

Manifestations of Illicit Gold Trade

External Version

Date: 3 November 2023
Version number: 1.0



Colophon

This is a publication of:

National Cooperation against Undermining Crime (NSOC)

Classification: Not Confidential

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Introduction

The collaborating partners within NSOC are dedicated to exposing and unravelling the financial interconnections between the underworld and legitimate sectors. This effort aims to disrupt criminal networks sustainably, making the Netherlands more resilient and less attractive to international crime. NSOC achieves this by focusing on four critical topics: Trade Based Money Laundering (TBML), financial service providers, logistics service providers, and the combatting of corruption and violence.



Trade based money laundering (TBML)



Financial facilitators



Logistic facilitators



Corruption and violence

Trade-Based Money Laundering (TBML) through goods and trade flows is one of the methods that criminals employ to move and launder money. TBML is utilized as a technique to conceal criminally obtained wealth, to transfer value, and for underground banking (criminal money trading). The well-developed Dutch infrastructure and favourable trading environment prove lucrative for criminals to use as a cover for their illicit activities. Additionally, Dutch trade flows are exploited to launder criminally obtained funds. Characteristically, criminally acquired money (cash) is converted into goods that are discreetly moved around the world through normal trade channels, ultimately being converted back into seemingly legal cash or digital currency. Seemingly 'ordinary' trade transactions and/or flows of goods can thus serve as an example of an interweaving under and upper world.

Given the scope and complexity of the TBML topic, NSOC has opted for a multidisciplinary phenomenon approach with a focus on a specific (sub)component: namely, TBML in the gold trade. The goal of the phenomenon approach is to enhance understanding of the criminal process and the underlying opportunity structures to identify points of intervention for disrupting illicit gold trade. Illicit gold trade, and consequently TBML involving gold, poses a risk to the Dutch government, considering the integrity of the financial system and trade. The trade in gold is particularly susceptible to TBML due to the fact that a small volume represents high value. Additionally, gold does not need to be traded to be valuable, as it serves as a means of payment for criminals within the criminal circuit.

Illicit Gold Trade

Illicit gold trade constitutes an opaque system where there is limited insight into the criminal money flows and the activities funded through them. The Netherlands is part of the complex international network of illicit gold trade, where opportunity structures¹ are utilized to launder money and gold, transfer or move value, fence stolen gold, and gain financial advantage through fraudulent means. In this information document, **illicit gold trade refers to the exploitation of the gold supply chain for illicit activities**². This can be differentiated between domestic illicit gold trade and illicit gold trade conducted by Dutch actors abroad. To recognize and disrupt illicit activities in the gold trade, understanding the regular gold supply chain is crucial.

The Gold Supply Chain

Gold, in many cases, undergoes a production chain involving exploration, extraction, processing, and trading. The gold supply chain can be broken down into various phases, starting with gold mining. The following image illustrates the phases of the gold supply chain.

(1) The gold production process begins with gold mining: exploration for gold veins, extraction of gold, and often an initial purification step.

(2) The raw or lightly purified gold (doré) is then sold by the miner or mining company on a local or regional trading market.

(3) The majority of the gold is transported to a refinery, where it is refined into pure gold. This can be processed into various semi-finished and finished products.

(4) The semi-finished or finished gold products are traded on the national or international gold market.

(5) Some of the gold is used in the manufacturing phase where jewellery is produced, or gold is incorporated into industrial products.

(6) The products from the manufacturing phase then enter the wholesale and retail market, where these gold products are traded.

(7) Gold comes into possession of an individual or business and can be used (wearing jewellery) or reused by, for example, a jeweller or goldsmith.

(8) Old gold and scrap gold are collected by gold buyers as scrap gold and melted down into scrap bars. The scrap bars are then transported to a refinery to be purified, reintroducing the gold into the chain at phase 3.



¹ Opportunity structures are the chances, opportunities, and facilities that society (unintentionally) provides to criminals. Source: LIEC (2019) Landelijk beeld van ondermijnende criminaliteit.

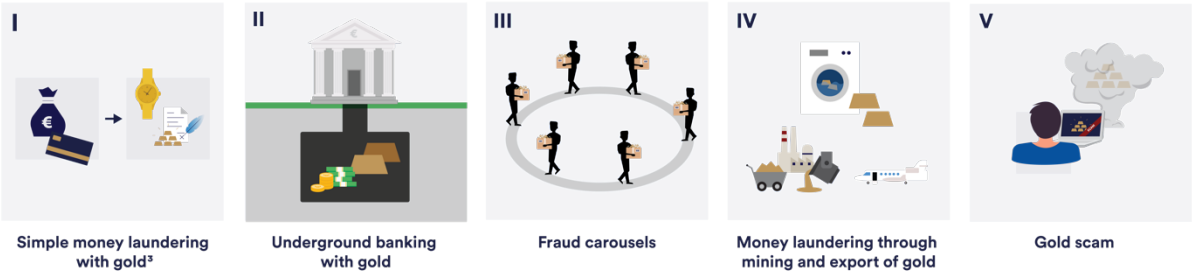
² By 'illicit activities,' in addition to criminal and illegal acts, we also refer to actions that are carried out in bad faith or exploit the legitimate gold supply chain.

The value of gold increases as it continues through the gold supply chain, either through purification or processing into a (semi)finished product. The nature of the desired end product (such as gold bars, gold coins, or jewellery) determines whether certain stages are skipped in the process, for example, semi-finished products going directly from refining to wholesale and retail.

Research conducted by NSOC has confirmed that all stages of the regular gold supply chain are vulnerable to illicit activities. The research indicates that malicious activities occur in all phases of this gold supply chain, carried out by actors in the Netherlands or Dutch actors abroad. The nature and extent of these activities are diverse, and the international character complicates Dutch involvement in illicit gold trade. This complex and international landscape can be structured and simplified by identifying five manifestations. These manifestations have been recognized in available case studies of illicit gold trade in the Netherlands and by Dutch actors abroad.

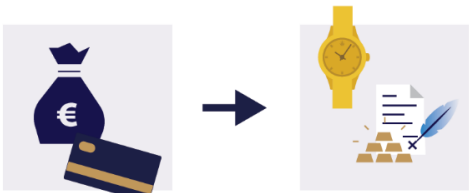
Manifestations of Illicit Gold Trade

Based on available case studies, NSOC has identified five manifestations in illicit gold trade: **(I) Simple Money Laundering with Gold³**, **(II) Underground Banking with Gold**, **(III) Fraud Carousels with Gold**, **(IV) Money Laundering through Mining and Export of Gold**, and **(V) Gold Scam**.



I. Simple Money Laundering with Gold

In the case of simple money laundering with gold, cash or electronic criminal funds are laundered through the direct purchase (and sometimes sale) of gold. The criminal funds for which this method is used originate from, among others, (cyber)fraud or drug trafficking. These funds are converted into investment gold through precious metals traders or into jewellery, mainly watches, through jewellers and private individuals. This process occurs online through web shops or in physical stores. The purchased gold is often later sold in exchange for electronic or cash funds. Simple money laundering occurs in phases 6 (wholesale and retail) and 7 (possession/use of gold) in the previously outlined gold supply chain.

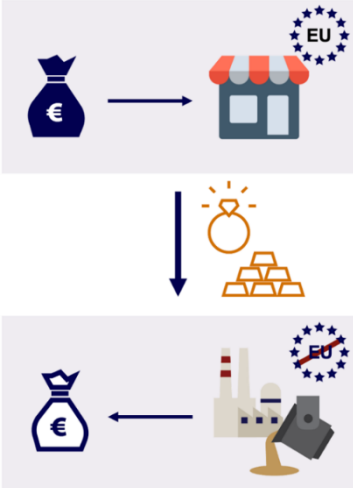


³ It denotes a simplified method of money laundering involving gold. Not the legal definition provided in Article 420 bis.1 Dutch Criminal Code. The term is used to describe the straightforward process of laundering criminal funds through the direct purchase and sale of gold, as outlined in the explanation.

Through simple money laundering with gold, it becomes possible to conceal the origin of criminally earned money. Additionally, financial gains are achieved. The purchased gold is often stored, and during this storage period, an increase in value may occur. This increase can be due to a rise in the gold price or an increase in the value of a watch, resulting from more demand than supply in this market.

II. Underground Banking with Gold

Underground banking in the gold trade involves converting criminal funds into gold, transporting this gold abroad (often outside the EU), and trading the gold with buyers or refineries in foreign countries. Cash (derived from activities such as drug trafficking, fraud, and scams) is received by an underground banker in the Netherlands and is then used to purchase new jewellery and/or scrap gold. Malicious jewellers likely play a crucial role in converting these cash amounts into gold. The (scrap) gold acquired in the Netherlands and neighbouring countries is transported abroad and sold there. This sale generates (laundered) money, which is likely used for local payouts to stakeholders. In this way, criminally earned money is moved and laundered. Activities within this manifestation occur in phase 3 (refining) to 8 (recycling) of the previously outlined gold supply chain.



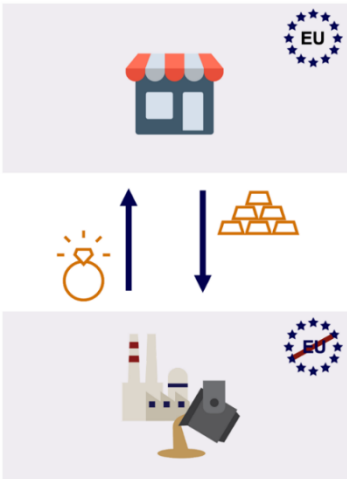
Underground banking with gold is not only used to launder the illicit wealth of malicious actors. This method is also offered as a service to launder criminal funds from other actors. There are costs associated with using this service, as it is customary in underground banking to pay a percentage of the transferred value to the executing party.

Through underground banking with gold, various advantages can be gained, one of which is the aforementioned financial benefit for the service-providing actors. The benefit that can be achieved from the perspective of the user of this service is the movement and laundering of their criminally earned money. The final advantage that can be obtained through this process is the laundering of gold. An example of this is melting down stolen gold jewellery, concealing its criminal origin.

III. Fraud Carousels with Gold

Fraud carousels with gold involve the frequent import and export of scrap gold, new jewellery, and cash, with the aim of gaining financial advantage. Individuals, jewellers, and/or wholesalers in both domestic and foreign markets play a role in this trade. Acquired scrap gold is melted down into scrap bars, which are then transported to trading partners abroad (often outside the EU). The sale of the scrap bars yields cash or electronic funds, which are used to purchase new jewellery, likely produced abroad.

These jewellery items are re-imported into the EU and possibly transferred to other EU countries. Subsequently, the process can be repeated. This manifestation of illicit gold trade takes place in phase 3 (refining) to 8 (recycling) of the previously outlined gold supply chain.



Within these seemingly legitimate trade transactions, there is room to gain illicit advantages. These include financial benefits through tax structures. Secondly, value transfer is possible through over- or under-invoicing. For example, a too-low invoice value for exported goods may conceal value displacement abroad. Conversely, an inflated invoice value, for instance, can give a seemingly legitimate origin to an additional flow of money or jewellery to the Netherlands. Additionally, gold originating from criminal activities (such as trafficking, illegally mined gold, or smuggled gold) can acquire an apparently legal origin through fraud carousels and be mixed with gold of legal origin. Finally, this manifestation provides the opportunity to conceal illicit money flows.

IV. Money Laundering through Mining and Export of Gold

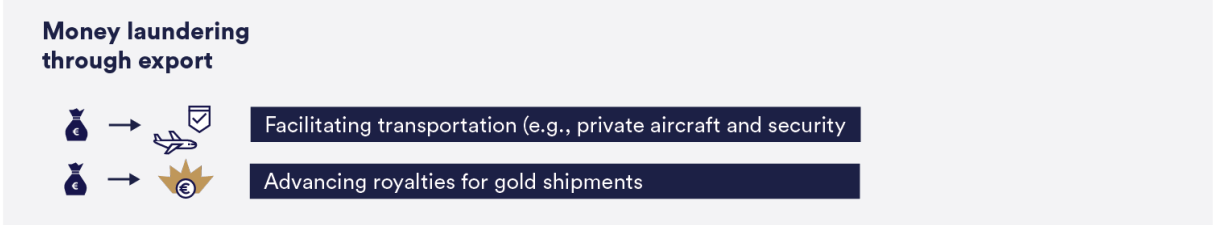
Illicit gold trade also manifests itself at the beginning of the gold supply chain: in mining and in the export of gold from source countries. In this manifestation, the Netherlands plays a role because Dutch (criminal) actors are involved in mining or the transportation of gold, and/or because the Netherlands serves as a significant logistical hub. Three components can be distinguished within this manifestation: mining, gold export, and the Netherlands as a hub. Doré gold, primarily mined in source countries in South America and Africa, plays a significant role in this form. The activities within this manifestation occur in phase 1 (gold mining) to 3 (refining) of the previously outlined gold supply chain.

Investing in mining with criminal funds involves establishing companies that apply for gold mining concessions.⁴ Criminal funds are used to deploy mining activities, purchase (illegal) gold, or deposit cash electronically as apparent proceeds from mining. Additionally, criminal funds can be used for bribes to obtain permits for gold mining more smoothly. Finally, it is possible to launder gold through a gold mine. Gold from areas subject to sanctions or gold mined under illegal conditions can appear on paper to originate from a seemingly legitimate gold mine. Money laundering through mining is observed in countries where cash payments are common. The ability to pay in cash allows criminally earned money to be introduced into the gold supply chain.



⁴ A permit granting the right to operate a mine or mining area

Criminally obtained money is also used to cover the logistical or transportation costs of shipments of gold and/or to pay royalties for the right to export gold. Money laundering of criminally earned funds through logistical or transportation costs, for example, involves facilitating private planes and security. In order to export gold, royalties must be paid to the country where the gold is mined. For larger shipments, these royalties can amount to several million euros. These royalties can be advanced with criminal funds and discreetly repaid after the sale of the gold.



In addition to money laundering through mining or gold export, Dutch infrastructure (airports and roads) and storage facilities (vaults at airports or depots of transport companies) are also utilized for (illicit) trade flows within the gold market, without necessarily involving Dutch criminal actors.



The advantage gained through money laundering via mining and export lies in laundering criminal funds by investing cash in gold batches, gold mining, or gold transports. Money laundering can also take place through seemingly legitimate mining companies. Finally, financial gain can be achieved through the trade of illegally mined gold or gold from sanctioned areas, as it is acquired at a lower price. After laundering this gold, it can be traded at the regular market price.

V. Gold Scam

The fifth manifestation of illicit gold trading is deception through gold trading. This type of scam can occur, for example, by offering fictitious shares in a gold mine. Another scenario involves seeking investors or buyers for a batch of gold or the transportation of a gold shipment. This batch of gold is often fictitious, or there may be clandestine agreements with local authorities to obstruct the export of a gold batch. Investors transfer money, often electronically, to the fraudsters. This money is quickly transferred, sometimes through accounts of various companies or to third parties. In some cases, the financier receives a small share of the gold as motivation to advance more money for the payment of export royalties or transportation costs. Fraud through gold trading can occur in all stages of the gold supply chain but is mainly observed in the first three phases of the previously outlined gold supply chain.

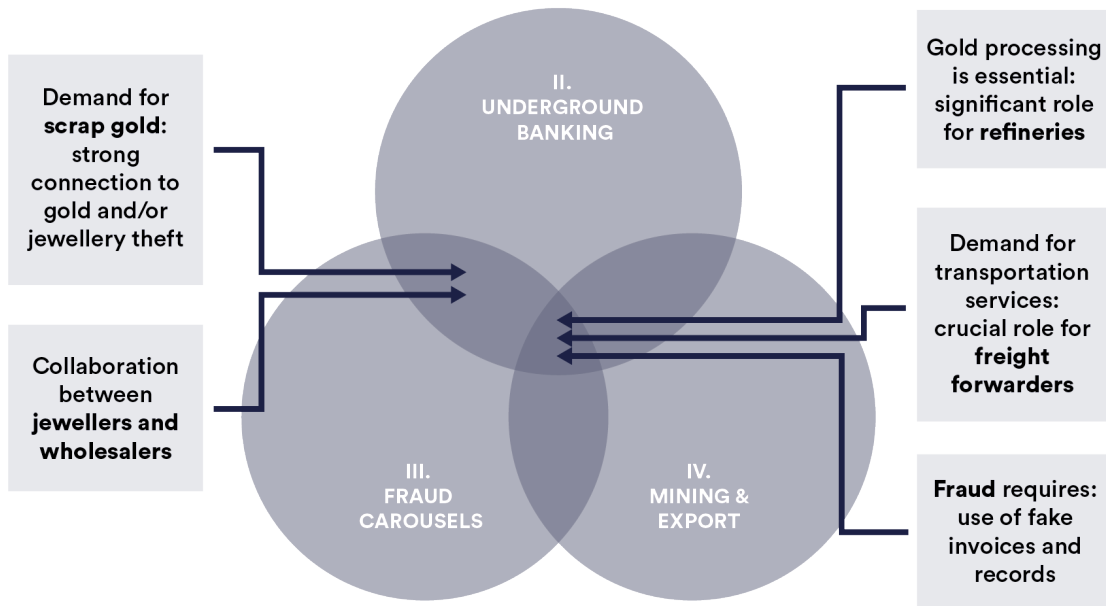
The process can take various forms, with the common thread being the search for buyers for a batch of gold or investors to deploy mining activities or to export gold. It plays into investors' preference for gold (physical or in shares) by emphasizing the stability and rise of the gold price. Cases involving fraud through gold trading often employ intricate or extensive corporate structures. The advantage gained in this manifestation is the financial benefit from the profits generated by fraud and/or deception.



Starting Points for Operations

The goal of the phenomenon approach is to enhance understanding of the criminal process and underlying opportunity structures to identify leverage points for disrupting illicit gold trading. The emphasis is on disrupting manifestations II, III, and IV. Firstly, because in these manifestations, variations of Trade-Based Money Laundering (TBML) with gold have been identified. This means that manifestations involving underground banking with gold, fraud carousels with gold, and money laundering through mining and export of gold use the legitimate gold supply chain to move and launder value internationally. Secondly, these three manifestations have a direct relationship with Dutch drug criminals as they launder their criminal proceeds (partly) through these manifestations. Disrupting these forms of TBML will also impact Dutch drug criminals.

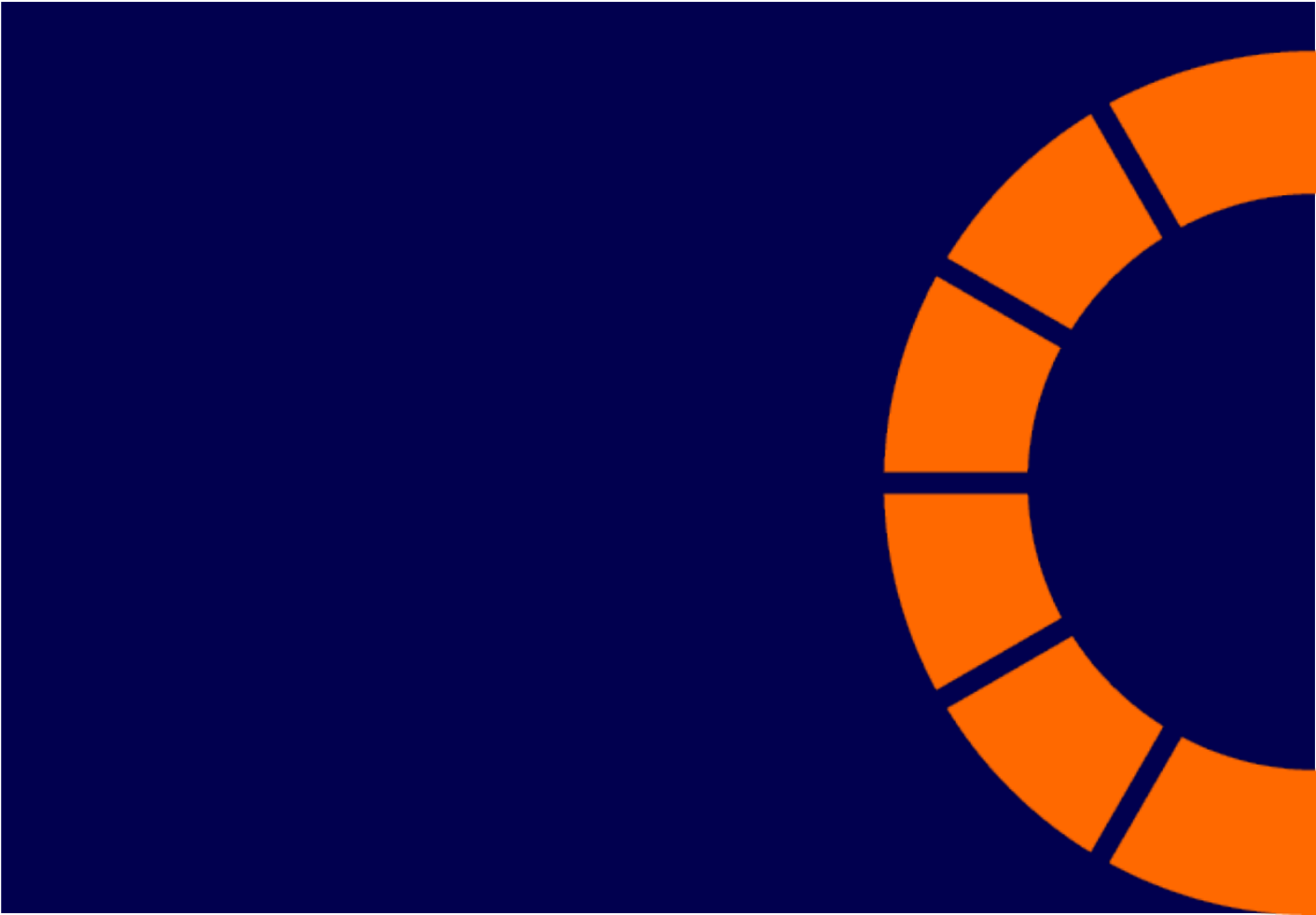
By focusing interventions on the points of overlap between these three manifestations, it is possible to intervene in a targeted and efficient manner. The overlap between manifestations II, III, and IV is expressed in the executing actors and modus operandi. The overlap of actors between underground banking with gold and fraud carousels with gold involves jewellers and wholesalers from different manifestations engaging in trade. Parts of the overlapping modus operandi include the conversion of cash into scrap gold and the origin of this scrap gold. In both manifestations II, III, and IV, the refinery is a crucial actor, as the processing of gold is essential (purifying scrap gold into pure gold) and conceals the origin of the gold. Another point of overlap in the three mentioned manifestations is the demand for transport services for air transport of gold, making the freight forwarder facilitating air cargo an important actor. Finally, in all three manifestations, manipulating invoices and records is part of the modus operandi, for example, to conceal the origin of the gold. While these are the main points of overlap in the manifestations, this list is not exhaustive. The mentioned points of overlap between manifestations are illustrated in the diagram below:



Summary

The Netherlands is part of a complex international system of illicit gold trading, where opportunity structures in the gold trade are utilized to execute the manifestations outlined above. These manifestations represent forms of organized subversive crime, as Dutch (drug) criminals launder their money in this way. The manifestations, as presented in this report, are a simplified representation of reality. In practice, the modus operandi is often more complex, and the manifestations are not always clearly distinguishable from each other, given the existence of hybrid variants.

The international nature of the gold supply chain, the intricate web of illicit activities, and the concealed value flows make understanding and disrupting illicit activities in the gold trade highly challenging. Nevertheless, there are opportunities for the Dutch government and its network partners to intervene strategically, as illicit activities are intertwined with legitimate trade flows over which the Dutch government and its partners can exert influence. National collaboration and information sharing among government agencies and network partners contributes to identifying and disrupting criminal networks in illicit gold trading. There are also opportunities for public-private partnerships to enable targeted interventions in logistical and financial structures.



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