



SALIS THEMA

# GOLD LAUNDERING

THE DIRTY SECRETS OF THE GOLD TRADE – AND HOW TO CLEAN UP

MARK PIETH



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## WHY WRITE THIS BOOK?

I have spent the last 25 years working in the field of international regulation to keep corruption, money laundering and organised crime at bay. As an academic working at a Swiss university, I could of course not help realising that my native country played a very special role not only in banking and commodity trading, but also in refining and trading precious metals.

In contrast to other products, precious metals are imported and re-exported after refining. The sheer magnitude of the turnover is mind-boggling: up to 3,000 t of gold per year, amounting to 50–70 percent of the world's gold refining. So Switzerland is obviously confronted with considerable environmental and human rights risks – adding to the risks from its involvement with financial services (money laundering, kleptocracy, tax evasion and the like), commodity trading (corruption), arms exports, international sports organisations, and more.

I was, and still am, shocked at the general lack of awareness about these risks. I am equally dismayed at the lack of political will to implement regulations to improve the lives of the millions of people involved

in or affected by gold mining worldwide. It is obviously not a problem only for Switzerland. But you would think we had learnt our lesson from the past.

I decided to give international efforts to regulate the gold supply chain, including soft law and self-regulation, a critical look based on my experiences in the fight against economic crime. As this book will show, we have not yet achieved credible protection of essential human rights in this area – and given our fast-growing hunger for other rare metals and rare earth elements, the implications of this go far beyond gold.



BIENVENIDOS A  
LA RINCONADA

TWO SIDES  
OF THE COIN //



## LA RINCONADA

In a world of rocks and glaciers 5,100 metres high in the Peruvian Andes, 60,000 miners, shopkeepers, bartenders and prostitutes jostle for space in a town that, 25 years ago, housed barely five families.<sup>1</sup>

In La Rinconada, the world's highest permanent settlement and largest gold-mining shanty town, vultures do the garbage disposal and stinking human waste hardens on the infertile ground. Alcohol and coca leaves are the only protection against the altitude and brutal climate, which sees temperatures dropping to minus 20°C.

Like the conditions, people are merciless. Entertainment takes the form of fighting, robbing, raping and murdering.<sup>2</sup> And there is nobody to stop this because the police officers and teachers have all turned to mining, preferring to endure the hazardous conditions at the rock face than to live off their meagre salaries.

Without state authority, the miners exert their own justice. Suspects are known to have been strung up.<sup>3</sup> Most miners are armed. Guns are easily available in the closest town, Juliaca, with or without ID. In a recent TV documentary, the place was called a “no-man’s-land”.<sup>4</sup>



Mining is done underground, in some places by digging into the glacier with chisels and hammers. In areas where licensed companies run the mine,<sup>5</sup> methods are slightly less makeshift and the miners work with electric drills and explosives.

Even where mines are formalised, the *cachorro* system under which miners are employed<sup>6</sup> is informal. Depending on the arrangement, miners work 27 or 28 days per month for the mine in order to get two or three days for themselves. A regular shift is four hours. On the days when they work for themselves, they are allowed to take all they can carry in their bare hands or a bag, which usually isn't much. They get no regular salary, no insurance and no pension. Employment conditions have not changed much since the days of the Incas and the Spaniards.

Strikingly though, many miners themselves claim to prefer the *cachorro* system to regular employment according to labour laws.<sup>7</sup> They believe in their luck, just like the bounty hunters caught up in the famed Klondike Gold Rush.<sup>8</sup>



The path to the entrance of the mine leads across frozen mud, ice and rock



Gold and guns, a dangerous combination

## KLONDIKE GOLD RUSH

In 1896 two prospectors, Robert Henderson and George Washington Carmack, were fishing in a stream flowing into the Yukon River in the Klondike region of northern Canada when they found gold. What followed was one of the most feverish and desperate gold rushes in history. Of the close to 100,000 bounty hunters who set out, only about 30,000 made it to Dawson City, the centre of the gold rush. Very few made a fortune. Charlie Chaplin managed to make brilliant comedy out of these events in his 1925 film *The Gold Rush*, but the harsh and murderous reality was surely not very funny for those involved.



What the individual informal miner takes out of the mine in this lottery-like system is usually crunched in a *quimbalete*, a primitive mill powered by men moving heavy stones. It is not so different from methods used in ancient Egypt or Rome.

The miners use large quantities of hazardous mercury – about 10 grams of mercury for one gram of gold – to separate the gold from the ore in a process called *amalgamation*.<sup>9</sup> Mercury is subject to progressive bans all over the world due to its disastrous impacts on human health, plants, animals and entire ecosystems.<sup>10</sup> In La Rinconada and other such mining communities, it is freely sold close by and handled without any protection by bare hand.

A slightly more modern process of gold extraction involves concentrators. Here, ball bearings crunch the sand in a type of washing machine before the mercury is added.

Next, the amalgam of gold and mercury is taken to little shops called *entables*, where women torch off the mercury. As you might imagine, there are no closed-circuit retorts to keep the poisonous substances from escaping.<sup>11</sup> Instead, the mercury fumes simply float up through a little chimney into the open air.

Measurements in a similar environment, Antioquia in Colombia, have shown that the air outside such entables can easily reach 1,000 times the World Health Organization air quality guideline for mercury.<sup>12</sup>

Since mercury does not kill immediately, miners are frequently unaware of its dangers and of the serious health problems awaiting them later in life.<sup>13</sup> Citizens in the nearby village of Putina say that children “do not grow” in La Rinconada due to the mercury contamination of air and water.

The role of women in such places is difficult. Due to the superstitious belief that they will arouse the jealousy of Mother Earth, women are not allowed into the mines.<sup>14</sup> So-called *pallaqueras* are, however, allowed to search for traces of gold in the *tailings*, the rock left over after the gold is extracted. The tailings are often contaminated with hazardous chemicals.

Other women work in bars and brothels as prostitutes. Southern Peru, especially the region of Madre de Dios northeast of La Rinconada,<sup>15</sup> is



Miners crushing gold ore with primitive stone mills ("quimbaletes")

Mercury outlet operated by women without gloves or masks in La Rinconada





Powered "quimbaletes"



Street scene from La Rinconada



“Pallaqueras” searching for traces of gold in rubble left behind by miners

a hotspot for hijacking and forced prostitution. Girls, frequently from neighbouring Bolivia, are the victims of violence by frustrated and jealous miners.<sup>16</sup> Studies by relief organisations talk of 4,500 women forced to offer sexual services in La Rinconada.<sup>17</sup>

Locals, including priests working in adjoining parishes, claim that miners occasionally still perform human sacrifice in La Rinconada to “pacify the devil controlling the mountain”.<sup>18</sup> From outside, these accounts are difficult to confirm.



Corpse of Susy Delgado Quispe,  
murdered in La Rinconada

## THE WORLD OF GLAMOUR

Half of the world's gold production goes into jewellery and watchmaking. Until very recently, the watch and jewellery trade fair Baselworld<sup>19</sup> was the place to go for the industry. Large watchmakers like Swatch spent up to CHF 50 million on presenting their brands at one of the annual events. Even smaller companies would easily invest CHF 1 million and above.

Glamour at the fairground and wining and dining outside were pushed to the extreme. Hotels and restaurants in the region earned millions in just one week.

Up until recently, 1,500 watch and jewellery companies from 40 countries would present their newest products at this fair. Since the market leaders participated, all the others simply had to be present and make use of the hype.

Lately, the fair has experienced a tremendous exodus of annoyed companies. At first it was the smaller companies, who found it difficult to pay for the excruciatingly high rents at the fair and the side costs such as hospitality. Shortly afterwards, however, they were joined by market leaders, who claimed that fairs were outdated in the time of the internet.<sup>20</sup> It must be assumed that the “bazaar of vanities” simply overdid it – too lush, too expensive and too arrogant?

What remained an absolute side issue in the temple of luxury was the question of where the gold came from that filled the show rooms. The courage to raise this question was left to NGOs like Human Rights Watch (HRW).<sup>21</sup> HRW spokesperson Juliane Kippenberg stated that most of the watch and jewellery companies that they surveyed as part of a study did not know where their gold and diamonds were sourced from. Some simply refused to participate in the study.

Baselworld Watch  
and Jewellery Show







Hostesses at Baselworld 2016

At first sight, Chopard sets a significant contrast. In a press conference in March 2018, the Co-Presidents of Chopard, Caroline and Karl-Friedrich Scheufele, announced that 100 percent of the gold used in their production would come from sustainable sources. This news was welcomed as a major step by the media.<sup>22</sup> NGOs remained more reserved: Kippenberg acknowledged the sourcing from *Fairmined*-certified small-scale mines, but expressed disappointment that the rest of the supply chain continued to lack transparency. Indeed, the announcement that the company would source either from Swiss Better Gold Association (SBGA)-accredited or Responsible Jewellery Council (RJC)-certified sources leaves a lot open to interpretation. We will see in [CHAP. 5](#) that RJC certification is far from convincing.

## GOLD LAUNDERING

For over 6,000 years, mankind has been fascinated by gold. What makes it so irresistible? On the surface, this indestructible, shiny element seems of little practical use but to show off status and look good in buildings and artworks. Yet people from all countries, cultures and centuries have trusted it as a kind of world currency, allowing the exchange of goods where national currencies are distrusted. Only in recent times have industrial uses been developed, with gold now regularly used in electrical contacts, semiconductors, mobile phones and medical devices.

A quick look back at history in [CHAP. 2](#) shows that the value of gold goes far beyond its properties as a metal or even its use in trade. Greed for gold drove the brutal Spanish conquest of Latin America and wars between European nations whose consequences are still felt today. Waves of gold rushes in California (1848), Australia (1851), South Africa (1886) and Canada (1896) generated sufficient quantities to start basing national currencies on gold – what we call the gold standard. Gold has profoundly influenced our modern banking and financial systems, and still does.

For all the excitement and fabulous wealth associated with gold, the process of mining it, supplying it and refining it ([CHAP. 3](#)) has brought incredible misery to many people. People like informal miners and their families, struggling to survive and often battling helplessly against multinationals granted licences to take over their land. Slaves, from the convicts and prisoners of war used by Egyptian pharaohs to those working under conditions of forced labour in the eastern Democratic Republic of Congo. The hundreds of thousands of black labourers toiling in South African mines under apartheid, in wretched conditions and with their meagre salaries falling in real terms. Employees of large mining companies, in the past and unfortunately often still in the present.

Despite all the advances in industrial technologies, processes and standards, [CHAP. 4](#) shows that the gold industry still faces formidable challenges. There is growing concern about environmental degradation

caused by gold mining through deforestation and the use of toxic substances. Gold plays a significant role in organised crime, money laundering and tax fraud. But the most visible and shocking risks in the gold supply chain are human rights violations: working conditions, the dispossession of indigenous populations, child labour, violence against women and many more.

How can anyone not see the risks? How is it possible for NGOs and industry players to debate whether gold is really problematic or whether everything is actually okay? Sure, there are laws, standards and initiatives that should serve to kick the gold supply chain into shape. CHAP. 5 sets out a comprehensive picture of them all. Or perhaps we should call it a patchwork, not a picture, because the regulations are still pretty patchy and weakly enforced.

So are the regulations working at all? Turn to CHAP. 6 to find out, but the short answer is “not really”. Here we look more closely at some individual gold refineries, because they are the gatekeepers of a responsible supply chain. Although all of us – regular citizens, NGOs, governments, international bodies, industry associations, mining companies, traders, banks – can play an important role in cleaning up the gold industry, refineries are the key. The complex refining process transforms the rough, raw metal into what we think of as gold, washing off any dirty secrets about where the gold came from and who suffered along the way. Hence the title of this book: Gold laundering.

Some of those working in gold refining openly recognise the risks in the supply chain. The owner of one of the biggest refineries in the world has even said that “[i]n this industry it is impossible to refine clean gold [...]”.<sup>23</sup> But others close their eyes. As you will read in CHAP. 7, Switzerland, the world centre of gold refining, is only just starting to see some of the problems – and to recognise that it has the power to solve them.

By the time we reach CHAP. 8, we have swept through the history, processes, risks and regulations around gold, looking at what works and what doesn't. So we are in a good position to suggest some sensible reforms that can make a real difference to the lives of people working at all

levels of the gold industry, all over the world. And hopefully, by the time you get to CHAP. 9, you'll already know some things you can do to help clean up the shady value chain that lies behind our shiny gold jewellery and the components in our mobile phones.

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In this eye-opening book, Mark Pieth gives an in-depth insight into how the global gold market works, what role Switzerland plays in it, where the hidden abuses lie and how human rights in the gold industry can be protected in a credible way.

The exclusively researched depiction of a key area of economic policy takes us both to the glittering world of gold refining and to the world's worst mining regions. Mark Pieth illuminates the historical roots of the gold trade before turning his attention to today's supply chains, from mines to refineries and clandestine intermediaries to consumers: central banks, investors, jewellers and watchmakers. He reveals some of the horrific problems caused by gold mining that still receive little attention due to a lack of binding regulations – severe environmental destruction, forced labour and human trafficking, land grabbing, stolen assets and money laundering.

Mark Pieth not only points out the problems, but presents clear and coherent solutions for more transparency, greater responsibility for the main players and better protection of human rights.