential DMCC document, consulted by SWISSAID and based on audit reports from Kaloti in 2013 and 2014, shows this by stating that "Sudan Gold Refinery is one of the major suppliers of Kaloti".[249] The Sudanese Ministry of Finance and National Economy states in another document dated 2015 that "Kaloti Precious Metals is the major customer for the Central Bank of Sudan".[250] Several sources have also confirmed the Emirati group's recurrent sourcing from these two government-owned institutions in 2013, 2017, 2018 and 2019.[251]

The third largest gold producer in Africa, Sudan produced 93 tonnes of gold in 2018.[252] Between 2012 and 2018, the UAE imported 95% of the gold exported

Kaloti sourcing in Sudan



by this African country.[253] Omar al-Bashir's government was so desperate to get it hands on gold that he bought it locally above the market price and then sold it on in Dubai for hard currency.[254] According to the Sudanese Ministry of Finance, the price of gold sold by the Central Bank abroad was 10-25% below the market price.[255] According to its calculations, Sudan had lost USD1.1 billion over the previous six years (the document dates from 2015) due to the difference in price between the international market and the price at which gold was sold.[256] The Ministry states that the lower prices are due to "the risks associated with sanctions and the monopolistic situation of Kaloti Metals.[257] By buying from the Central Bank in spite of international sanctions, Kaloti has made very large profits. It also took the risk of engaging with government entities blacklisted by the United States.[258]

Some of the gold transiting through the Central Bank and its refinery is highly questionable. This gold from the Darfur region has been identified by the UN Panel of Experts as contributing to financing conflicts.[259]

Photo: © REUTERS - stock.adobe.com

Abbala's hold on the gold mines of the Jebel Amir region

The bloody war in Darfur, linked to ethnic and political tensions, has partly turned into a conflict over control of gold mines. After the loss of petrodollars and government incentives to exploit artisanal mining, hundreds of thousands of miners poured into Darfur where gold deposits were discovered.[260] This gold rush led to violent clashes between tribal militia groups in the Jebel Amir region. In the first part of 2013, more than 800 people were killed, 150,000 people were displaced[261] and 150 villages were burned.[262] UN officials and diplomats told Reuters the government had been complicit in the violence by encouraging at least one militia group to seize control of the gold mines.[263] According to a report by the Enough Project, the Abbala militia was supported by the government.[264]

The bloody war in Darfur, linked to ethnic and political tensions, has partly turned into a conflict over control of gold mines.

In its 2016 report, the UN Panel of Experts clearly states that the Central Bank of Sudan is buying conflict gold.[265] It is "certain that the artisanal gold mined at Jebel Amir is conflict affected, as defined by the OECD, and is part of the gold purchased by the Central Bank of the Sudan from gold mines in Darfur.[266] In its letter to SWISSAID, Kaloti explains on the one hand that it voluntarily provided information to the UN for the preparation of this report;[267] and on the other, that the report relied heavily on assumption and that the evidence is not based on robust quantitative data.[268]

In its 2016 report, the UN Panel of Experts clearly states that the Central Bank of Sudan is buying conflict gold.[265]

The report of the Panel of Experts mentions that the Abbala armed group controls more than 400 mines in the Jebel Amir area.[269] The annual revenues of this militia amounted to more than USD54 million from levying illegal taxes on prospectors and support businesses, direct prospecting of mines and illegal export of the mined gold.[270] According to UN figures, the mines in this region produce more than 8,500 kilograms of gold per year.[271]

The Abbala armed group was led by Sheikh Moussa Hilal.[272] He led a Janjaweed militia group during the deadly conflict in Darfur and is subject to UN sanctions for human rights violations and attacks on civilians.[273] The BBC claims that some of the gold in the possession of Hilal's militia was sold to Sudanese government institutions.[274] Moussa Hilal was arrested in 2017 in Sudan by a Rapid Support Forces (RSF) unit.[275] This arrest is said to be linked in part to the RSF's desire to take control of the gold mines in Jebel Amir.[276]

RSF's control over the mines

The RSF is a powerful paramilitary group aligned with the Sudanese security services. Created in 2013 by a decree from President Omar al-Bashir, they are composed of former Janjaweed combatants[277] and are led by Mohammed 'Hemedti' Hamdan Daglo, a former Janjaweed leader accused of multiple abuses in Darfur.[278] Amnesty International reported in 2019 that the RSF have committed war crimes and serious human rights violations in Darfur in recent years.[279]

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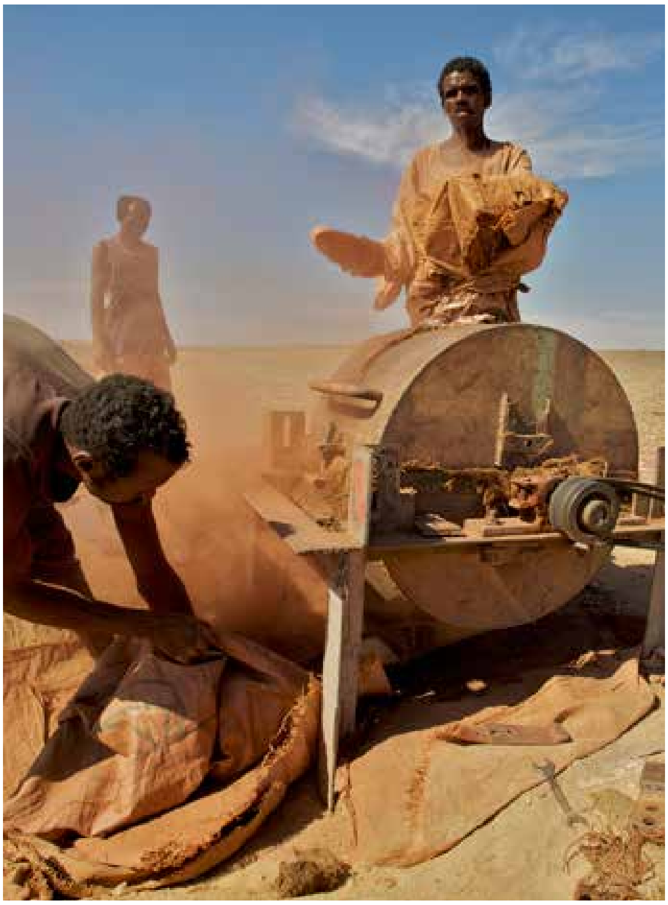


The RSF took control of the mines in Jebel Amir in 2017. Shortly afterwards, the Minister of the Interior called for intervention on the part of the Sudanese armed forces to regain control of the 400 gold mines in the region.[280] Parliament preferred to legitimise the RSF by adopting a law that allowed the President to integrate this militia into the Sudanese Army.[281]

At the head of the RSF, Hemedti has amassed a considerable fortune through control of the gold mines and very close ties with the Sudanese trading company Algunade.[282] Hemedti's brother, Abdul Rahim Daglo, and two of his sons are at the head of this company.[283] Algunade and RSF have managed to get their hands on a large part of the gold market in Sudan by controlling numerous mines in several regions of the country.[284] A map also shows that Algunade owns the only large concession in the Jebel Amir region of Darfur.[285] Reuters reports in an article that Algunade sold part of the gold to the Central Bank at a preferential rate.[286] The other part illegally bypassed the banking institution and was exported directly to Dubai to a company called Rozella.[287] According to the Managing Director of Algunade, these exports occurred only for three months in 2018.[288] It is therefore clear that a significant part of Algunade's gold, and consequently of the RSF, has passed through the Central Bank. One source confirmed Kaloti's sourcing of gold from the Central Bank in 2018.[289]

After having been very close to Sudanese President al-Bashir, Hemedti participated in the coup d'état which overthrew the head of state in April 2019 following months of popular protest.[290] He is currently vice-president of the Sovereignty Council, a provisional government made up of civilian and military representatives.[291]

With the fortune amassed largely through the gold trade, the RSF bought hundreds of pick-ups in 2019 and equipped them with machine guns.[292] According to Global Witness, similar vehicles were used by the RSF in the massacres of pro-democracy demonstrators in June 2019.[293] Pro-democracy activists were killed and found in the waters of the Nile and young women were raped.[294] This violence by Hemedti's troops resulted in more than 150 victims.[295]

Although the Jebel Amir mines have recently been taken over by the government,[296] there is a significant risk that gold mining will continue to fuel Sudan's bloody conflicts. In January 2020, the UN reported that the discovery of new gold mines has led to local tensions. Rebels, security forces and militias are vying for control of these sites.[297]

Shortcomings in Kaloti's due diligence procedures

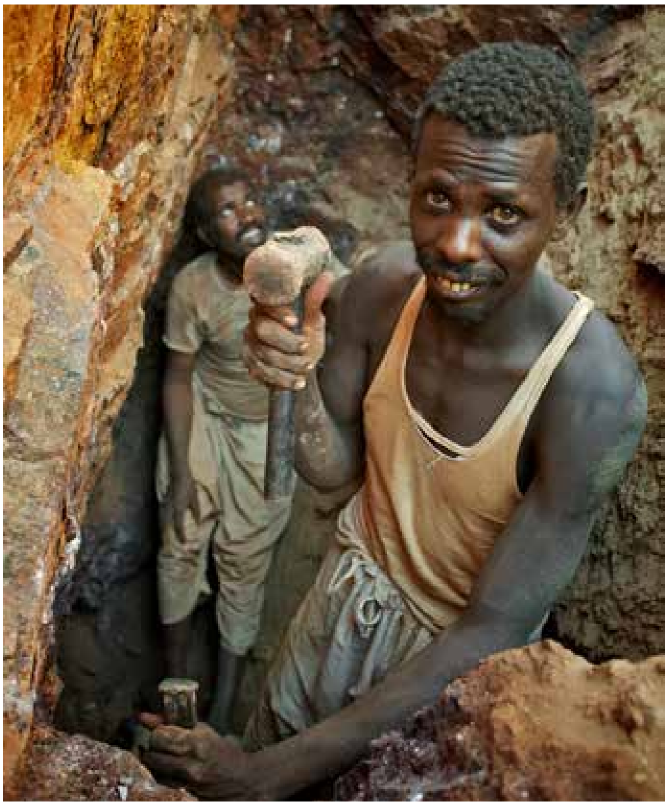
It is clear from the information in this chapter and from the UN Panel report that Sudanese government institutions have been buying gold involved in conflict financing. SWISSAID does not claim that Kaloti deliberately bought conflict gold from the Central Bank and its refinery. However, there is a significant risk that conflict gold was imported by Kaloti's refineries in Dubai because of the Emirati group's sourcing from the Central Bank and its monopolistic position with this bank. The DMCC's confidential document states that Kaloti considers the Sudanese refiner to be a high-risk supplier and is therefore exercising enhanced due diligence with regard to this refiner.[298]

There is a significant risk that conflict gold was imported by Kaloti's refineries in Dubai.

However, in view of the public information on conflict gold transiting through the Central Bank, the Emirati group should have immediately suspended its relationship with this banking institution and the Sudanese refinery. The OECD guidance, which Kaloti claims to respect, clearly states in its Annex II that a company must immediately suspend or discontinue engagement with upstream suppliers when a reasonable risk has been identified that they are sourcing from, or linked to, any party providing direct or indirect support to non-state armed groups[299] or engaged in practices entailing serious harm.[300] Upon being challenged, Kaloti responded that it verifiably conducts all appropriate enhanced due diligence procedures, as described in Annex II of the OECD guidance document, in respect of all relevant transactions when sourcing from any 'Conflict Affected or High Risk Area'.[301]

Ariab Mining Company: another Sudanese state property

In addition to sourcing gold from the Central Bank and the Khartoum refinery, Kaloti also buys the metal from the Ariab Mining Company. SWISSAID has had access to documents showing that the Emirati group imported gold from this mine in 2017 and 2020.[306] Since the sale of the shares of Canadian company Mancha Resources Inc. in 2015, Ariab mining company has beenentirely in the hands of the Sudanese government.[307] Kaloti says the mine is owned by the state through the Ministry of Mines and the Industrial Development Bank.[308]



Kaloti claims to have sourced from Sudan only gold exported through the government.[302] It added that it did not source conflict gold from the Central Bank. The UAE group confirms that Sudan is a high-risk area where it applies enhanced due diligence measures. It explains that it has never purchased gold from Darfur and has all the necessary supporting documentation to show the sources and legitimacy of the gold purchased.[303] This information and Kaloti's audit reports have not been shared with SWISSAID.

Kaloti also mentions that it is not the intention of the OECD and the United Nations to prohibit the trade in minerals with risk and conflict-affected areas.[304] Although SWISSAID agrees with this statement, engagement in these countries must be carried out in strict compliance with the OECD guidance, whose aim is precisely to prevent companies from contributing to conflicts through their procurement practices.[305]

Kaloti in Suriname: a refiner that arouses suspicion

Just as in Sudan, Kaloti has developed business ties with a high-risk government. In this South American company, the Emirati group has gone even further by building its own refinery. Inaugurated in 2015, it is jointly owned by Kaloti (60%), the government of Suriname and local gold traders.[309] Called Kaloti Suriname Mint House (KSMH), it has a refining capacity of 60 tonnes of gold per year.[310]

In Suriname, Kaloti has developed business ties with a high-risk government.

The government of Suriname was looking for an investor to build a refinery. A former manager of an LBMA refinery told SWISSAID that Kaloti was one of the only companies to have agreed to enter into a joint venture, given the nefarious reputation of the President Dési Bouterse.[311] As a reminder, President Bouterse was convicted in absentia in the Netherlands in 1999 for drug trafficking[312] and was allegedly working with Brazilian arms dealers involved in the sale of arms in exchange for cocaine between Suriname and Colombia.[313] In 2019, he was also sentenced to 20 years' imprisonment by a military court in Suriname for executing persons close to the opposition during his time as dictator (1980-1987).[314] After taking over as head of the country in 2010, Dési Bouterse was removed from power in May 2020 after losing the elections.[315]

The 60-tonne capacity of the KSMH refinery is far greater than the country's gold production. According to the latest statistics of the Central Bank of Suriname in 2016, the country produces 30 tonnes of gold per year,[316] of which 65% comes from artisanal mines (19.5 tonnes[317]). The country's two major gold mines, operated by the Canadian company IAMGOLD and the American company Newmont, are exempt from having their gold pass through the KSMH.[318] According to a report by the Center for a Secure Free Society (SFS), President Bouterse is said to exercise strong pressure on these two multinational mining companies to use KSMH.[319] The CEO of a Swiss refinery, which obtains its supplies from one of these two mines, told SWISSAID that he would have a big problem if his gold had to pass through KSMH because it is owned by the Kaloti Group.[320] An internationally recognised shipping company, which is very active in the gold sector, also told SWISSAID that it refuses to work in Suriname because of the presence of the Emirati group.[321]

The SFS report considers that KSMH would be ideal for accommodating illicit flows of resources and the accompanying laundering at a high level.[322] According to an OECD report published in 2018, the FARC of Colombia are suspected of having exported to Suriname illegal gold from areas under their control.[323] The report cites a large money laundering operation in Suriname given President Bouterse's longstanding relations with criminal organisations and the FARC and the small quantities of gold refined by KSMH[324] When questioned about this, Kaloti explains that the accusations are unfounded because KSMH does not provide any refining capacity to anyone.[325] The government of Suriname also rejected the criticisms of the SFS report and stated that "Kaloti and its subsidiary KSMH have an outstanding global reputation".[326]

KSMH: a "refiner" serving the government or Kaloti?

The report of the Extractive Industries Transparency Initiative (EITI) in Suriname states that KSMH was at the time a subsidiary of Kaloti Precious Metals (probably before February 2015 as the report states).[327] A company named "Kaloti Precious Metals Suriname DMCC" was also registered in Dubai in 2012 and is still active according to the UAE Commercial Register.[328] Referring to Kaloti's Suriname refinery construction project, Munir Kaloti stated in 2011 that "a significant part of the gold from Suriname's small-scale mining industry is already being exported to our refinery in Dubai for further processing".[329] The willingness to export gold from this South American country to

The government of Suriname works closely with Kaloti.

Dubai was confirmed in 2015 by the group's press release indicating that it [KSMH] would also "increase the supply of gold to Dubai, and specifically to Kaloti's new USD60 million gold refinery, which is currently being built in the Emirate"[330] With KSMH, the group also seems interested in promoting and enhancing the production of gold within Suriname and the wider Latin American region. In an interview, Tarek Al Mdaka, co-CEO of Kaloti, said that KSMH would make it possible to have more mining operations in Latin America, such as in Peru, Colombia and Guyana.[331]

Although the above statements seem to indicate that the KSMH serves the interests of Kaloti, the refinery would primarily act on behalf of the Government of Suriname. In its reply letter to SWISSAID, the Emirati group states that the "KSMH is mandated to perform gold inspections on behalf of the the Surinamese government and provide assaying, vaulting and testing facilities".[332] The mandate of the Surinamese authorities had already been mentioned in the audit report of the BDO fiduciary in 2017.[333] The latter was published one month after the allegations of the US organisation SFS that "the government can certify the exports of any amount of gold, real or fictitious, from a refinery [KSMH] that exists only on paper".[334] Confirming the existence and operations of this refinery, the BDO audit report explains that under Suriname's Foreign Exchange Act, KSMH is designated as "the institution for the handling of gold prior to the export thereof. Handling of gold is the minting, casting and melting into bars, the essaying to determine purity and the stamping of gold by the company".[335] According to the SFS report, the responsibility for valuing gold and levying taxes on gold exports was transferred from the Central Bank to the KSMH just after the refinery was inaugurated in 2015.[336] When questioned regarding due diligence measures for its sourcing from Suriname, Kaloti simply replied to SWISSAID that KSMH does not sell or buy gold. In view of the risks associated with the gold trade in Suriname and the region (see box), SWISSAID believes that KSMH should exercise enhanced due diligence even if the gold does not belong to it.

The Surinamese government stated in 2017 that "KSMH does not sell gold, but rather processes locally produced gold belonging to its clients, allowing for high-quality, safe and transparent exports from Suriname".[337] However, in its letter to SWISSAID, Kaloti states that "KSMH nether buys nor sells, imports or exports gold and it, therefore, does not source any gold from Paramaribo, Suriname or any other place whatsoever".[338] These remarks are surprising given that the group stated in 2015 that KSMH would in particular also increase the supply of gold to Kaloti's refinery in Dubai.[339] In 2018, the UAE imported 11.2 tonnes of gold from Suriname.[340] Although there is a high probability that Kaloti's Dubai refineries are behind these transactions, SWISSAID is not in a position to confirm this.

If the activities of KSMH are limited to gold analysis and processing, why have they built a refinery which, according to the statements of the Emirati group, "is expected to eventually produce as much as 60 tonnes of refined gold when it is running at full operational capacity "?[341] Moreover, the Surinamese government seemed to want to increase its revenues by exporting gold refined by the KSMH. In its Policy Development Plan (2017-2021), the government referred to KSMH and indicated that improving the purity of gold, through refining, increases the value of exports.[342] It also stated that "the gold refinery means an increase of the state revenues".[343] In 2013, a senior company official said that the KSMH should have an annual production of 60 tonnes of refined gold in its second phase, which was due to start in 2016 according to Munir Kaloti.[344] However, in its letter to SWISSAID, Kaloti explains that "Whilst it is envisaged that the KSMH will, at some time in the future, begin operating as a refinery, it has not yet commenced refining and it is not currently known if and when this will occur".[345]

Five years after its inauguration, KSMH is not refining gold and may never do so.

Five years after its inauguration, KSMH is not refining gold and may never do so. SWISSAID is not in a position to determine whether the KSMH only provides services for the government of Suriname or whether it is also involved in money laundering and certification activities for gold of dubious origin, potentially sent to the Kaloti refineries in Dubai. However, the contradictions between the different parties' statements on the activities and mandate of the KSMH raise questions about the actual practices of this "refinery".

Gold in Suriname

Responsible for significant deforestation and pollution, a large part of the gold activity in Suriname operates illegally.[346] A United States Department of State report mentioned that children are vulnerable to forced labour in the gold mines and that women are victims of sexual trafficking in the illegal mining areas in the interior of the country.[347] Another report by the United States Department of State notes that the gold trade in Suriname is linked to money laundering activities.[348]

Paramaribo: an illegal gold trading hub
Suriname is an important gold trading hub in the region. The "gold shops" in Paramaribo play a central role.[349] A journalist investigating the subject explained to SWISSAID that he has found that the duty of care of several gold shops is very low, to the extent that some of them do not know the origin of their sourcing.[350]

Lax legislation, preferential taxation and the possibility of selling gold at an attractive price paid in US dollars are incentives for smuggling from the surrounding countries.[351] A tax of just 1% is applied to gold exported from Suriname[352]. This tax, which is significantly lower than those applied in the surrounding countries, would explain the illegal exporting of gold from French Guiana and Guyana to Suriname.[353] In 2015, the Guyanese government had already warned of illegal gold exports from its country to Suriname by plane.[354] The Guyanese Minister of Natural Resources estimated in 2016 that 50 to 60% of Guyanese gold was exported illegally, notably to Suriname.[355]

Kaloti in the USA: bankruptcy linked to dubious practices

A significant part of Kaloti's sourcing in Latin America was channelled through Kaloti Metals Logistics LLC (KML). In 2018, this company went bankrupt because it could no longer obtain bank loans, according to the company's lawyer.[356] An article in the Miami Herald reported that banks do not want to take the risk of financing transactions that could be related to illegal gold.[357]

Kaloti Metals Logistics went bankrupt because it could no longer obtain bank loans, according to the company's lawyer.[356]

Kaloti chose to set up this company in Miami in 2010 because the city is a hub for international trade and is strategically located to receive gold from the major producers in Latin America.[358] According to Awni Kaloti, former Managing Director and owner of this US company, 75% of KML's gold came from Latin America and 25% from the United States.[359] KML was one of the largest purchasers of gold in the United States and notably sourced gold from Peru, Bolivia, Ecuador, Guyana and countries in the Caribbean.[360] It also had representative offices in Peru and Bolivia.[361] KML sold the majority of its gold to Dubai-based Kaloti Precious Metals.[362] Although Kaloti states on its website that it has an "affiliated company" in Miami since 2011,[363] Kaloti Precious Metals and KML are two independent companies that worked together, according to the Miami Herald.[364]

Several articles published in 2014 and 2016 mention that KML sourced its gold from dubious suppliers in Latin America.[365] An investigation by the Peruvian investigation site Ojo Público, shows that tonnes of illegal Peruvian gold transited through Bolivia before being exported to the United States, notably via KML.[366] Investigations into Bolivian exporters have been opened by the authorities in La Paz.[367] According to articles by "InSight Crime" and "El Comercio", KML also purchased gold in Ecuador from Clearprocess and Spartan.[368] The directors of these two companies are accused by the prosecutor of having concluded agreements with Peruvian gold traffickers and having concealed the actual origin of the gold by means of fake documents.[369]

Despite the bankruptcy of KML, Awni Kaloti is still active in the gold sector. In 2019, he founded Global American Consulting in Miami.[370] On his blog, he says that the company is active in the precious metals trade sector and also has refining capacities.[371]

Inaccessible audit reports

Kaloti nonetheless presents itself as a responsible company. Proud of its "honest and ethical"[372] practices, the Emirati group states that it adheres closely to OECD guidance[373] and boasts that it "upholds the highest standards of integrity, excellence and compliance".[374] The reality, however, is very different. Risky sourcing at its purchasing office in Dubai, relations with Sudanese institutions linked to conflict gold and questionable imports from South America show that Kaloti's due diligence is insufficient. When questioned, Kaloti states that it complies with its obligations in relation to due diligence and anti-money laundering and is independently audited annually.[375]

In a document dated 2018, Kaloti boasts of the findings of "numerous audits"[376] to which it has been subjected. In a press release, it states that it publishes the reports for reasons of transparency and to comply with DMCC guidelines.[377] Nonetheless, the Emirati group's website contains only one audit report dating from 2014.[378] When questioned about the audits in recent years and the possibility of sharing them, Kaloti told SWISSAID that it is "audited each year, by an independent auditor for its conformity with OECD Responsible Guidance Protocols as well as against all other applicable AML and CFT legal and regulatory obligations with regard to the fight against money laundering and terrorist financing".[379] It specifies that "the resulting findings are made available to any of its stakeholders or as required, from time to time, by its regulators and other competent authorities".[380] Despite its requests, SWISSAID has not received any audit report from Kaloti. Although it declares that it complies with the OECD guidance, it appears to be ignoring step 5 of this document, which requires refiners to publish the audit reports relating to them.[381]

Despite its requests, SWISSAID has not received any audit report from Kaloti.

Kaloti: a tarnished reputation and a partner to be avoided in the sector

After the revelations of 2015 and the loss of DMCC's DGD certification, many shipping, trading and refining companies or players at the end of the supply chain have put an end to their relations with the Emirati group. Several of them have indicated to SWISSAID that they refuse to work with Kaloti and avoid the company because of its questionable sourcing.[382] One company, which stopped working with Kaloti in 2015, still categorically refuses to work with the Emirati group because it believes that these dubious practices have continued.[383] A London-based trader explains that he recently had a discussion with a Kaloti representative where he quickly felt that the practices were questionable.[384] Another company said it would immediately terminate a relationship with a client working with Kaloti.[385] Finally, a former manager of an LBMA refinery reports that it is unthinkable for an LBMA-certified refiner to source gold from Kaloti.[386] Although he believes that the Emirati group seems to have taken some steps to improve traceability, too many grey areas remain.

> "It is unthinkable for an LBMA-certified refiner to source gold from Kaloti." [386]
>
> Former manager of an LBMA refinery

The fact that Kaloti continues to import large quantities of high-risk gold into its refineries is because it has buyers. A refiner never stores its gold but processes or refines it quickly and sends it on to the intended recipient. SWISSAID has discovered that the Emirati group is on the supplier list of several companies (some of which are analysed on p. 50). For its part, Apple had taken measures after the DMCC's decision to remove Kaloti from the DGD list,[387] commissioning an external investigation to prevent Kaloti gold from re-entering its supply chain at all costs.

SWITZERLAND:
a key destination for dubious gold from the UAE

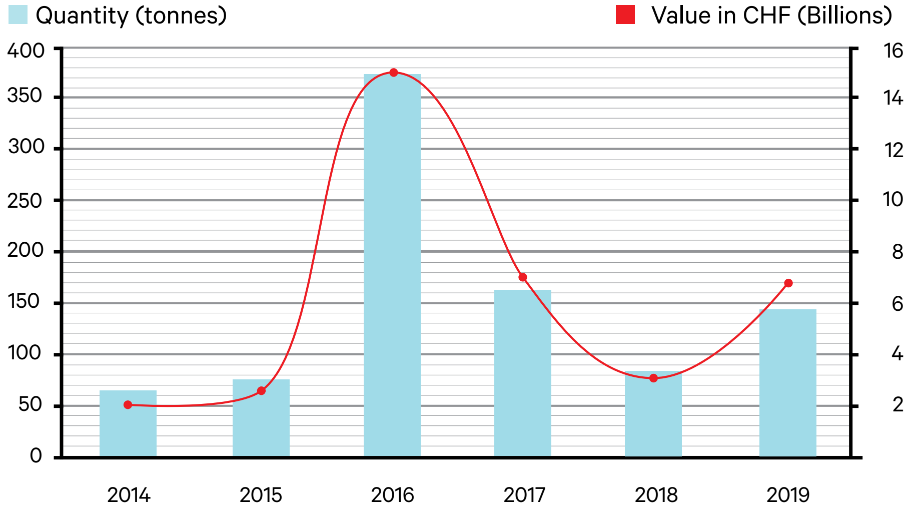
Swiss refiners: a variety of sourcing practices

Switzerland is the main hub for the international gold trade. It refines and processes two-thirds of the world's gold every year[388] and is home to four of the world's nine largest gold refineries[389]: Metalor, Valcambi, Argor-Heraeus and PAMP. All members of LBMA's Good Delivery List,[390] these refiners sell gold bullion bars worldwide.

Switzerland's dominant position in the gold sector is partly due to the its financial centre and the role of the banks that formerly owned country's largest refiners. Favourable legislation, political neutrality, excellent infrastructure and historical proximity to Italy, the world's largest producer of jewellery in the 1970s, have also contributed to making Switzerland the world's gold hub. Between 2013 and 2018, Switzerland imported between 2,236 and 3,080 tonnes of gold worth between CHF 63 and 109 billion each year from 92 countries.[391] In 2016, the UAE was the largest gold exporter to Switzerland in terms of value and quantity and the largest in 2019 in terms of value.[392]

As shown in the above diagram, gold imports into Switzerland from the UAE are extremely substantial. In 2016, the year with the highest quantities, this small European country imported 373 tonnes worth CHF 15 billion.[393] But who is behind these transactions?

Gold imports
(tariff number 7108.12000) in Switzerland from the UAE



Source: Swiss-Impex

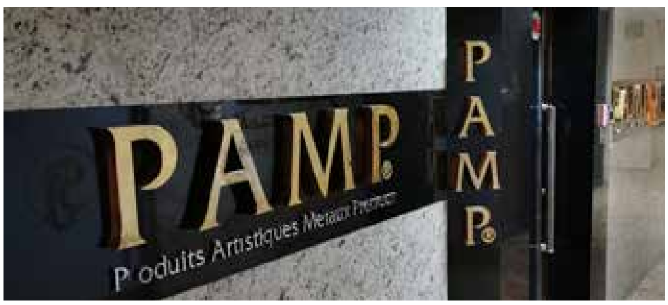
Of the four major Swiss refiners, Metalor is the only one that does not import gold from the UAE and has not done so for several years. Appearing on the DMCC Dubai Good Delivery list since the creation of the standard in 2005, PAMP, Valcambi and Argor-Heraeus all import gold from Dubai.[394] SWISSAID sent a questionnaire to these three refiners in Ticino aimed at finding out more about their due diligence measures regarding their imports from the UAE. While they are all subject to the same LBMA standard, their practices and due diligence practices are all very different, raising a number of issues.

Metalor
The Neuchâtel-based refiner states on its website that it does not accept any precious metal directly or indirectly originating or refined in the UAE.[395] The reasons given are compliance and supply chain concerns. Metalor is no longer on the DMCC DGD list since 2012.[396]

> "We are unable to trace the origin of the gold transiting through Dubai." [397]
>
> Antoine de Montmollin, CEO of Metalor

When contacted by SWISSAID, Metalor CEO Antoine de Montmollin explains: "Metalor only buys gold whose origin we can trace. In this case, Metalor does not buy from Dubai, as we are unable to trace the origin of the gold transiting through Dubai. Specifically, we are concerned that some of the gold that comes via Dubai is of dubious, potentially illegal origin, and is in fact from areas of increased risk. For Metalor, supply chain traceability is a key element of our compliance system. As a precautionary measure, we therefore prefer not to source from Dubai, and this has been our policy for more than 15 years".[397]

MKS PAMP
In its letter to SWISSAID, PAMP outlines its initiatives to improve existing standards and indicates that its proprietary due diligence procedures go even beyond both the requirements of the LBMA RGG as well as OECD Guidance.[398] The group, which is headquartered in Geneva and has its refinery in Castel San Pietro in Ticino, says it shares SWISSAID's concerns about gold from Dubai. Consequently, PAMP only imports "LBMA Good Delivery bars". The group points out that Dubai remains a financial hub where LBMA bars are traded by financial institutions. While it refuses to give the names of its suppliers and the quantities imported, it states that it has no relationship with any refineries located in the UAE. Informally, PAMP states that the quantities imported are very small and that the decision to source only bars manufactured by LBMA-certified refiners in Dubai was taken some years ago.[399] SWISSAID is unable to verify PAMP's commitments, but the people encountered in the UAE tend to confirm its statements. PAMP's presence in the Dubai gold souk is thus reportedly confined to the sale of its products.



Argor-Heraeus

The Argor-Heraeus refiner, based in Mendrisio, replied by email that it is "aware that Dubai is a very sensitive market. In this market, there are partners who work in full compliance with all laws and legislations, notably including personal responsibility, and therefore take their obligations very seriously. Argor-Heraeus is committed to working in this country only with selected partners with increased due diligence".[400] The Mendrisio refinery has confidentially shared with SWISSAID the quantities of gold imported from the UAE for the years 2015 to 2019.[401] In the year with the highest quantities, this represents less than 20% of Swiss imports from this country.

Argor-Heraeus agreed to speak about the UAE in a telephone conversation.[402] The CEO of the group, Christoph Wild, began by saying that the risk of finding dubious gold from Africa or Venezuela via Dubai had recently increased again. The Ticino-based refiner received a letter from SECO in March 2020 warning about the risks of gold relating to gold from Venezuela transiting via the UAE and other countries. Christoph Wild stated that: "the due diligence procedures under way, the risk analysis review process, the letter from the SECO, exchanges with the Central Office, the information gathered on the spot and constructive discussions with SWISSAID and the other NGOs had contributed to a more restrictive analysis of the market in Dubai."[403] This assessment led to Argor-Heraeus' decision a few months ago to be "passive", in the words of the CEO, and to concentrate on selling its own bullion bars in the UAE.[404] Without going into detail, Christoph Wild indicated that the group will review certain business relationships with clients in Dubai, while not ceasing all gold imports from the Emirates.

Following several warnings, Argor-Heraeus is planning to review certain business relationships in Dubai.

The Mendrisio-based refiner admits to "having imported DGD bars and scrap gold."[405] But it adds that it was "sometimes very difficult to know the origin and that there was a risk of having gold from the souk."[406]

While we must stress the willingness of Argor-Heraeus to be even more vigilant with its imports from the UAE, one may legitimately wonder these measures were not taken earlier. Why wait for several warnings to suspend certain relations, whereas the risks relating to gold imports from the EAU were already both very high and well-known for several years. How was it that Argor-Heraeus imported ingots without ascertaining the actual origin of this gold for certain?

Valcambi belongs to an Indian group

Based in Balerna, Ticino, Valcambi is the world's largest precious metal refiner.[410] It was established in 1961 and has a precious metals refining capacity of 2,000 tonnes,[411] including more than 1,200 tonnes of gold.[412] The refinery employs 151 people[413] and has been owned by different groups. Previously belonging to Credit Suisse, it was bought up in 2003 by several investors including US mining company Newmont.[414] In 2015, Valcambi was fully acquired by Indian company Rajesh Export.[415] More specifically, the Ticino refinery is owned by Global Gold Refineries SA, registered in Lucerne, which in turn is owned 5% by Rajesh Export Limited and 95% by the holding company of Rajesh Export Limited, REL Singapore PTE.[416]

Valcambi

Valcambi representatives answered the questionnaire in a telephone conversation and confirmed their answers by email.[407] Acknowledging that Dubai is considered a high-risk area where an enhanced duty of care must be applied, Valcambi ensures that its procedures go beyond industry standards. The Balerna-based refiner explains that it notably imports LBMA bars and DGD refiner bars from Dubai. Michael Mesaric (CEO) and Simone Knobloch (Operations Manager) specify that they do not work directly with refiners in Dubai.[408] They indicate that they do not import newly mined gold from the UAE, only recycled gold.[409] When questioned on sourcing from refiners that are not DGD-certified, they replied that they would have to check internally. Despite the issue being raised again, they did not respond to this question. The Ticino refiner also refused to divulge the gold quantities imported and to speak with its suppliers in the UAE.

Valcambi is the main Swiss importer of gold from the UAE

The names of suppliers, which importers mention in customs declarations, are currently not made public by the Federal Customs Administration (FCA). Since it is impossible to access this information, SWISSAID has been in touch with a large number of people active in the gold sector to identify who is behind the gold trade between Switzerland and the UAE. After requesting information from several current and former employers of refineries, trading companies, auditors, assayers, companies at the end of the supply chain and shipping companies, as well as gaining access to confidential documents in Dubai, SWISSAID has managed over the past two years to identify a large proportion of the companies active in this trade. The information gathered was submitted to the Swiss importers in question for comment.

Gold transactions between the UAE and Switzerland (quantities refer to the years 2018 and 2019)

UAE exporters	CH importers	Quantities *
Ashoka	Argor-Heraeus	0.5
Vintage Bullion DMCC	Argor-Heraeus	2
International Commodities DMCC	Argor-Heraeus	> 0.5
Ashoka	Valcambi	7.5
Vintage Bullion DMCC	Valcambi	5.5
International Commodities DMCC	Valcambi	10
Intl FC Stone	Valcambi	3
Kaloti Jewellery International Group	Valcambi	16 (2018) ; 4 (2019)
Dijllah jewellery FZCO	Valcambi	1
Trust One Financial Service	Valcambi	19 (2018) ; 44** (2019)
Axiom Limited	Valcambi	2.5
Emperesse Bullion	Valcambi	> 0.5
Vintage Bullion DMCC	Credit Suisse	5

* In the absence of a round figure, the quantities mentioned in this table have been rounded down to the lower 0.5.

** According to information obtained by SWISSAID, the 44-tonne transaction in 2019 is thought to come either directly from the UAE or from the UK.

This table shows that Valcambi is the largest Swiss importer of gold from the UAE. Kaloti and Trust One Financial Services, representing more than 35 tonnes of gold in 2018, are the largest suppliers to the Balerna-based refinery. Given Kaloti's questionable supplies, these business ties are troubling and raise many questions. Other suppliers also have questionable practices and several transactions are linked to gold bearing DGD DGD, a standard about which several LBMA refiners express doubts.[417] Banks seem to play a minor role, as evidenced by Credit Suisse's low imports. Trade in LBMA-certified bullion bars also appears to represent a small share of transactions.

Kaloti et Trust One Financial Services are the largest suppliers to Valcambi.

A brief analysis of some of these suppliers testifies to the strong probability that newly mined gold from Africa and from the Dubai souk is present in the gold imported by Swiss refiners from the UAE.

Sourcing artisanal gold is a positive practice supported by SWISSAID, but this must be done through direct business relations. In importing gold from intermediary countries, certain refiners do not show sufficient concern regarding the actual origin of the precious metal and take the risk of nurturing the worst possible violations relating to gold trade.

Vintage Bullion DMCC (Valcambi, Argor-Heraeus, Credit Suisse)
Registered in Dubai since 2003, this trading company has been an associate member of the LBMA since 2015.[418] On its website, Vintage Bullion DMCC indicates that it deals in both LMBA and non-LBMA grade bars.[419] It has refused to respond formally to SWISSAID's questions despite several requests.

When asked about its relationship with Vintage Bullion, Credit Suisse did not wish to comment for legal reasons.[420] The bank clarified that, in general, if a counterparty has passed the "Know Your Client" procedure and delivers gold bars come from an LBMA-certified refiner, the gold could be accepted, even if the counterparty is domiciled in Dubai.[421]

Ashoka (Valcambi, Argor-Heraeus)

Several sources claim that Ashoka works exclusively with DGD-certified refineries in Dubai.[422] Some of these refiners have explained to SWISSAID that they do not have direct relations with Argor-Heraeus and Valcambi but acknowledge that their gold is sent to the refiners in Ticino through the Ashoka trading company.[423] The explanation is simple. The gold belongs to Ashoka and the refiners in Dubai only provide a gold refining or processing service. Once refined, the gold bars are stored in a warehouse in Dubai before being shipped to Switzerland.

Ashoka explained to SWISSAID that it sends DGD-certified gold bars to Switzerland.[424] Another source reported that the trading company also sends recycled gold that has been melted down by the DGD refiners in Dubai to a purity of between 92% and 98%.[425] While the two Swiss refiners have always declared to SWISSAID that they import only recycled gold from Dubai, part of the gold sent by the trading company is said to be of newly mined origin. In an informal exchange, Ashoka explained that some of the gold contained in the DGD bars comes directly from the mine.[426] A DGD refiner working with Ashoka acknowledged that this trading company sources newly mined gold and suggested that the gold probably comes from artisanal mines in Ghana.[427] In addition, the same refiner explained that the due diligence requirements for the trading company were higher for refiners in Dubai than for Swiss refiners.

Some of the gold contained in the DGD bars comes directly from the mine.[426]

When questioned about the logic of refining this gold in Dubai and then transforming it again in Switzerland, Valcambi replied that each counterparty is free to do as it wishes.[428]

Dijllah Jewellery (Valcambi)

The Dijllah Jewellery company exported more than a tonne of gold to Valcambi in 2018. As mentioned in the first part of this report, the Dijllah group has dubious practices. A 2017 audit report mentioned several compliance, risk identification and supply chain management issues.[429] It also cited cash transactions in the tens of millions of USD and the sourcing of newly mined gold indirectly from suppliers in Dubai. A representative from Dijllah confirmed to SWISSAID that the company sources artisanal gold.[430] Despite the problems mentioned in this audit report, Valcambi imported gold from this refiner in 2018. Given that the Dijllah Group lost DGD certification in 2018, just one year after obtaining it, one may well wonder about the reasons for this removal and therefore whether these dubious practices continue.

Intl FC Stone (Valcambi) and International Commodities DMCC (Valcambi, Argor-Heraeus)

Intl FC Stone is an important trading company in the gold sector. It has a subsidiary in Dubai under the name INTL FC Stone Commodities DMCC.[431] The International Commodities DMCC company, created by Jeffrey Rhodes,[432] belongs to the same group and its name was changed in 2014 to Intl FC Stone Commodities.[433] Nonetheless, the name International Commodities appears still to be used by this trading company. During a telephone conversation with SWISSAID, the company remained vague about its practices in the UAE.[434] When asked about the origin of its gold transiting through Dubai, it was unable to answer and asked to consult the head of its subsidiary there. In an e-mail response, Intl FC Stone refused to comment on its transactions and simply confirmed the information given over the phone.

Intl FC Stone claims to work with the Emirates Gold and Al Etihad refineries in Dubai.[435] In particular, it sources small quantities of gold from artisanal mines in West Africa, which are then refined by Emirates Gold in Dubai. It also claims to be involved in discussions with several African governments to help them in the process of formally organising artisanal mines, particularly in Ethiopia and Sudan. The trading company said its subsidiary in Dubai manages its supplies in Africa. This includes gold from industrial mines in Côte d'Ivoire, Mali and Burkina Faso, which is still being sent to Switzerland.

A source involved in this trade told SWISSAID that the subsidiary of Intl FC Stone in Dubai sends DGD-certified gold bars to Swiss refiners.[436] Like the relationship with Ashoka, it is disturbing that Argor-Heraeus and Valcambi have been importing this gold without having any direct connections, and therefore without having any control over the Emirates Gold and Al Etihad refiners that refined it.

Emperesse (Valcambi)

The Emperesse trading company states on its website that it works with Valcambi.[437] According to the information gathered, the collaboration consists mainly of distributing Valcambi's products in Dubai, but Emperesse also exports gold to the Swiss refiner.[438] The trading company obtains its supplies on the local market, as well as from gold mines in Africa, where the company claims to conduct several field visits.[439] Anto Joseph, CEO of Emperesse, told SWISSAID that the gold sent to Valcambi comes mainly from the local market in the UAE.[440]

Axiom Limited (Valcambi)

Registered in Dubai since 2010,[441] Axiom Limited indicates on its website that it has several business relationships with banks and refineries, including Valcambi.[442] The company also states that it trades in LBMA and non-LBMA grade gold bars.[443]

Trust One Financial Services (Valcambi)

This is the company that sent the largest amount of gold from the UAE to Switzerland in 2018. Registered in the UK since 2015, the company states on its website that it is active in investment advice/management, commodity execution, logistics support and hedging.[444] Another website states that Trust One Financial Services specialises in gold trading for institutional clients and family offices.[445] SWISSAID has discovered that Kaloti has very close personal links with this discreetly active London-based company. Osama Munir Ragheb Al-Kaloti, General Manager at Kaloti Jewellery LLC,[446] has been one of the company's four directors since 2015.[447] Tarek Zouhair El-Mdaka, co-CEO of Kaloti Precious Metals,[448] was also one of the directors between 2015 and 2016.[449] A former manager of an LBMA refinery told SWISSAID that Kaloti set up the company in London in order to gain credibility and get closer to the London market.[450] In 2019, Trust One Financial Services sent 44 tonnes of gold to Valcambi in 2019.

Kaloti has very close personal links with a discreetly active London-based company: Trust One Financial Service.

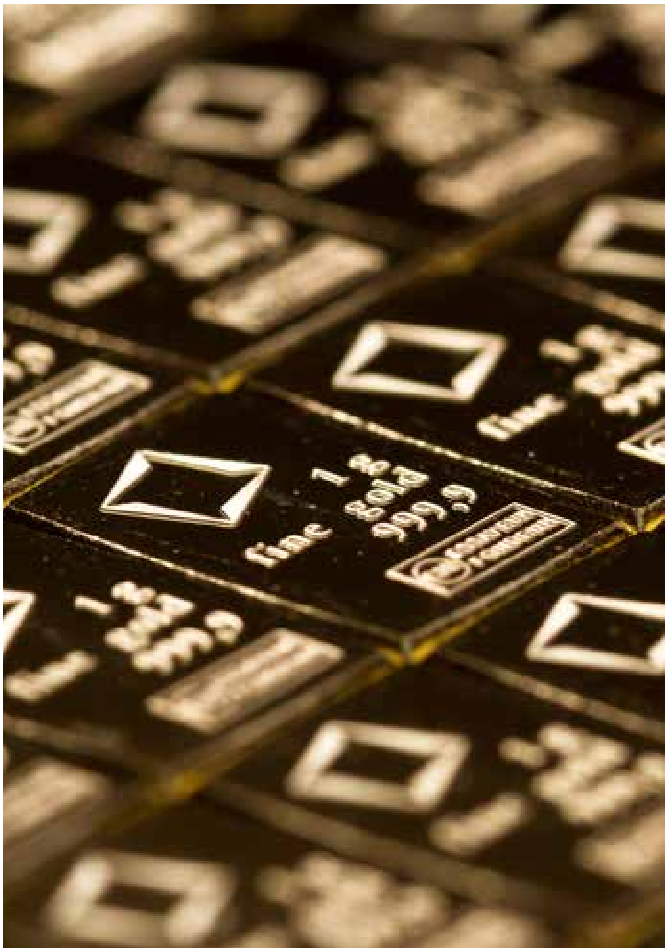
Kaloti Jewellery International Group (Valcambi)

In light of the first part of this report, it is very surprising that Valcambi, the world's largest refiner and a prominent member of the LBMA, should continue to source gold from a company with questionable practices. Transactions between these two companies in 2018 and 2019 have been confirmed to SWISSAID by five independent sources.[451]

The relationship between Kaloti and Valcambi has existed for many years. The Emirati refiner states on its website that it began producing one-kilogram gold bars in partnership with the Swiss refiner in 2005.[452] The Hong Kong subsidiary's website also states that Kaloti collaborates with Valcambi,[453] in particular for the production of "Kaloti Dubai 999.9" bars which benefit from Valcambi's LGD (London Good Delivery) certification.[454] This suggests that the Balerna refiner provides access to the LBMA market for Kaloti gold. It is nonetheless important to note that these two websites have not been updated for several years.

In an interview probably dating from 2013, Valcambi CEO Michael Mesaric publicly congratulated Kaloti for taking bold decisions.[455] In particular, he stated that the firm has had a business relationship with Kaloti since 2002 and that he looks forward to a long-term mutually beneficial relationship.[456]

Another surprising element in this concerns Valcambi's gold exports to Kaloti, particularly in 2018. While these transactions represent less than 1 tonne,[457] they raise many questions. Again, one may well wonder whether this operation had the effect of offering Valcambi's LBMA certification to some of the gold from Kaloti.



Analysis: Valcambi's due diligence is defective

What is the true origin of the gold imported by Valcambi from Kaloti and Trust One Financial Services (T1FS)? Is the gold related to the Sudanese conflict found in the gold bars of the Ticino refinery? Does the gold come from the Kaloti purchasing office? When asked about this, Valcambi refused to talk about its customers for reasons of "commercial confidentiality".[458] However, it insisted on specifying that it "has never received and continues not to receive gold from countries on international sanctions lists".[459] Without specifically naming that particular country, Valcambi seems to indicate that the gold imported from the UAE does not come from Sudan. Its CEO Michael Mesaric says: "I think that take no gold from the mine indirectly."[460] But how can he be sure of this given that he imports large quantities of gold from Kaloti and T1FS and that he acknowledges that some of his gold could come from the Dubai souk?[461] It is difficult to know this because the Ticino refiner gives no information regarding its sourcing. However, its explanations show that the company is exposing itself to very significant risks and that due diligence is clearly insufficient.

OECD Due Diligence Guidance

The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas is the benchmark for responsible mineral supply chains. Developed in 2012 and updated twice, the aim of the guidance is to clarify how companies should respect human rights and avoid involvement in conflict. It sets out a five-step framework for the exercise of due diligence:

1. Establish **strong company management systems**
2. **Identify and assess risks** in the supply chain
3. Design and implement a **strategy** to respond to identified risks
4. Carry out **independent third-party audit** of refiner's due diligence practices
5. Report annually on supply chain **due diligence.**

Insufficient controls in the supply chain

Valcambi has obviously been questioned on several occasions about its due diligence. In its letter to SWISSAID, the Ticino refiner acknowledges that it has submitted "corrective action plans" to the LBMA between 2015 and 2019.[462] These reports are to be sent to the London association when problems with compliance with the LBMA Responsible Sourcing Guidance are identified in the refinery's practices.[463]

Valcambi systematically conducts enhanced due diligence for its high-risk sourcing.[464] It rightly includes gold from the UAE in this category.[465] According to its procedures, enhanced due diligence includes unsolicited checks of the supplier and "further investigation, among other checks, of the origin of the precious metals delivered".[466]

In its dealings with SWISSAID, Valcambi repeatedly reiterated that it does not work directly with any refineries in Dubai.[467] This indirect relationship raises the question of the control of the refineries in its supply chain. Valcambi states that it conducts spot-checks on its suppliers,[468] without specifying whether these are its direct suppliers, in this case trading companies, or its indirect suppliers, i.e. refineries. The Ticino refiner also states that it conducts "further investigation, among other checks, on the origin of the precious metals delivered to Valcambi beyond the first intermediary for recycled materials and up to the mine for mined products. This information is requested, obtained and checked for any delivery".[469] However, as regards recycled gold, it does not specify whether this investigation stops at the refiner's level, or whether suppliers to that refinery are also monitored.

In the case of its supplies from the Ashoka and Intl FC Stone trading companies, Valcambi did not carry out checks at the Emirati refineries which processed and refined the gold from these companies.[470] This is a clear failure to comply with OECD Guidance.[471] Valcambi must indeed identify the refineries in its supply chains and ensure their good due diligence practices.[472] In the case of its gold sourced from Kaloti and Trust One Financial Services, SWISSAID is not in a position to ascertain whether the refineries processing this gold have been checked by Valcambi. In view of the reputation and the high-risk practices of the Emirati group, it is to be hoped that this has been done. The situation is the same with regard to supplies from Dijllah Jewellery. SWISSAID is not in a position to find out whether the refinery in Dijllah was supervised by Valcambi.

Unreliable guarantees

In addition to insufficient controls in its supply chain, Valcambi applies limited procedures to ensure compliance and the origin of precious metals. In general, the Ticino refiner requires a “statement of compliance “[473] from its suppliers, in which the latter undertake to comply with Valcambi’s due diligence procedures and to ensure the true origin of precious metals.[474] The Ticino refiner specifies that it requires its supplier to refine gold in a segregated manner, i.e. without mixing it with other sources of gold.[475]

Relying on statements of compliance to ensure responsible supplier practices is a measure that has proven to be largely insufficient in the past. In a report published in 2015, the NGO “Public Eye” showed that Valcambi supplied Togo with gold illegally exported from Burkina Faso.[476] The precious metal was partly produced by children. Valcambi defended itself by claiming to have signed a contract with the supplier stating that the gold was produced in a responsible manner.[477] In a study published in 2018, the OECD also criticized the tendency of refineries to rely on suppliers’ statements instead of investigating their practices.[478]

Relying on statements of compliance to ensure responsible supplier practices is a measure that has proven to be largely insufficient in the past.

In the case of the UAE, it seems very risky for Valcambi to rely on Kaloti’s statements and to consider that its ‘traceable’ gold has not been mixed with other sources. Indeed, the UAE group is not subject to any mandatory audit and several revelations have cast significant doubt on its reliability as a trading partner. The EY auditor’s documents showed that Kaloti bought gold covered with silver and classified newly mined gold as recycled (scrap), a classic way of hiding high-risk gold.

Valcambi explains that its suppliers have to show it where the gold comes from.[479] However, the refinery has the right to refuse precious metals from certain countries or counterparts,[480] adding that it must know and trust their management system.[481] Its CEO continues: “we must trust the counterparty since we are not present every day”.[482] In view of Kaloti’s dubious practices, however, it seems complicated to trust such a partner.

Dubai: the difficulties of tracing gold

Valcambi representatives seem to be well-aware of the risks they take in terms of their supply in Dubai and this does not really seem to be a problem for them. Michael Mesaric and Simone Knobloch confirm and acknowledge that gold imported by Valcambi can come from the souk.[483] They believe that “It can be a risk that conflict gold enters the supply chain. Exactly the same risk that this gold also enters the LSM (large-scale mining) gold supply chain”.[484] While the latter argument obviously cannot be excluded, direct relationships with artisanal or industrial mines significantly reduce the risk of sourcing conflict gold.

In a telephone interview, confirmed by email, Valcambi CEO Michael Mesaric said: “I am 90% sure of being ‘clean’”.[485] He also stated that “in 85-90% of cases, we know where the gold has been sourced”.[486] without specifying whether these are its global supplies, in the UAE or in India. While SWISSAID welcomes Mr Mesaric’s honesty, this is worrying. Given that the Valcambi refinery has the capacity to refine up to 1,200 tonnes of gold per year,[487] tens of tonnes of gold of problematic and untraceable origin could end up in its supply chain.

“I am 90% sure of being ‘clean’ ”[485]

Michael Mesaric
CEO of Valcambi

Michael Mesaric acknowledges the risks of sourcing from Dubai: “I can’t go so many steps back to see if it is clear back to the original source of the gold. That’s why people don’t want to touch the market”.[488] He adds: “When the gold is refined, we lose the traceability, that’s why we want to have our new model of software”.[489] Announced in June 2020,[490] the launch of this new tool should make it possible, according to the CEO, to register and store all the documents relating to the due diligence procedures of all the players in the supply chain.[491] SWISSAID welcomes the development of this software, which is used in particular for recycled gold, but this will not in itself ensure responsible procurement. While it may provide a better overview of the duty of care exercised by Valcambi suppliers, will it also make it possible to ensure the segregated refining of suppliers and to trace the origin of every kilogram of gold entering the Kaloti refinery? At first glance, this does not seem to be the case. Nothing can replace the reliability of a direct relationship with mines or suppliers of gold scrap.

Valcambi’s explanations show that its sourcing from Dubai is not under control. Indeed, the statements made by representatives of the Ticino refinery seem to confirm that they are unable to ascertain the real origin of all their gold. Faced with the difficulty of tracing the origin of the gold, Metalor for its part re-

fuses to obtain supplies from the UAE.[492] Valcambi is thus taking very significant risks that its competitors prefer to avoid and is exposed to the import of illegal gold, produced in violation of human rights or participating in the financing of conflicts.

Valcambi must ensure that its supplier does not source conflict gold

Valcambi's sourcing from Kaloti does not comply with the OECD Guidance document. Annex 2 of the OECD Guide states that where a company identifies a reasonable risk that suppliers are sourcing from or linked to third parties directly or indirectly supporting armed groups[493] or committing serious abuses,[494] the downstream company should immediately suspend or discontinue engagement with such suppliers.[495] Valcambi cannot confine itself to ensuring the origin of gold imported from Kaloti; it should also carefully examine its supplier's practices for possible links to conflict gold.

By sourcing from the Central Bank of Sudan, Kaloti is dealing with an entity that buys conflict gold and gold produced in violation of human rights. If Valcambi had followed the OECD guidance, it should have immediately suspended or terminated its relationship with Kaloti.

The measures Valcambi should take based on the OECD Guidance document

The conditions of Step 1 of the OECD Guidance document[496] are met by Valcambi. The Ticino refiner has established company management systems and has adopted a supply chain policy.[497] It also complies with Step 4[498] by submitting to audits, although these are the source of much criticism. In contrast, Steps 2, 3 and 5 of the Guidance document have not been followed.

Identifying risks

In Step 2[499], Valcambi must identify and assess the risks in the supply chain. According to the OECD, a refinery can be considered as a downstream or upstream company in the supply chain depending on the type of gold it imports.[500] For example, if Valcambi imports a bar of refined gold, it is considered a downstream company, whereas if the gold is raw or pre-refined, it is considered an upstream company. Since Valcambi has not provided any information on the type of gold imported from Kaloti, SWISSAID is not in a position to determine whether the Ticino refiner is an upstream or downstream player and therefore cannot judge which measures it should implement. In both cases, however, it should:

- Gather information on Kaloti's due diligence practices in order to determine whether any red flags have been detected or should reasonably have been detected in the supply chain.[501]
- Establish whether Kaloti has fully applied its due diligence[502]
- Obtain the results of the Kaloti audits[503]

The warning signals concerning Kaloti could be easily identified by Valcambi. The failures of the Emirati group's due diligence and the potentially questionable practices related to its purchasing office in the souk were revealed.[504] With regard to Sudan, the strong involvement of armed groups in the Jebel Amir mines has been known since 2013.[505] The report of the UN panel of experts dated 2016 also clearly mentions that the gold from these mines is linked to the conflict and sold to the Central Bank.[506]

> The warning signals concerning Kaloti could be easily identified by Valcambi.

Valcambi's enhanced due diligence procedures include conducting spot-checks on its suppliers.[507] Had the Balerna-based refiner complied with the process, it would have been necessary for the refiner in Balerna to carry out supervisory checks on Kaloti. It is very surprising that the Emirati group's questionable sourcing from Sudan was not discovered during these checks. Michael Mesaric told SWISSAID about his suppliers in the UAE: "I'm sure that the due diligence of my counterpart is good".[508] It would be interesting to understand how he came to such a conclusion for some of his suppliers in Dubai.

Reacting to risks and developing a risk management plan

Step 3 of the OECD Guidance document[509] is to design and implement a strategy to respond to identified risks. Faced with these red flags and in accordance with Annex 2, Valcambi should have immediately ceased sourcing from Kaloti.

Discontinuing sourcing does not necessarily mean ceasing all interaction. The Guidance document states that in defining the risk mitigation strategy, companies should take into account their ability to influence suppliers.[510] Valcambi is the world's largest precious metals refiner and its business relationship with Kaloti dates back to 2002.[511] Based on these elements, Valcambi can exert real influence on the UAE group. It should have developed a risk management plan requiring Kaloti to suspend its supplies from suppliers related to conflict minerals and strengthen its due diligence measures.

Reporting specifically on due diligence in the supply chain

Valcambi publishes very little information on its due diligence as required by Step 5 of the OECD Guidance document.[512] Like other LBMA-certified refineries, the Ticino refinery does not publish the names of local suppliers and exporters located in high-risk areas and yet the OECD Guidance document requires it to do so.[513]

THE LMBA STANDARD
and its audits

Valcambi adheres to the best practice guidelines of the LBMA, the international benchmark for gold refiners. In order to understand how the Ticino refiner's questionable sourcing in Dubai is possible, it is necessary to question the effectiveness of this standard and the rigorousness of the audits.

LBMA Responsible Gold Guidance: a robust standard?

Launched in 2012, LBMA's Responsible Gold Guidance (RGG)[514] is based on the OECD Guidance. Despite several adjustments, as evidenced by the eight editions of the manual, it is still subject to criticism. In a study published in 2018, the OECD estimated that in 2016 only 50% of the standard and 47% of its implementation would meet the five due diligence steps required by the OECD.[515] Two years later, the same study showed that 96% of the standard was now being met.[516] But an important element was omitted in this assessment.

The OECD highlights several shortcomings in the LBMA standard.[521]

In its guide, the OECD states that "the identity of the refiner and the local exporter located in red flag locations should always be disclosed".[517] Nonetheless, this important element is not included in version 8 of the RGG and none of the LBMA-certified refiners currently publish the names of their suppliers located in sensitive locations. The OECD has confirmed to SWISSAID that this is indeed a public disclosure.[518] However, the international organisation points out that "the way in which this information is disclosed may take various forms depending on the sensitivity of the supply chain in question".[519] According to it, "the publication could, for example, be done in an aggregated manner (without specifying an explicit link between a particular exporter and a particular refiner) at the initiative of importing countries or industrial programmes implementing the OECD Guidance document in the gold sector".[520]

In its assessment of the standards applied in the sector, the OECD highlighted several shortcomings in the LBMA standard.[521] Refiners' due diligence often stops at the first supplier and is not applied throughout the supply chain, particularly when gold is imported from another refiner.[522] It notes lack of transparency in the decisions related to the removal of refiners from the LBMA standard as well as with regard to the non-compliance procedures discovered during audits.[523] The auditors' lack of technical competence is also pinpointed. The OECD states that their work needs to be improved in order to enhance the audit consistency and rigorousness.[524] In this respect, Valcambi also acknowledges that "the quality of the auditor has to become better".[525] When questioned on this issue, the LMBA appears aware of the issue and states that is actively working with auditors in order to ensure that they meet stringent standards expected of them".[526]

Vague audit control procedures

If the quality of the auditors is questioned, the control procedures they must follow are not clearly defined. For example, LBMA's "third party audit guidance" states that "in practice, the level of work associated with limited assurance engagements can vary".[527] The same document provides examples of assurance activities (Appendix 3), i.e. activities that can be carried out by auditors to gather information, such as obtaining a list of the refiner's suppliers or a list of transactions.[528] However, these procedures are not mandatory and are presented as simple examples of evidence gathering.[529] Therefore, the auditor is free to choose which control procedures to perform from the list of assurance activities. It is therefore not possible to know what has been verified. It is obvious that auditors must adapt their controls according to the risks associated with refiner's activities, but such freedom in procedures is questionable. The LBMA replied to SWISSAID that the assurance procedures are drawn up by the auditors in accordance with the ISAE 3000[530] international auditing standard.

Lack of audit transparency

The lack of transparency of audit reports makes it impossible to ensure that refiners are applying the LBMA guide properly. Currently, LBMA-certified refiners need only publish a compliance report[531] which they complete themselves, and an independent assurance report,[532] which is done by the auditor.[533] The various risks that they identify are reported in the corrective action plan[534] and the main conclusions and recommendations are included in the management report.[535] The two latter documents, which contain the most important information, are not made public.[536] Strangely enough, SWISSAID has found that the content of former "assurance reports" from certain refineries based in Dubai such

The lack of transparency of audit reports makes it impossible to ensure that refiners are applying the LBMA guide properly.

as Al Etihad, Emirates, Gold Dijjlah Gold and Fujirah contain more detailed information than the reports from the LBMA-certified Swiss refiners. Information such as the quantities of newly mined or recycled gold that have been refined, the origin of some of the gold or disengagement measures appear in some reports from refiners in Dubai. In its assessment of the LBMA standard, the OECD had already criticised the lack of information disclosed by refiners. It described them as very generic, lacking detail and specificity.[537]

While the lack of transparency of audits is obvious, there is also a weakness in the internal structure of the LBMA. In a reply to SWISSAID, the London association stated that it knows all the countries where LBMA-certified refiners source their supplies, but it does not know all their counterparts.[538] Only the auditors have access to the names of the counterparts, of which they examine only samples. The fact that these names are not reported to the LBMA is an issue. Published last June, the report from the Swiss Federal Audit Office (CDF) confirms this concern: "the absence of access to its members' customer lists"[539] is a major issue for the LBMA.

Is KPMG a truly independent auditor?
It is worth questioning KPMG's total independence from Valcambi. KPMG has in fact been carrying out audits for the Ticino refiner for more than 40 years.[540] According to the explanations provided by its CEO Michael Mesaric, this historical relationship dates back to the period when Credit Suisse owned Valcambi and the two firms were audited by KPMG.[541] This does not constitute a breach of the LBMA rules, as refiners are free to choose their auditor from a list of companies accredited by the London association.
We should specify here that if the problem that concerns all refiners, one may well wonder about the case of Federico Domenghini, Chairman of the Board of Directors of Valcambi since 2015.[542] Between 2005 and 2010, he was a senior manager at KPMG SA where he worked on the Audit Committee.[543] Has Federico Domenghini maintained close ties with KPMG that could lead to a conflict of interest? It is difficult to be sure. When questioned in this respect, the Ticino refiner replied that Mr Domenghini did not have any executive functions.[544] During his period at KPMG, "he was neither known to Valcambi nor had done any work related to Valcambi".[545]

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It should be noted that Mr Domenghini also manages the "Global Gold Refineries SA" company, of which he is the sole member of the Board of Directors.[546] Registered in Lucerne at the same address as his own law firm, this company owns Valcambi.[547] Not surprisingly, Global Gold Refineries is also audited by KPMG AG.[548] Yet Valcambi is not an exceptional case. Three people in management positions at the PAMP refinery previously worked for the Ernst & Young auditing firm.[549] In recent years the PAMP refinery has been audited by the same auditor.[550] SWISSAID is not in a position to decide whether this is a coincidence or whether there is a risk of a lack of independence.

LBMA's powerlessness in the face of Valcambi's practices
When asked about Valcambi's procurement from Kaloti, LBMA simply replied that "all cases of potential breaches of the Responsible Sourcing Programme that are brought to the attention of LBMA would be subject to the Incident Management Process and be subject to review by the LBMA Compliance Panel".[551] In a telephone conversation, LBMA confirmed that it is not in a position to know whether Valcambi is working with Kaloti.[552] It added that it "may contact refiners regarding their suppliers, however the refiners cannot release counterparty-related information as this may breach internal policies."[553] It is rather surprising that sharing information with a regulator who is supposed to monitor your activities may be a violation.

The London-based association says it has been informed that Valcambi sources gold from Dubai.[554] It therefore requested a second independent audit of Valcambi focusing specifically on its supplies to the UAE. According to the London Association, "the special audit found that the due diligence in place for [Valcambi's] Dubai counterparties was appropriate to the level of risk".[555] LBMA did not provide SWISSAID with any information on the elements verified during this audit. Was the actual origin of each batch of gold imported by Valcambi from Kaloti verified? How were the auditors able to verify that Valcambi ensures that the gold from Kaloti has been refined in a segregated manner when the Emirati group is not subject to any mandatory audit? How could they be convinced that Valcambi complies with Annex 2 of the OECD Guidance?

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Faced with these questions, LBMA appeared to be somewhat ill at ease and unable to answer. It stated that it was open to suggestions, such as a new audit, but that its power to act was limited.[556] It added that it was not in a position to verify the good practices of the suppliers of its member refineries. Concerning

Kaloti, it claimed to be powerless and recommended that NGOs put direct pressure on the Emirati group if questionable practices were identified. While it rules over the international gold sector, LBMA suddenly seems to have limited power to ensure that its member refineries have respectable business relationships.

Industry self-regulation is inadequate

The LBMA recognizes that there are risks with Dubai gold. According to Neil Harby, technical director of the London-based association, "the LBMA is not comfortable dealing with the region because of concerns about weaknesses in customs, cash transactions and hand-carried gold".[557] Asked about imports from Swiss refineries in the UAE, the LBMA told SWISSAID that it "does not dictate which countries refiners can and cannot source from, however it would always require enhanced due diligence to be applied on high-risk counterparties.[558]

If the majority of refineries claim to go beyond the requirements of the LBMA standard, why not improve it? In particular, several refineries feel that the obligations relating to the traceability of recycled gold are inadequate.[559] For its part, the LBMA recognises the need to continuously improve its standard.[560] But above and beyond this necessary progress, the problem lies more in the implementation and respect of this standard than in what it requires. Valcambi seems well-aware that practices differ within the sector, stating that "the standard is clear on paper but effectively not applied in the same identical way among refiners".[561]

LBMA seems to be gradually recognising that the opacity of the sector is a major issue. The LBMA states that several reflections are underway: better communication on incident management, publishing more detailed information in its annual report, improving the work of auditors and increasing the disclosure of information by refineries.[562] The London-based association is also beginning to make efforts to raise awareness among its members about responsible sourcing, particularly from artisanal mines. Although concrete measures are still lacking, these efforts are to be welcomed.

Within the framework of European legislation on conflict minerals, LBMA has submitted a request for its standard to be officially recognised by the European Commission. According to the Valcambi representatives, "what happened now is the opposite of what should have happened. We have regulators, such as the European Union or Switzerland, that are using private standards as a model. But these standards have been developed for the industry".[563] Several representatives of gold refineries and industry players explained to SWISSAID that the London association lacks neutrality ".[564] While several of them wished to remain anonymous, Simone Knobloch and Michael Mesaric from Valcambi agreed to have their comments passed on. They believe that the LBMA is an association guided by the investment industry and central banks. For them, "what is missing is an international and worldwide neutral standard, like an ISO standard".[565]

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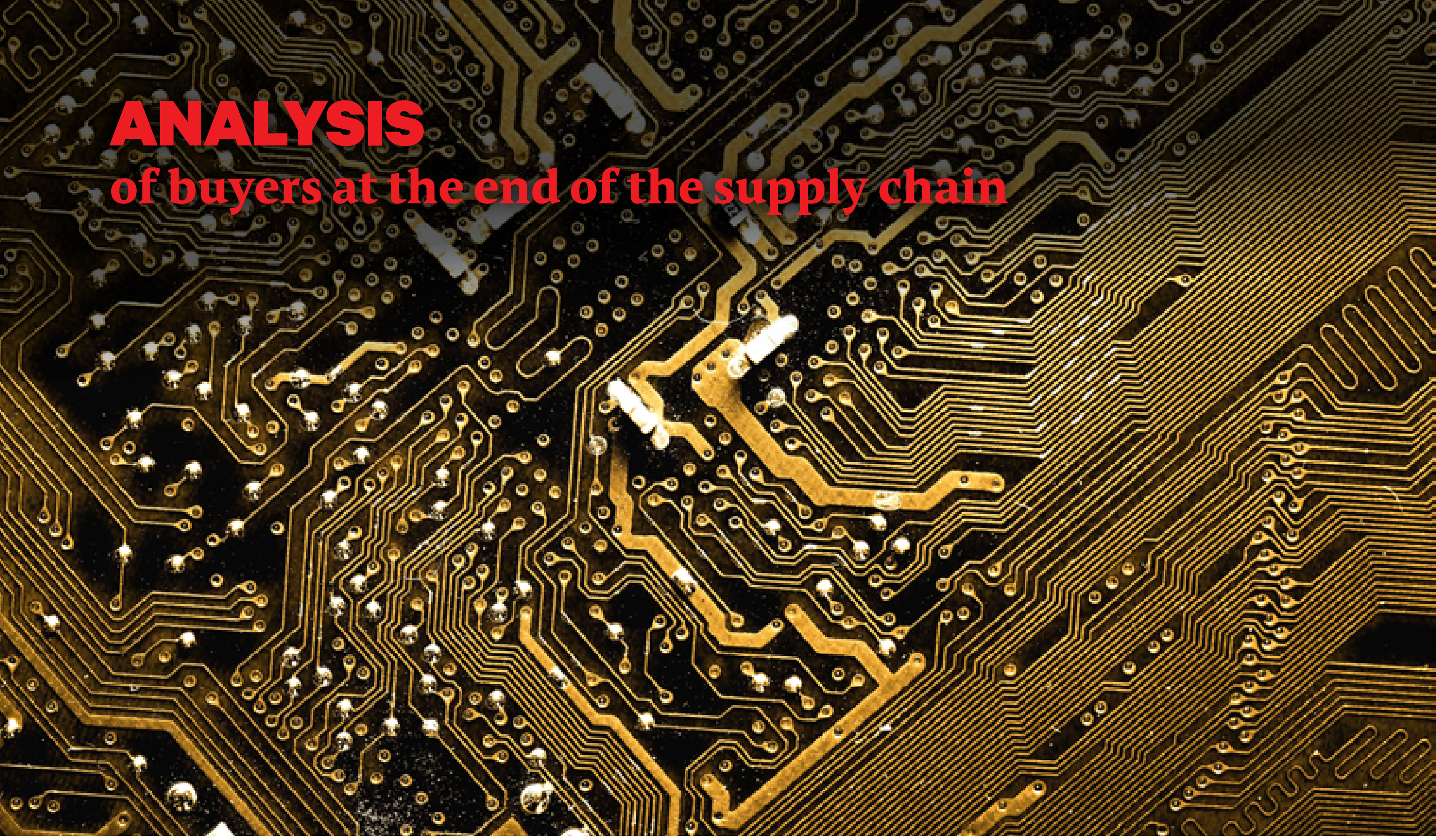
Michael Mesaric
CEO of Valcambi

For its part, the Swiss Federal Audit Office has noted "the limits of the self-regulation system of the players in the gold chain in terms of independence and access to information".[566] It also underlines the problem of the LBMA's independence linked to its dual role in the gold trade and the lack of means at its disposal.[567]

The LBMA is an important player in the sector in promoting and demanding responsible practices. However, it must be much more rigorous with regard to the problematic supplies of its member refineries. The London-based association must also be more committed to increasing transparency in the sector. Finally, SWISSAID believes that it cannot under any circumstances take the place of binding national regulations.

ANALYSIS
of buyers at the end of the supply chain



It is now time to query the destination of this gold after it has been refined by Valcambi and LBMA certified. Once refined, gold is used by banks, the technology industry, jewellers and watchmaking groups. SWISSAID and Global Witness sent a questionnaire to the two major Swiss banks (Credit Suisse and UBS), seven major groups in the technology industry (Apple, Samsung, HP, Asus, Nokia, Philips, Panasonic) and six Swiss companies (Cartier, Chopard, TAG Heuer, Swatch Group, IWC, Rolex) to find out more about their due diligence with regard to their gold supplies.

Apple,[568] Samsung,[569] HP,[570] Asus,[571] Nokia,[572] Philips[573] and Panasonic[574] have publicly stated that they source their gold from Valcambi. Credit Suisse gold bullion bars are also manufactured by the Ticino-based refinery.[575] While some of these groups (Nokia, Panasonic, HP and ASUS) source their gold directly from Kaloti,[576] others are doing their utmost to ensure that the questionable gold from this Emirati refinery does not end up in their supply chain. Despite the introduction of several measures, none of these companies can guarantee that problem gold from the UAE does not end up in their supply chain after passing through Valcambi. How is this possible?

None of these companies can guarantee that problem gold from the UAE does not end up in their supply chain.

The analysis shows that due diligence practices vary widely. Before looking into this in more detail, it is important to differentiate between banks, jewellers and Swiss watchmaking groups – which generally have a direct relationship with refiners – and large technology groups where there are several intermediaries between them and the refiners.

UBS and Credit Suisse banks

As a longstanding member (market making member) of the LBMA,[577] UBS is subject to the Association's conventions and guidelines.[578] The bank believes that: "it is the responsibility of LBMA-certified refiners to implement the required responsible sourcing standards and measures in order to protect the integrity of the global gold supply chain."[579] The bank says it only sells physical gold from LBMA-accredited refineries and does not work with refineries in the Middle East. Nonetheless, gold from refineries in the Middle East can be found in UBS gold bullion bars, since the latter are made by the Argor-Heraeus refinery,[580] which imports gold from Ashoka, which itself works with refiners in Dubai.

Before accepting physical gold, Credit Suisse applies a due diligence procedure at two levels: to its suppliers and to the commodities being traded.[581] The bank subjects each supplier to a KYC (Know Your Customer) process and evaluates its due diligence and origin-tracking procedures. Credit Suisse accepts only LBMA-certified bullion. When asked about the UAE, the Swiss bank states that it "does not accept gold bars carrying the stamp of any Dubai refiner, neither directly (from the respective refiner itself) nor indirectly (from another counterparty that intends to sell a gold bar from a Dubai refiner)".[582]

Credit Suisse states that it "does not accept gold bars carrying the stamp of any Dubai refiner, neither directly nor indirectly".[582]

Despite these guardrails, there is a high risk that gold having passed through refineries in Dubai will end up at Credit Suisse in the form of a pretty gold bullion bar made by Valcambi. When asked about this, the bank says it is comfortable with the robust verification of the LBMA standard and the audits that have been carried out.[583]

The big tech groups

Nokia, Philips and Panasonic refused to reply to the questionnaire.

Analysis of the responses provided by Asus, HP, Samsung and Apple shows that these groups apply different due diligence procedures, even though they all claim to rely on OECD guidance. Asus seems to confine its efforts to its direct suppliers; HP and Samsung collect information on refiners and their country of origin; while Apple engages directly with refiners. The latter brand even specifies that it conducts specific surveys of certain companies.[584]

Asus

Asus reports that it has developed a policy on conflict minerals, but the relevant document is not available on its website.[585] The Taiwanese firm claims that in 2019, 100% of the gold in its supply chain was purchased from 'qualified' smelters, without explaining to what that particular adjective refers.[586] Asus insists that it conducts annual surveys to assess the progress of its direct suppliers (smelters are not among its direct suppliers).[587]

Oddly enough, the list of partner refiners published on the Asus website is strangely different from the list that Asus sent to SWISSAID. The former mentions questionable refiners such as Kaloti, Sudan Gold Refinery and Tony Goetz's Belgian refinery.[588] Yet these refiners do not appear on the list published in 2020.[589]

In its answers to the SWISSAID questionnaire, Asus explains that it does not use recycled gold, but only newly mined gold. Asus lists Switzerland, South Korea and Spain among the countries in which this gold is mined. Asus appears to have misunderstood the issue and there are significant doubts about its due diligence procedures and the associated risks, even though it appears to have made progress in 2020.

HP

As a founding member of the Responsible Minerals Initiative (RMI), HP has a policy on conflict minerals. The firm is also active in the European Partnership for Responsible Minerals (EPRM).

HP states that it does not have access to refinery audits that are reviewed by RMI staff.[590] HP has a policy of "Reasonable Country of Origin Inquiry" (RCOI), which means that it asks its direct suppliers to provide it with information on the refiners where they source their supplies.[591] Once refiners are identified, HP can see the countries of origin of gold from RMI-certified refineries[592] using the RCOI database. The company then analyses all this information and takes action if any doubts or problems are identified.

In 2019, 40 refiners in its supply chain did not participate in independent audits, including RMAP (Responsible Minerals Assurance Process)[593] audits. HP indicates that it has been unable to determine whether these facilities are processing conflict gold. These refiners included Kaloti and AGR.[594]

Samsung

As a member of the RMI steering committee, Samsung also collaborates with the EPRM. In 2018, on-site inspections were carried out at 244 global direct suppliers (excluding smelters), notably to verify the operational status of their conflict minerals policies.[595] The Korean group claims that 100% of the smelters it works with are RMAP compliant.[596]

On the list of suppliers, Emirates Gold is the only one in the UAE.[597] Like HP, Samsung claims to verify the origin of minerals through RCOI[598] information. While the later instrument is undoubtedly useful, it is far from entirely adequate in that it does not allow Samsung to detect the suppliers of Valcambi. It will simply indicate that Valcambi is sourcing gold from the UAE, which is already a warning signal.

Apple

Apple has developed a Risk Readiness Assessment and a Responsible Sourcing Standard that goes beyond the risks associated with conflict minerals and integrates human rights and environmental issues.[599] The brand supports several initiatives in the area of artisanal mining, including the CRAFT code.[600] Apple claims that all 267 smelters and refiners in its supply chain have participated in an "Independent third-party conflict minerals audit".[601] These audits are not without consequences, since 60 gold refiners have already been removed from its supplier list since 2009.[602]

Concerning the UAE, the Emirates Gold refinery is the only one to appear on its supplier list dated 31 December 2019. The Al Etihad Gold Refinery, Dijjlah Gold Refinery, Fujairah Gold and IPMR refineries were on the list in 2019 but have since been removed.[603] Apple does not give any explanation for that, but simply adds that of the 54 smelters and refiners removed from the list in 2019, 18 were not willing to participate in or did not meet the audit's criteria, while 36 were initially erroneously or unintentionally reported.[604] Moreover, steps were taken to verify that they would not be permitted to re-enter the supply chain in the future.

Based on these explanations, it appears that Apple does not wish to work with the four refineries in Dubai. Does Apple consider that these refiners do not meet its own standards?

In order to prevent Kaloti's gold from entering its supply chain directly or indirectly, the brand commissioned an external survey in 2015 to assess Kaloti's links with refiners on its supplier list. [605]

In order to prevent Kaloti's gold from entering its supply chain directly or indirectly, the brand commissioned an external survey in 2015 to assess Kaloti's links with refiners on its supplier list.[605] Given that Valcambi still imports gold from Kaloti, it is difficult to understand why Apple has not terminated its relationship with the Swiss refiner. When contacted, the American firm refused to provide an answer on this issue.

Despite the useful measures taken by Apple to avoid having gold from Kaloti or Dijjlah in its supply chain, there is a high probability that gold from these refineries still arrives in its factories via Valcambi. Apple's mistake is to think that once the Valcambi audit is validated, all gold passing through this refinery is acceptable, regardless of its origin. Michael Mesaric, CEO of Valcambi, explained to SWISSAID that: "They (Apple) are not specifically asking where the gold is coming from".[606] By relying on Valcambi's due diligence procedures and not ascertaining the origin of the gold, Apple is exposing itself to significant risks.

Swiss firms

The information shared by the Swiss companies contacted makes it difficult to know if they work with Valcambi. TAG Heuer, Cartier and Rolex refused to answer the SWISSAID questionnaire.

Swatch Group claims to source traceable gold from the United States, Canada or Australia and to control the entire gold processing chain with its Nivarox foundry.[607] The Biel/Bienne-based group recently left the Swiss Better Gold Association (SBGA), proof of its lack of commitment to artisanal miners, an element confirmed by several interlocutors.[608] For its part, IWC works with am RJC-certified Swiss refinery and claims to know the countries of origin of the recycled gold used.[609] The Schaffhausen-based group states that it does not use newly mined gold.[610]

Chopard did not provide answers to the questionnaire but agreed to have an informal telephone conversation. Part of its gold supply comes from artisanal mines in South America that participate in the "Better Gold Initiative"[611] programme, a public-private collaboration between the SECO and the Swiss Better Gold Association, as well as from a Fairmined certified mine.[612] This gold probably transits through the Argor-Heraeus and Valcambi refiners. Chopard knows the mines from which its gold originates and says that it visits the refiners to check their due diligence procedures and to ensure that the gold is refined in a segregated manner, i.e. without being mixed with other gold sources.[613]

SWISS GOLD TRADE
Legislation

In the opinion of several refiners, Swiss gold trade legislation is one of the strictest in the world. They consider the various controls and audits relating to the Anti-Money Laundering Act (AMLA) and the Precious Metals Control Act (PCMA) to be very demanding. Nonetheless, a detailed analysis of these laws reveals significant loopholes and shortcomings. The customs controls carried out by the federal administration and the requirements to which Swiss refineries are subject do not prevent the importing of gold produced in violation of human rights. The recent report from the Swiss Federal Audit Office (SFAO) confirms the "deficiencies in the current surveillance system" of precious metals in Switzerland.[614]

Following several cases involving Swiss refineries in the processing of dirty gold, former Member of Parliament Luc Recordon submitted a postulate requesting an update on the issue of gold trading in Switzerland. In response, the Federal Council published a report with several recommendations in 2018. It states that "there is a risk of illegally mined gold being imported into Switzerland, with the attendant possible human rights violations that this represents".[615] It describes the risks in the gold sector and stresses that neither the legislation in force nor the voluntary standards of the private sector prevent the importing to Switzerland of gold extracted in violation of human rights. The report illustrates the contradictory position of the Federal Council. On the one hand, it identifies the risks and acknowledges that the influential position of refineries in the production chain "gives them a role in resolving problems of human rights violations",[616] but on the other hand, it refuses to take the necessary measures to control the sector and refinery practices.

> A year and a half after the publication of the report's eight recommendations, no concrete measures have been put in place.

A year and a half after the publication of the report's eight relatively vague recommendations, no concrete measures have been put in place. A conference was organised by the Swiss administration with all the stakeholders in the sector in December 2019 in Bern. Despite the urgency of the situation and the demands of civil society, however, no roadmap was put forward and no follow-up has yet been carried out. After several renewed requests, the administration replies that it is "working with stakeholders and institutions to develop concrete proposals and achieve results".[617]

An inadequate framework

The Federal Council's report highlights the limits of the Precious Metals Control Act (PMCA) and its Ordinance (PMCO). In the government's view, the objective of the PMCA is to ensure the quality and purity of gold, but "does not expressly address due diligence with respect to the provenance of gold".[618] As far as the PMCO is concerned, the report explains that refineries' due diligence is confined to ensuring that processed gold is not stolen or of illicit origin. It does not apply "to the conditions under which the gold was produced",[619] such as child labour or environmental pollution, for example. The report even concludes that, at present, "it may in principle be legal, if not appropriate, for a Swiss refinery to source gold from production that does not comply with social and environmental minima, provided that such production is considered legal in the country of production".[620] In a presentation, the Federal Customs Administration (FCA) summarised the aims of the PMCA: protecting against unfair competition, protecting consumers and safeguarding the good reputation of Swiss quality in the precious metals sector.[621] The PMCA thus seems far removed from concerns about human rights violations and the financing of conflicts related to the gold trade.

The Anti-Money Laundering Act (AMLA) also has significant loopholes. It does not apply to mining or raw gold, but only to gold for monetary purposes, i.e. in banking and investment transactions. The Federal Council's report, citing the Anti-Money Laundering Ordinance (AMLO), states that the AMLA applies only to banking precious metals.[622] Circular 2011/1 from the Swiss Financial Market Supervisory Authority (FINMA) causes confusion because it states on the one hand that the acquisition of mined gold is supposed to be subject to the AMLA, before mentioning that trading in smelted or refined metals (including mined gold) is not subject to this Act.[623] In his book, Mark Pieth sums up the general problem perfectly by asserting that only the downstream supply chain (from refinery to consumer) is subject to the AMLA, whereas the upstream supply chain (from mine to refinery) is not.[624] Yet the laundering of conflict silver and gold generally occurs upstream. In a report dated 2015, the Swiss Federal Audit Office (SFAO) stated that: "the decision of the Office of the Attorney General of Switzerland (OAG) to close the case of looted gold extracted from Congolese mines and involving a Ticino refiner once again casts doubt on the effectiveness of the current system for controlling and combating the laundering of precious metals".[625] Moreover, the Financial Action Task Force (FATF) has also expressed doubts about the AMLA in Switzerland. It states that: "there do not appear to be any binding measures to ensure that the threat of smelted products being used for ML is controlled".[626]

The Federal Council's report acknowledges that the Swiss legal basis "does not contain explicit provisions on respect for human rights."[627]

The Federal Council's report acknowledges that the Swiss legal basis "does not contain explicit provisions on respect for human rights" with regards to gold processed by refiners.[627] Switzerland is lagging behind the United States, which adopted legislation on conflict minerals in 2010, and the European Union, whose legislation will enter into force in 2021. The Federal Council, however, did not wish to compare Swiss legislation with these entities, instead focusing on countries with weak laws in this area, such as the UAE, India and South Africa.[628] While the first two are known to be hubs for risky gold offering very little supervision, the South African context is different since a large amount of gold mined in the country is refined there. However, the comparative analysis revealed that the UAE's requirements, albeit fairly limited as shown by this study, are nonetheless more extensive than those of Switzerland with regards to due diligence relating to human rights.[629] Despite the shortcomings pinpointed in Swiss legislation and the fact that it is lagging behind US and European regulations, the Federal Council, in a denial of reality, agrees with the refiners' position by stating that in Switzerland: "the gold trade is regulated by one of the world's strictest legislations".[630]

A central office facing a lack of means

As part of the granting of smelter licences, the Central Office for Precious Metals Control (COPMC) conducts an audit of refineries every four years to verify certain practices. A refinery, in accordance with Article 168a of the Precious Metals Control Ordinance (PMCO) must, among other things, "clarify in detail the origin of the melt material", accept melt material "only from persons who can prove their lawful acquisition" and inform the relevant police authorities "if there is any suspicion that the articles on offer have been unlawfully acquired".[631] It must also take the necessary organisational measures to prevent the melting of melt material of unlawful origin.[632] In the event of a violation, the maximum penalties amount to CHF 2,000, which is far from being a deterrent.[633]

These requirements could nonetheless be a gateway to the implementation of mandatory due diligence. However, the COPMC has so far only checked whether refineries document the first origin of the material, i.e. the direct supplier. The COPMC does not monitor that the entire supply chain is documented beyond that supplier.[634] Furthermore, the material would be considered legal if the supplier only has an export licence.[635] Thomas Brodmann, head of the COPMC, told SWISSAID that his staff: "do not currently have all the necessary tools and resources at their disposal, and that the existing legal basis does not clearly define the due diligence measures that the testers in the trade must implement to ensure the legality of the goods and how the Central Office must monitor that they apply these measures".[636] The Central Office states that it is well-aware of the situation and the limitations of the current legislation.[637]

The representative of the COPMC explains that it had begun to conduct more risk-based audits in 2019. Experts notably verify that KYC (Know Your Customer) and KYP (Know Your Product) measures are in place and use customs information with the identify of refiners' suppliers.[638] Without naming names, Thomas Brodmann acknowledged that there are certain problematic relationships. While this change in the way audits are carried out is to be welcomed, one cannot help wondering why this has not been done before. The head of the COPMC nonetheless explained that significant changes would have to be made to the law and the instructions resulting from it in order to be able to conduct this audit work properly.[639]

The importance of the "Responsible Business Initiative"

The PMCA and the AMLA do not deal with the importation of gold produced in violation of human rights. These major shortcomings in the Swiss legal framework demonstrate the importance of the "Responsible Business Initiative". Launched in 2015 by several civil society organisations, including SWISSAID, this initiative demands that Swiss-based multinationals be held accountable for human rights and environmental violations in which they are involved abroad. If the initiative is accepted, Swiss refineries would be directly affected. They would be obliged to exercise due diligence, which they already have to do on behalf of LBMA and would be held liable for the actions of controlled companies. In the event of the import of gold produced in violation of human rights, and provided that the refinery exercises economic control over its supplier and that there have been significant failures in the exercise of due diligence, the refinery would have to answer for its actions before the Swiss courts if a victim filed a complaint against it.

Swiss Coalition for Corporate Justice SCCJ

The sector's proposal: a survival measure

While the shortcomings in the Swiss legal basis appear to have been clearly identified, the gold industry has intervened at the political level to put forward its solution and voice its concerns. This intervention was taken up in Recommendation No. 4 of the Federal Council's report on gold: "Examine the industry's proposal to broaden the powers of the Central Office by assigning it other tasks, in particular in terms of transparency regarding the provenance of gold".[640] While the Swiss Association of Manufacturers and Traders in Precious Metals representing precious metal manufacturers (AFSCMP) and the federal authorities tend to present this broadening of the Central Office's competencies as a "solution" to the risks involved in the sector and various criticisms levelled against it, it is important to understand why.

In order to operate in Switzerland, refiners are subject to authorisations from the Central Office and the FINMA. They require a melter's licence to manufacture melt products (banking gold) and an assayer's licence to be able to titrate and market melt products. These two licences are granted by the COPMC, an institution attached to the federal customs administration. Refiners who trade in banking precious metals are considered financial intermediaries within the meaning of the AMLA.[641] They must therefore also obtain a licence from FINMA or join a Self-Regulatory Organisation (SRO). With the entry into force of the Federal Act on Financial Institutions), the status of Directly subordinated financial intermediaries[642] under the Anti-Money Laundering Act was cancelled with effect from 1 January 2020. Refiners would therefore have to join a self-regulatory organisation which they refuse to do because they need recognised state supervision in order to be admitted to the international precious metal markets. The AFSCMP has therefore intervened at the political level to call for a strengthening of the powers of the COPMC, by assigning it the supervision of the Anti-Money Laundering Act. This would mean that the Central Office would become the sole authority responsible for supervising the trade in precious metals from the standpoint of both the AMLA and the PMCA.

Presented as a "solution", this proposal is, in actual fact, a mere transfer of competences from FINMA to the Central Office. It in no way increases supervision and does not extend the COPMC's competences with regard to monitoring the origin of gold and human rights. In its message concerning the amendment of the AMLA, the Federal Council states that this change could allow: "the tasks of the latter (Central Office) to be gradually extended over the long term, for example in relation to questions of respect for human rights, if the political will exists".[643] This measure would also aim to "anticipate potential future reforms related to the transparency of the gold trade".[644]

Caution should be exercised with regards to placing oversight in the hands of the Central Office, since it currently has neither the resources nor the expertise to do this work. There is a significant risk that the political world will agree to transfer the supervision of the AMLA to this body without giving it the means to conduct this mandate properly. In addition, there is a potential conflict of interest because the Central Office was created to serve and protect the industry, particularly from unfair competition and counterfeiting. The report by the Swiss Federal Audit Office also mentioned the existence of a potential conflict of interest for the Chiasso Office which analysed gold on behalf of foreign mining companies.[645] It is for this reason that a potential return to FINMA supervision must be assessed.

Inexistent customs controls

Imports of precious metals are regulated by Article 20 of the PMCA. This states that: "Articles governed by this Act may be subject to comprehensive or random testing on import".[646] However, this article covers only articles made of precious metals,[647] multi-metal articles,[648] plated articles and imitations.[649] Imports of "melt products", such as ingots and bars,[650] and "melt materials", such as precious metals obtained through the extraction of raw materials or waste products,[651] are not subject to this article.[652] Thomas Brodmann confirmed to SWISSAID that tariff number 7108.12 (newly mined gold, recycled/scrap gold and banking gold) is exempt from the control of the PMCA.[653]

The FCA is responsible for controlling the cross-border movement of goods. It told SWISSAID that: "currently, there is no legal basis for it to control whether gold mining violates human rights or not." Consequently, the controls carried out mainly concern the area of finance (correct collection of import duties).[654] In an informal discussion, FCA staff members indicated that they are not interested in gold bars and ingots because they are exempt from taxes. Officially, however, the FCA indicated that gold goods are controlled on an ad hoc basis according to risk analysis. The Risk Analysis Division has been contacted on this subject but has not provided any information on its control activities for "tactical" reasons ("einsatztaktische Gründe").[655] Informal exchanges have however confirmed that – unless a false customs declaration is made, or a counterparty has signalled an alert – no controls are carried out on gold imports intended for refining. The SFAO report confirms that "precious metals are not a priority for customs offices".[656]

The problem of customs declarations

In accordance with Article 10 para. 2 of the Ordinance on the Statistics of Foreign Trade, a Swiss importer must indicate in the customs declaration the country of origin and the country of provenance of the gold. The country of provenance is "the country from which the goods were dispatched to the Swiss customs territory".[657] The country of origin is the country "where the goods were wholly obtained or where the last substantial transformation was carried out".[658] In the gold trade, this means that the country where mining took place or the country where the gold was refined (substantial transformation) can be declared as the country of origin. This definition therefore allows Swiss refineries to declare the UAE as the country of origin of the gold, even though this country does not have a gold mine but only refineries.

Swiss refineries can declare the UAE as the country of origin of the gold, even though this country does not have a gold mine but only refineries.

According to the Federal Council's report on gold, "refiners have the exact information on the origin of the gold". And "insofar as the refinery knows the origin of the imported gold, it is obliged to declare the actual origin and not the country of provenance". The FCA has confirmed to SWISSAID that "real origin" does indeed mean the country of extraction for newly mined gold. The Federal Department of Foreign Affairs (FDFA) and the FCA initially confirmed to SWISSAID that certain customs declarations made by Swiss refineries might be incorrect.[659] Shortly afterwards, the Federal Council replied to an inquiry by Lisa Mazzone (18.4329) that "the practice of declaring the country of origin complies with Art. 10 of the Ordinance". When contacted on, the FCA acknowledged that its initial assessment was erroneous and that the verifications carried out in the context of the handling of Lisa Mazzone's interpellation showed that the customs declarations were correct. On its side, the SFAO states in its report that it has "noted mistakes in the customs tariff positions".[660]

When Swiss refiners import gold that has already been refined, they do not have to declare the actual origin of the gold contained in a bar or ingot, i.e. the country of extraction (for mined gold) or the country where the gold entered the market (for recycled gold). For banking gold, which is LBMA certified and which has sometimes been lost for years, it is complicated to trace the real origin. For a bar of gold imported from the UAE by a Swiss refinery, for example, it is problematic that the real country of origin of the recycled or newly mined gold contained in the bar is not declared. Since refineries are supposed to know the real origin of their gold, it is an issue that this information is not indicated in customs declarations.

How can this situation be changed? How can one get a Swiss refiner to declare that the gold contained in the ingot refined in the UAE was, for example, mined in Ghana or is derived from existing jewellery from India and Thailand? Lisa Mazzone has tabled a motion (19.3523) to request an amendment to Art.10 al. 2 so that importers declare only the country where the goods were entirely obtained, i.e. the country of extraction for newly mined gold, as the country of origin. In its opinion, the government referred the problem to the methodological standards established by the UN. However, in Recommendation No. 1 of the report on gold trading and human rights, the Federal Council recommends: "improving the collection and publication of information on the origin of gold imported into Switzerland"[661] and states that "the LBMA and representatives of the industry are prepared to improve the quality of the information provided on the customs declaration".[662] However, in its answers to the interpellation by Lisa Mazzone (18.4329); to the questions by Lisa Mazzone (19.5201) and Fabian Molina (19.5203; 19.5168); and to the motion by Lisa Mazzone (19.3523), the Federal Council rejected the proposals put forward and did not propose any solution for improving the transparency of the origin of gold. Meanwhile, the LBMA has informed SWISSAID that it would like the World Customs Organization's definition of "country of origin" to be amended to reflect the OECD definition, i.e. the country where the gold was mined.[663]

This proposal must be accompanied by an amendment to tariff number No. 7108.12. Gold bullion, recycled/scrap gold and newly mined gold are all grouped under the same tariff code. It is therefore not currently possible to differentiate in the statistics whether Swiss companies import mining gold through trade routes that are generally used for bank gold. The report from the Swiss Federal Audit Office explains that the deficient quality of tariff data complicates the task of customs offices in order to detect cases that require verification.[664] While the USA has created a special tariff number for newly mined gold (doré), Switzerland is once again lagging behind its neighbours by refusing to do likewise, although it would be perfectly entitled to do so, since only the first six digits of a tariff number need to be internationally standardised.

Recommendations

United Arab Emirates

- The UAE must tighten controls on gold imports and customs authorities must ensure that gold mining imports into Dubai have been properly declared in the country of extraction. This includes verifying the identity of the exporter, the export permit, the country of origin certificate, customs clearance documents including tax receipts, and the recipient of the goods in the UAE. Customs authorities must also be uncompromising in the face of falsified documents.

- Imports of gold in hand luggage must be strictly regulated. Customs must work with airlines and exporting countries to detect illegal transactions. The UAE should promptly implement all procedures proposed by the UN Panel of Experts to control gold in hand luggage.

- All precious metal refineries in the UAE must be required to comply with and implement the DMCC Rules on Due Diligence for Gold Supply Chains ("DMCC Rules"). The UAE authorities should ensure that these provisions are implemented.

- The UAE must make a formal commitment to the implementation of OECD Due Diligence Guidance. It must incorporate these guidelines into its national legislation in order to apply them in a binding manner to gold sector stakeholders.

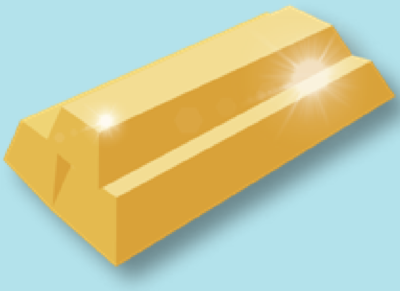
- The DMCC should be divided into two separate entities so as to avoid a conflict of interest between the promotion of the gold trade and its regulation.

- The UAE authorities must compel traders in the gold souk to exercise mandatory due diligence and to ascertain the provenance of precious metals.

- The recommendations of the Financial Action Task Force (FATF) must be implemented by the UAE to combat money laundering and the financing of criminal activities.

Kaloti Precious Metals

- The Emirati group must apply enhanced due diligence to sourcing from high-risk suppliers and regions located in conflict zones. In particular, these measures must be applied to its imports from Sudan.
- Kaloti should avoid working with intermediaries and engage in direct business relationships with artisanal miners. Frequent visits to its suppliers should be made.
- The Emirati group must comply with Annex 2 of the OECD Guidance document and immediately suspend all relationships with suppliers linked to third parties directly or indirectly supporting armed groups or committing serious abuses.
- Kaloti must stop sourcing gold from its purchasing office in the Dubai souk, stop importing gold in hand luggage and must visit the mining sites to ensure that the gold is extracted under suitable conditions.
- The group's procurement procedures must be applied and known by all employees of the group.
- Kaloti refineries in Dubai must adhere to the DMCC DGD standard.
- Kaloti must follow the five steps of the OECD guidance. Procurement practices and due diligence measures must be audited by a third party. Kaloti must publish the audit reports on its website. In accordance with the OECD Guidance document, the group must disclose the identity of its suppliers located in sensitive areas.
- Kaloti must publicly clarify the practices and mandates of its refinery in Suriname. It must publish the due diligence measures it applies to gold transiting via the Kaloti Suriname Mint house. This refinery must be independently audited and Kaloti must publish the report.



Valcambi

- Valcambi must comply with Annex 2 of the OECD Guidance and immediately suspend its sourcing from Kaloti. It must establish a risk management plan requiring the UAE group to strengthen its due diligence measures and suspend supplies from suppliers related to conflict minerals.
- Valcambi cannot rely on statements of compliance. It must make ad hoc visits to its suppliers and examine their due diligence undertakings with the utmost attention.
- The Balerna-based refiner cannot only verify the origin of the imported gold butmust carefully examine the practices of its suppliers for possible links to conflict gold.
- Valcambi must make sure that the imported gold has not transited via the Dubai gold souk. It must suspend sourcing from suppliers with offices in the souk.
- The Ticino refiner must require its suppliers to submit to audits and publish the reports.
- It must control all the players in its supply chain, particularly the refineries. It cannot import DGD-certified gold without verifying the origin of the gold contained in the bars.
- Valcambi must publish precise information regarding its due diligence and its sourcing from high-risk areas, particularly in the UAE.
- It must publish the names of local suppliers and exporters located in sensitive areas, as required by Step 5 of the OECD Guidance document.
- Valcambi must obtain its supplies directly from the artisanal mines, as recommended by the LBMA and the OECD, among others.
- Audited for more than 40 years by KPMG, Valcambi must now choose a different audit company.

LBMA (in relation to Valcambi)

- With regard to Valcambi, the LBMA must open an incident management process, conduct a new special audit, assess the seriousness of the breaches and take decisions accordingly.
- The audit must verify the effectiveness of Valcambi's due diligence in its sourcing from the UAE.
- The audit must verify the actual origin of the gold imported from Trust One Financial Services (19 tonnes in 2018 and 44 tonnes in 2019) and the identity of the refinery that processed the gold. The same applies to supplies from Kaloti (16 tonnes in 2018 and four tonnes in 2019) and other suppliers in the UAE such as Dijllah.
- Auditors must demand that Valcambi demonstrate how it can be convinced that Kaloti does not import illegal gold or produce it in violation of human rights. They must examine how Valcambi has ensured Kaloti's good practices and how it has analysed its due diligence. The auditors must also analyse whether Valcambi visited the Emirati group's refineries and what observations were made.
- Auditors should assess allegations of non-compliance with Annex 2 of the OECD Guidance document as well as analysing the reasons Valcambi did not suspend its relations with Kaloti, which was importing gold from the Central Bank of Sudan, an institution linked to conflict gold.
- Auditors must assess the extent to which Valcambi imported gold from the Dubai souk, and the origin of the gold.

LBMA (general structure)

- The LBMA must have access to the identity of suppliers of its member refineries in order to identify questionable business relationships.
- Control procedures must be clearly defined in the counterparty audit guidance. The verifications carried out by the auditor must be explained in the audit report.
- Management reports and the corrective action plan should be made public.
- In order to comply with the OECD Guidance, the LBMA's Responsible Gold Guidance document should require refineries to publish the identity of their suppliers in locations flagged as sensitive.
- In its annual report, the LBMA should publish the names of all suppliers to its member refineries. The OECD recommends that the LBMA publish them on an aggregated basis.
- The implementation of and compliance with the Responsible Gold Guidance document needs to be improved. Audits play a key role in this respect.
- The LBMA must ensure the quality and independence of the auditors of its member refineries. It should prohibit a refinery from choosing the same auditor three years in a row. The LBMA should itself select the auditors who audit refinery operations.
- The LBMA must publish information on incident management and the measures taken.
- The London association should require its member refineries to work only with audited companies that comply with the OECD Guidance and whose audit reports are public.
- It must continue to encourage its member refineries to source their supplies directly from artisanal mines.

Banks, technology industries, jewellers and watchmaking groups

- While the majority of the companies analysed wish to avoid Kaloti gold, this precious metal can find its way into their supply chain via Valcambi. This means that they cannot rely on due diligence procedures and refinery certifications. The companies must ensure the origin their gold.
- They should require refineries in their supply chain to disclose the origin of the gold (country and identity of the supplier).
- They cannot simply wait to receive "ethical" gold. They must commit financially to the formalisation of artisanal mining.

Switzerland

- Refineries must ensure that imported gold has not been produced in violation of human rights. They must be required to exercise human rights due diligence, as called for by the Responsible Multinational Corporations Initiative.
- The Anti-Money Laundering Act needs to be amended to include transactions up the supply chain, i.e. between mines and refineries.
- The Precious Metals Control Act needs to be adapted to incorporate the guidelines of the OECD Guidance. During its audits, the PMCO must monitor the refineries' implementation of the five steps required by the OECD for the exercise of the duty of care. The frequency of PMCO audits should be increased from one audit every four years to one audit per year.
- PMCO audits must go beyond the first supplier to ensure that refineries document the origin of gold throughout the supply chain.
- The recommendations of the Federal Council's gold report, published in 2018, must be implemented swiftly and the first recommendation on the transparency of the origin of gold in particular.
- The Federal Customs Administration customs offices must verify the gold intended for refining and must check that the customs declarations have been correctly filled out.
- Following the example of the United States, Switzerland must create tariff sub-codes for tariff number 7108.12 in order to differentiate between imports of mining, recycled and banking gold.
- For imports of gold bars containing newly mined gold, refineries must report the country of extraction, the country of processing and the country of shipment. Currently, refineries report only the country of origin, which may be the country of mining or processing, and the country of shipment.
- The amount of sanctions imposed must be substantially increased. Penalties of CHF 2,000 are not a deterrent.
- In order to comply with the OECD Guidance document, Switzerland must require refineries to publish the identity of their suppliers in locations marked as sensitive.
- The Swiss Agency for Development and Cooperation and the State Secretariat for Economic Affairs must increase their involvement in the formalisation of artisanal mining. The Better Gold Initiative should be extended to African countries. For the time being, it is only being applied in Latin American countries.

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SWISSAID is a non-political and non-denominational foundation active in nine countries in the South. Through its various projects, it supports disadvantaged people so that they can improve their living conditions and assert their rights. In its development policy, SWISSAID is committed to transparency in the management of raw materials, corporate responsibility, respect for food sovereignty, gender equality and agro-ecology.

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