

VIRTUAL SUMMIT

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Conflict & High-Risk Gold: Managing Risks, Sourcing Responsibly

Speakers:

Sakhila Mirza, General Counsel, LBMA/Speaker 1

Sasha Lezhnev, Deputy Director of Policy, Sentry/Speaker 2

Summary:

Sasha Lezhnev provides context to the issue of conflict and high-risk gold and agrees with Dr Pieth that de-risking is not an option. He highlights the many ways in which conflict gold can be easily smuggled and stresses that more needs to be done by the industry to focus on the red flags in responsible sourcing when conducting due diligence reports, and provides five recommendations as to how this can be done. Sasha stresses the fact that, in order for responsible sourcing to actually work, there needs to be a market for responsibly sourced gold.

Speaker 1:

Hello, I'm Sakhila Mirza, the General Counsel at the LBMA. Today, I am joined by Sasha Lezhnev, who's the deputy director of policy at Sentry. Sasha has been working in conflict minerals for over 12 years now, having spent some time in the Congo as well. More recently, Sasha was certified by Aiken as an anti-money laundering specialist. Sasha is no stranger to the challenges that the gold supply chain faces. We've already heard from Dr Mark Pieth, who shared some of his recommendations as to what the gold market should be doing. Before Sasha and I spend some time discussing some of the recommendations provided by Dr Pieth, it really would be helpful to get an update from you, Sasha, in terms of the work that you've been doing over the last 12 months and, more so, what is it that the gold market should also be looking at and actually doing? So, thank you again, Sasha for joining. Over to you.

Speaker 2:

Great. Well thanks so much for the introduction Sakhila, and thanks to the LBMA for having me on this webinar. I'd like to give a little bit of context to this issue of Conflict and High-Risk Gold, and then we can talk a little bit more about the solutions/ideas, some of which we have proposed, and we can talk about Dr Pieth's ideas as well. So, let me start off with a little bit of context first. So, conflict gold is an emerging issue for the gold industry, right? So, the UN has done research on this issue in several different countries. In the democratic Republic of Congo, where I have done most of my focus, the UN group of experts there said that gold provides the most significant financial benefit to armed groups. It is the most lucrative and easily smuggled of natural resources there. Similarly, in Sudan, Venezuela, Central African Republic, South Sudan, there is conflict and high-risk gold coming out, and industry is starting to pay attention to this. There were government regulations issued,

there's been industry rules, the LBMA has the responsible gold guidance, the OECD has due diligence guidance, there's the financial action taskforce red flags, and there's also an increasing responsible gold trade that's coming out of high risk areas, as companies are trying to not de-risk, from those areas and are actually trying to source responsibly. We call it a conflict-free trade or responsible trade. This sort of conflict gold trade generally has a kind of a six-step supply chain. We've been mapping this at various points over the last decade. So, generally, it's gone from artisanal mines to local smugglers, who will then sell it off to regional smugglers – and there's been some regional refineries in Eastern Central Africa where we focus at the Sentry – then most of the gold, some 95%, or so, has been going to the UAE in Dubai, and that's where a lot of it will enter the formal supply chain. Then, from there it goes to a variety of sources, some, to Switzerland, some to India, China, Western Europe and other gold markets. Of course, jewellery is the largest end point, but smaller amounts go into electronics, dental work, etcetera. And of course, the banking community investments. On the ground, this is a photo that I took, right around the gold mine. In Congo for example, some 300-600 million dollars' worth of gold is smuggled out annually. This represents roughly 98% of the artisanal gold trade, which was actually not formerly exported from Congo, but is in fact smuggled to neighbouring countries. Armed groups or the army control the majority of mines. Over two thirds of the mines that miners work at are conflict affected mines. And these armed groups either control the mines themselves, they control checkpoints around them, or they raid the mines. So those are the three ways that they're profiting. And over 90% of the gold mines in the DRC are not yet certified. There is as a regional, certification process, which is run by the regional organization called the ICGLR, which is a fairly credible process that's built on lessons learned from the Kimberley Process for blood diamonds. But there aren't very many gold mines certified because of the large presence of armed groups. So, there are multi-stakeholder teams that go out to mines and certify a mine is as “green” – i.e., conflict free or child labour free; “yellow” as in, this mine can get approved, and “red” – it's a no go area. So, we've been doing some investigations to look at where there have been holes in this system and other industry systems around the world. And we published this in a report we launched about a year and a half ago called the Golden Laundromat, which is about the conflict gold trade from the DRC to United States and Europe. We found that, in fact the gold, was pretty easy to smuggle, that smugglers and some refiners were getting around these systems and companies really to understand some of the risks.

I think another problem that we've identified is that some of the responsibly mined gold, is in fact not accepted by the market yet and, so, it's quite important for companies not to de-risk. And there is in fact some conflict free artisanal, gold out there that is starting to be produced and processed, but you know, a lot of banks haven't accepted that yet. And so there needs to be more sort of education around those areas. And we're going to talk a little bit more about this in a moment, but I just want to highlight the FATF Report, which is specific to trade based money laundering in the gold sector, and highlights a number of different red flags that anyone purchasing gold, really needs to utilize when doing their KYC and due diligence process. Here we're highlighting a few that are relevant for conflict areas. For example, a trader, or gold dealer, or a refiner, is not registered with the financial intelligence units. Some of you could refuse. The development of mining in prohibited areas. So, I mentioned those “red” mines, like there's still mining going on and sourcing going on from there, but that's a red flag for people to utilize. I think I will stop there and highlight a couple of other recommendations for both companies and governments in this area that I think can help us move forward. I think that the first thing I would say is we've developed really the architecture, I think, for dealing with this issue in terms of sanctions regimes, in terms of global guidance for companies, whether it's the LBMA, the OECD, the responsible jewellery council, but a lot of that hasn't been fully enforced yet. In a couple of cases, some refiners have been kicked out and that sort of thing but, in fact, you know, we realize that some of the schemes, for example, in the UAE haven't really been properly implemented. So, we need to properly implement those. And, likewise some of the sanctions regimes, that there are penalties on paper for sourcing conflict gold and, yet, there have been almost no sanctions, in fact, for conflict gold refiners or for people who are using/sourcing conflict gold. So, just, five quick, overarching recommendations and I'd be happy to get more into the discussion and detail with you Sakhila. So, first of all, I think companies, anyone buying gold, whether it's banks, or traders, or refiners, really need to pay close attention and utilize those trade-based money laundering red flags for gold. Just a couple of them to highlight. There are major discrepancies between the trade statistics from gold producing areas in Africa and those countries that are receiving the gold, for example, the UAE. So, that's a red flag that companies need to pay attention to – likewise with large cash transactions. Secondly, to source or not to source. Well,

that's a deeper question, but often can be very binary. I think that, the reality is that this is a problem that affects everyone in the gold industry, and our organization is personally not in the gold industry, but it affects us a lot. So, I think it's very important for companies to really make the decision to be part of the solution.

It's not a problem over there. What we tracked in our investigation was in fact conflict gold from the DRC was ending up in US, and European supply chains. So, this is something that we all need to be part of. And, so, number one, working with your suppliers to address some of the issues. Like, for example, the large cash transactions, some of the other red flags, but also, join up with other entities, whether it's your government or a public-private partnership. So, for example, there is a Public-Private Alliance on Responsible Minerals Trade that are working to try to address these areas. So, whether it's working with, or trying to engage the UAE government, or one of the producing governments, or one of the neighbouring country governments to change some of the policies, or trying to source responsibly, et cetera. I think thirdly, working to try to establish partnerships for responsibly mined, in particular artisanal, gold. So, I really salute the LBMA on this, who engaged with us in the journey for gold, which was sort of a mine-to-market partnership to get conflict free artisanal gold out here, but that was a pilot initiative that needs to go further. And so I think that the more that refiners or traders can partner with efforts on the ground, whether they be artisanal mining cooperatives, or whether they be a government who is working to source responsibly and then sell to an LBMA refinery, that those kinds of partnerships can work. There needs to be a market for the responsibly mined gold, otherwise we'll never get out of the criminal trade. Fourthly, banks, I think, need to develop more expertise, frankly, in trade-based money laundering, and gold refining more generally, and due diligence for the artisanal minerals trade. In our experience, banks that focus largely on the large-scale industrial gold mines – and so have taken the KYC and their AML – work, sort of, focused on those. But really a lot of the illicit trade is happening in this artisanal trade, and then the refining of that. So, developing more expertise in that area. And then finally, this is really not a call for industry mainly, but more governments. There need to be consequences for those who trade in the conflict affected gold, and there we're talking about anti-money laundering measures and network sanctions and that sort of thing, because without that, there'll be no signals to others in the industry who were continuing to engage in that. So, maybe we can start more of this conversation. Thanks.

Speaker 1:

Great. Thank you, Sasha, as always – very insightful to hear your thoughts, especially in terms of the work that you've been doing and your recommendations. I know you've had an opportunity to also listen to Dr Pieth's recommendations, from an earlier webinar. So, I think it will just be helpful to perhaps get your views on his take in terms of what it is that the gold market needs to be doing and how that sits with perhaps what you have been doing, and your five recommendations; he gave three, you gave five. So, just trying to understand. I think there is one thing in common and, in fact, he started his webinar by saying, de-risking is not an option and, something you've also alluded to in terms of de-risking, shouldn't necessarily be the first step. So, just some thoughts on that and more generally on what Dr Pieth had to say as well.

Speaker 2:

Sure. Thanks, Sakhila. I fully agree with Dr Pieth that de-risking is not an option. I would go even further to say, take that a step further, that these money-laundering red flags are really where industry needs to focus a bit more. And, so, let me highlight a couple of those. So, if folks are looking at sourcing from an area that neighbours a conflict producing country or, sorry, a conflict gold producing country, or a high risk area, the things that they should be looking out for when sourcing from there, to make their kind of sourcing decisions. So, one of them is that, if there are major tax discrepancies between that country in particular and the neighbouring producing countries. So, this is an area that we have noticed, in several different cases. So, for example, Cameroon exports quite a bit of gold, relatively speaking, to the region and, yet, it has a major tax discrepancy with the Central African Republic – which is in fact a large producer of gold – that people are increasingly turning to. So, I think that's one area of red flag. And another one is corruption and weak controls at major regional airports and land borders. So, if gold is coming from a particular area where it's been publicly reported several times that there's major corruption at this airport, or a certain border point, then some additional due diligence is needed. A third area, I would highlight is, the certification process for gold from that particular area. So, I mentioned, the ICGLR Process for the Democratic

Republic of Congo. Only 96 mines have been certified in the DRC at the moment. So, you know, looking at the certificates that are being presented for a gold mining area are those, in fact, from one of those 96 mines. Those are available online, and NGOs, and the UN, and the government can be contacted for further efforts, to look into those. So, those are a few, and there are obviously others, and Environmental Risk Assessment, has that been conducted? Has the entity been registered with the FIU? So, I think that's one thing. I think the other part of this is really to, not just do the due diligence, but really trying to reach out to those who were trying to build up that responsible trade on the ground and establish some of those partnerships because I think, some of the ways that this problem is going to be solved is partly through changing supplier behaviour, but also to set up some either closed-pipe systems, or some direct partnerships to source for responsible gold. So, for example, the U.S. Agency for International Development, and the German equivalent GIZ, are setting up partnerships with artisanal miners to loan them equipment in exchange for them selling the gold to established supply chains that can go to LBMA, or other refineries. There are also a craft standard, which is a standard for progressive improvement for gold mines in a number of different areas, whether it's labour, environmental, mercury standards, etcetera. So, working to establish craft certified gold can also help. I think there are good examples of places like Peru, for example, where you have a sort of fair trade and progressively improving responsibly sourced artisanal gold where partnerships can be made and frankly to engage the LBMA with this as well, who's working to develop that in an effort to develop that sector and not to not de-risk.

Speaker 1:

No, no, absolutely. And I think the message, from the LBMA's perspective, is to encourage responsible sourcing, identify those risks – it's not about disengaging – obviously understanding what is the risk. Do you have leverage by working with other industry/initiatives? I think it always helps to provide a more comfortable platform that you can actually demonstrate that you are trying to work on an industry solution together. And as you said, being part of the solution is absolutely important. Doing this on your own, it's never going to be easy. I'm conscious of time, so we are running out of time. So, in terms of just wrapping this up, any concluding remarks from you Sasha, until next time, of course. Anything that you would like to emphasize before we wrap this webinar up?

Speaker 2:

Yeah, sure. I think that, first of all to say that this is a global problem that we're all grappling with, and we all should grapple with and engage on. I think that's one important point I want to lay out – that everybody has a role in the solution and, if it's just left to one entity like the LBMA, or the Sentry, or some other organization, we're never really going to solve this. So, for example, one of the key recommendations that we want to highlight (and by the way we're working on our next report, which will highlight some of the trends and red flags), is engagement with the UAE, that's the hub for high-risk and conflict gold. The only way we're going to get some of the reforms done in the UAE, is if we collectively engage, and try to work with them, to solve those issues. This is not just a one person, one organization effort. And I think the second, is a call really to governments to enforce and better implement some of the regimes that they do have on paper. So, if it's a sanctions regime, like looking for those conflict traders who are trading and establishing consequences and sending a wider message. And lastly, I think this is a really good opportunity, perhaps this COVID time actually is a really good opportunity for everybody to step back and think about, okay, let's strategically map out a little bit better how we can, in fact, try to source responsibly from a higher risk area. So, if a refiner is saying like, 'Well, you know, last year we decided we're going to halt all artisanal buying, or we're going to halt from these four countries', to really think about, who are the organizations we can reach out to now who are more knowledgeable about efforts on the ground there, so we can partner with them and in a sustainable way so there's not some grand premium attached to it, but work with them. And we've had something. called The Responsible Artisanal Gold Solutions Forum (RAGS Forum). which was just a monthly forum to get, artisanal mining groups/players in the gold industry; refiners and governments together to just talk through what some of the issues are. And we've discovered all these interesting things like inventory finance, which I had no idea what it was before that, and so we developed a solution for inventory financing, which was a challenge for Congolese gold at the time. Each gold area will have its own challenges but engaging in forums like that, can absolutely be productive, and a way forward. So, we ourselves continue to engage in efforts like that, as does the LBMA. So, anyway, thanks a lot for your time and I really appreciate you inviting me.

Speaker 1:

No, no, always a pleasure. So, hopefully, look forward to our next conversation – our next update – so, thank you so much as always, Sasha.

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Taylor Birch

Events Coordinator

events@lbma.org.uk

Tel: 07388 798 992

1-2 Royal Exchange Buildings, Royal Exchange, London EC3V 3LF

Tel: +44 (0)20 7796 3067 www.lbma.org.uk

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