All That Glitters Is Not Gold, or Is It?

Disclaimer: The views and opinions expressed in this paper are those of the author and do not necessarily reflect any official policies or statements.

A paper offering insights into the shady business of illegal gold mining and smuggling through the eyes of a sunny island.

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## Acronyms

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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACAMS</td>
<td>Association of Certified Anti-Money Laundering Specialists</td>
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<tr>
<td>AML</td>
<td>Anti-money laundering</td>
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<td>ASM</td>
<td>Artisanal and small-scale mining</td>
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<td>CFATF</td>
<td>Caribbean Financial Action Task Force</td>
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<tr>
<td>CFT</td>
<td>Countering the financing of terrorism</td>
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<td>EFT</td>
<td>Electronic funds transfer</td>
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<td>EU</td>
<td>European Union</td>
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<td>FATF</td>
<td>Financial Action Task Force</td>
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<td>FIU</td>
<td>Financial Intelligence Unit</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>MER</td>
<td>Mutual Evaluation Report</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>PEP</td>
<td>Politically exposed person</td>
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<tr>
<td>PMS</td>
<td>Precious metals and stones</td>
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<tr>
<td>TBML</td>
<td>Trade-based money laundering</td>
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<tr>
<td>RAISG</td>
<td>Red Amazonica de Informacion Socioambiental Georreferenciada</td>
</tr>
<tr>
<td>SAR</td>
<td>Suspicious Activity Report</td>
</tr>
<tr>
<td>STR</td>
<td>Suspicious Transaction Report</td>
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<tr>
<td>UTR</td>
<td>Unusual Transaction Report</td>
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Executive Summary: Venezuela Bans Centuries-Long Trade with Neighboring Islands

Early in 2018, the president of Venezuela closed the country's borders to neighboring islands; Aruba, Bonaire, and Curaçao (ABC islands) for 72 hours, halting all flights and ship traffic and even threatening to take more radical measures if necessary. The reason: Venezuelan President Nicolas Maduro accused the islands of smuggling copper, precious metals, and stones out of Venezuela illegally and selling them through black markets.

The islands’ inhabitants were adamant that these allegations were preposterous, as the only goods legally imported to the islands are fresh fruits and vegetables, and this trading cycle has been ongoing for over a century. The goods are brought to the islands from Venezuela by small boats, where they are sold from the wharf, which is called "the floating market," a popular tourist attraction in Curaçao. Nevertheless, the borders remained closed, and the ban continued for over 4 months. During this time the tropical islands grew desperate for produce, as the savannah climate does not allow for much local agricultural cultivation.

Speculations among locals ran wild: Was the threat of war looming? Many foreigners closed their off-shore bank accounts due to the newfound political instability, and rumor had it that the Dutch Kingdom was seeking military reinforcement from allies. The situation remained tense until, very unexpectedly, the Dutch Minister of Foreign Affairs visited Venezuela in order to come to an agreement and persuade President Maduro to lift the border blockade. While a curious strategy, Dutch Minister Stef Blok’s efforts were successful, and islanders rejoiced as many have relatives in Venezuela and all would return to normal.

Intriguing to say the least: Were President Maduro’s allegations, in fact, unfounded?

This paper was written to offer more insight into the illegal mining and smuggling of high-value commodities like precious metals through the eyes of Curaçao, a country that is directly impacted. Aside from illegal mining and smuggling, further research will also explore some of the vulnerabilities of the gold trade market to money laundering, the financing of terrorism, and possibly even corruption.

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2 Venezuelan president shuts down travel to Aruba, Bonaire, Curaçao, January 6, 2018, VOA News.
3 Knops: ‘According to Curaçao and Aruba there is no question of gold smuggling,’ February 12, 2018, Curaçao Chronicle.
4 Venezuela extends suspension of travel and trade with ABC islands over smuggling concerns, 2018, Telesur.
5 Food hoarding on Dutch islands as Venezuela issues trade ban over smuggling, by Anna Paganini, January 8, 2018, NL Times.
6 Na ondertekening smokkelakkoord gaat grens tussen ABC eilanden weer open, by Editorial Staff, April 8, 2018, de Volkskrant.
Although illegal gold mining and smuggling is widespread and on the rise, this paper shall focus on the newly identified golden triangle between South America (Venezuela, Guyana, and Colombia in particular) through the Caribbean to the east coast of the United States or across the Atlantic to Europe.

**Curaçao: Center of Trade throughout History**

Curaçao has a long history of playing a vital role in the triangular trade. When the Dutch colonials settled on the island centuries ago, the island became the center of the triangular slave trade between 1670 and 1815. Scores of African slaves were transported to the Americas through the Atlantic Ocean, making a stop in Curaçao for supplies, bound for the mainland.

A lively illicit trade also developed with the Spaniards situated on the mainland of South America. Due to shortages of slaves and European goods, the illicit trading cycle between the Spanish colonials and the Dutch colonials flourished and continued well into the 18th century, resulting in Venezuela becoming economically dependent on Curaçao during this time.

On November 13, 2017, the European Union (EU) adopted restrictive measures against Venezuela, expressing the Union’s concern over the continuing deterioration of democracy, the

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7 Port History, Curaçao Port Authority.
8 Curaçao, an island of harbors, 2016, Curaçao Maritime Museum.
rule of law, and human rights. Aruba, Bonaire, and Curaçao are subject to the Dutch Kingdom Sanctions Act, which went into effect on January 1, 2017. The act requires the islands to observe any official EU binding acts.

The restrictive measures include, among other measures, the prohibition of the export of arms and the provision of financial assistance related to military activities by member states for use by Venezuela. The restrictions imposed by the EU were most likely the ignition that drove President Maduro to take drastic counter measures by levying the 2018 border blockade against the islands.

Golden Ages

Aurum, the Latin word for gold meaning "shining dawn," referring to its bright yellow color and luster, has captivated man since antiquity. The precious metal is used in the production of jewelry, sculptures, artifacts, coinage, decoration of monuments and statues, and even buildings, such as ancient pyramids, temples, and more modern churches.

Centuries ago gold was first used as a means of exchange or payment and, to this date, still is a universally accepted form of currency. Gold is historically intertwined with various cultural heritages through religious artifacts and adornment, making it a highly sought-after and prized commodity. In modern ages gold is now also increasingly utilized for electronic products, dentistry, and medicine. Gold also plays a vital role in modern day transportation, including the production of airplanes and automobiles.

Global Gold Demand (tonnes, 2012)

Gold remains one of the most popular and functional minerals throughout history. Man has crossed many oceans with an insatiable quest for gold, leading to the discovery of Aruba, Bonaire, and Curaçao in 1499.

The Allure of the Gold Trade to Criminals

Due to the global strengthening of AML/CFT (anti-money laundering/countering financing of terrorism) measures, laws, rules, and regulations in the formal financial sector, law enforcement is seeing a shift in criminal behavior.\(^\text{13}\) Organized crime is seeking less-regulated channels in order to launder illicit gains and proceeds from fraudulent activities, narcotic sales, human trafficking, and prostitution. The anonymity, untraceability, and relatively limited supply chain oversight associated with the mining and trading of gold, make it especially attractive to criminals. In addition to being virtually untraceable, gold is also physically durable, and its value is considerably high.

Gold is not the only precious mineral mined and traded\(^\text{14}\) internationally; there are other high-value minerals on the market today. Precious metals are comprised of silver and platinum, and various precious stones include diamonds, emeralds, sapphires, and rubies, but unlike precious stones, there is a constant market for gold.\(^\text{15}\)

Criminals constantly seek to discover new ways to exploit weaknesses in regulatory frameworks to conceal their ill-gotten gains; the current gold trade definitely provides several methods to do so. It is important to note how the gold trade lends itself to laundering money\(^\text{16}\); some of the most notable methods are explained below.

Cash-Intensive Businesses

Many businesses dealing in gold, e.g., cash for gold, are cash intensive, bypassing any formal electronic funds transfer (EFT), which makes it hard to identify the purchaser and seller. Much of the gold traded in cash for gold businesses is said to have originated from the black market (including jewelry theft). In most instances, criminals can easily and effectively convert ill-gotten gold into cash without having to prove ownership.

\(^{14}\) Diamonds are forever: Financial crime and the European metals and stones industry, December 2017, ACAMS Web Seminar.
\(^{15}\) Gold Market Infrastructure, World Gold Council.
\(^{16}\) Sluicing public data, by Angel Nguyen Swift, March 20, 2018, ACAMS Today
Corruption Deals and Bribes without Electronic Transactions

More studies on the topic have revealed that gold is also attractive to corrupt political officials abusing their power. When entrusted with the authority to issue permits, rogue political officials accept bribes in the form of gold bullion, which can be deposited in a bank locker until it is converted to cash with no trace whatsoever.

Trade-Based Money Laundering

Trade-based money laundering (TBML) as defined by the Financial Action Task Force (FATF) is “the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimize their illicit origins”\(^1\) (FATF 2006 p.3). Value can be moved through false reporting, such as commodity over-valuation or under-valuation, creating an opportunity to launder funds.\(^2\) Ironically, the movement of value without the movement of the underlying commodity was created by the gold market itself to reduce the costs and risks of transporting this highly sought-after commodity.

Smuggling

Criminals may also recruit couriers or mules to move gold across borders, seeking out jurisdictions with little to no governance over the tracking or movement of gold. With a little creativity, the smuggling of illegal gold also presents few difficulties. Gold has a high value and is portable and odorless, making it much easier to smuggle than narcotics. Gold can take many forms as gold bullion can be disguised to look like everyday artifacts. Studies have revealed that gold bullion has been melted and re-cast to look like souvenirs, wrenches, nuts, bolts, and even belt buckles, circumventing being intercepted by border control and customs.

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\(^1\) Trade-Based Money Laundering, 2006, FATF.
\(^2\) Trade-Based Money Laundering, 2019, ACAMS.
In countries such as Colombia and Peru, previously and infamously known for the production of cocaine, the illegal export of gold now surpasses the value of cocaine exports\(^{19}\), deeming it the largest illicit export product for these countries in recent years, due to the ever-growing global demand for gold.

**ASM, Illegal Mining, Labor Exploitation, and Corruption**

The extraction of gold can be extremely dangerous, invoking serious effects on communities situated around mining sites, ranging from social problems to severe human rights violations\(^{20}\) described in more detail below.

**Artisanal and Small-Scale Mining**

An artisanal and small-scale miner (ASM) can be defined as being an independent miner, not officially employed by a mining company, using their own resources (primitive tools) to mine various minerals. Artisanal and small-scale mining (ASM), illustrated below, is much more labor intensive as opposed to large-scale formal mining.\(^{21}\)

Ninety percent of all gold miners are ASMs, estimated at 16 million individuals worldwide. The ASM sector faces key vulnerabilities such as weak controls and oversight regulations, poor social and environmental practices, the use of forced child labor, and illegal smuggling involving organized crime circuits and guerilla groups, which contributes to exploitation, conflict, displacement, and human trafficking.

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\(^{20}\) *The Gold Paper*, 2013, the British Jewelers Association and the National Associations of Goldsmiths.

Although ASM and illegal mining are not the same, both practices use similar methods to extract gold dust that involve primitive methods leading to deforestation of the Amazon. The technique is simple: Trees are cut, and a hole is dug, from which clay slurry is extracted using pumps; the slurry is then sluiced. The resulting gold dust is mixed with mercury, which binds the gold in the amalgamation process. After that, the concoction is burned to separate the metals using tin cans. The heating of the mixture allows the mercury to stick to the tin cans and separate from the gold, which releases toxic fumes in the process. The final product is unregistered, untaxed, and sold on the black market.

Illegal mining occurs when the mining sites are located in environmentally protected areas. Every once in a while authorities find and raid illegal camps to destroy the pumps and other mining equipment used to extract the mineral. Destruction of equipment does not stop the miners from relocating to a different part of the Amazon and start the process of deforestation all over again. The areas around the mining sites are affected by erosion, preventing flora from growing.

It is said that miners who possess funds will bribe authorities to prevent the police from raiding their camps and destroying their equipment. Those who cannot afford bribing are frequently subject to raiding.22

**Illegal Mining and Labor Exploitation**

Studies23 reveal that illegal mining is rampant in Latin America. In some instances, illegal mining replaces the production of narcotics, as precious metals are much easier to conceal and passed off as legal in comparison to narcotics. Illegal mining oftentimes occurs in environmentally protected areas, bypassing all formal labor and taxation laws, and is frequently controlled by criminal groups.24

Due to the absence or lack of government control and oversight related to mining in various poverty-stricken countries, criminal organizations exploit the weaknesses to their advantage. Because many workers employed by illegal mines are destitute and have low levels of education, they are extremely vulnerable to debt bondage and forced labor. These workers include victims of displacement, minorities, and individuals without proper identification documents who are typically unable to find work in formal sectors. They fear being reported to authorities, thus chances of speaking up against abuses of human and labor rights are slim.

The work in illegal mining is dangerous: Workers face mine collapses, explosions, and exposure to elements and poisonous substances such as mercury and cyanide. They have no protective gear and handle hazardous material with their bare hands.

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23 *The Nexus of Illegal Gold Mining and Human Trafficking in Global Supply Chains. Lessons from Latin America*, July 2016, Verité.
24 *Report of Regional Threats on Money Laundering*, 2016, GAFILAT.
Some of the most dangerous activities include swimming in pools filled with mercury to extract gold-laced grit using powerful suction hoses, with the risk of drowning or disembowelment by these suction devices.

Research also indicates that children as young as eight years old are recruited into illegal mining work, as their parents receive very low wages, leaving them no choice but to let their children follow in their footsteps. Sexual exploitation is also common in illegal gold mining areas controlled by armed groups. Sex traffickers offer displaced women who are desperate for a source of income fake jobs, then subsequently trade them to brothels. Sadly, many children in these areas are also targeted in illegal prostitution, as the myth exists that younger girls are less likely to carry diseases.

Survey RAISG
A recent survey\(^\text{25}\) published by the Amazon Socio-Environmental Geo-Referenced Information project (RAISG) reveals the shocking severity of the impact on the environment and its waterways as a result of illegal mining in the Amazon. The survey comprises of six Amazonian countries, namely Bolivia, Brazil, Colombia, Ecuador, Peru, and Venezuela.

According to Lorraine Chow, the survey also sheds light on the immense scope and exponential growth of illegal mining due to the steadily increasing demand for gold. The results of the survey, released in early December 2018, reveals 2,312 sites and 245 extraction areas for gold, diamonds, and coltan. The results of the survey documented in a visual map\(^\text{26}\) also disclose 30 affected rivers in the Amazon. The areas most impacted extend between Brazil and Venezuela, as the area contains at least 55 illegal mining sites in environmentally protected areas.

Illegal mining practices release large amounts of mercury into waterways and the atmosphere. Aside from the detrimental impacts on the environment, the exposure to mercury causes a long terrifying list of health effects, such as irreversible brain damage, lesions of the skin, damage to vital organs, birth defects, miscarriages, and untimely death.

Mercury exposure is not limited to workers of illegal mining alone, as the fish in areas affected by ASM and illegal mining are contaminated as well. Mercury can be transported long distances by air and water, poisoning soil and waterways, and eventually making its way in the overall food

\(^{25}\) Unprecedented new map revealing illegal mining destroying the Amazon, by Lorrain Chow, December 12, 2018, Ecowatch.

\(^{26}\) Map of Illegal Mining, December 2018, Red Amazonica de Informacion Socioambiental Georreferenciada.
chain. ASM and illegal gold mining are a large threat to the Amazon Rainforest and do not only affect the indigenous people and wildlife that dwell there, but the entire world. The rainforests play a vital role in maintaining the world’s water cycle by producing large amounts of rainfall each year. Moreover, rainforests also help to stabilize the earth’s climate by absorbing extensive amounts of carbon dioxide and producing the oxygen we are all dependent upon to survive.

**Venezuela**

Due to both the actual physical and the political/economic environments, Venezuela has been plagued for many years by hyperinflation, decease, crime, famine, and mass migration of its inhabitants to neighboring territories, making the country vulnerable to the practices of illegal mining. It comes as no surprise that Venezuela harbors a large number of illegal mining sites.

The graph below illustrates an estimation of illegally produced gold in Latin America, mainly originating from Venezuela.

![Estimated Percentage of Gold not Produced Legally](image)

**Corruption**

Verité reports that corrupt government officials are responsible for the staggering amounts of illegally mined gold entering into the global supply chain through document falsification. The gold is purchased by prominent refineries in the United States, Italy, Switzerland, and the United Arab Emirates. These refineries supply some of the biggest central banks, jewelry companies, and electronics producers in the world.

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28 Why are rainforests important? Wonderpolis.
Curaçao Is the Home of One of the Greatest Gold Heists in History

One of the largest gold heists of all time took place in Curaçao. As detailed in a published article by Jan Skoyles, head of research at the Real Asset Company (a platform for secure and efficient gold investment), the heist took place on the 30th of November in 2012, when six armed robbers, posing as customs officials, made off with $11.5 million USD worth of gold bars.

The robbery took place a little after 4 a.m. when an inconspicuous shipping boat called the "Summer Bliss" moored on the wharf of the Santa Anna bay in Curaçao. The robbers reportedly knew their way around the ship with an unarmed crew, as they managed to take 216 kg of gold bullion within minutes, leading to the assumption that this might have been an inside job. The Summer Bliss originated from Georgetown, Guyana.

Conflicting reports state that the gold was originally destined for Miami, however, it was also said that the shipment was meant for a local jewelry store operating in Curaçao.

According to local authorities, the shipment was to be a legal trans-shipment as the usual protocol was followed, and customs was fully aware of the large amount of gold being transported. Guyana authorities proclaim, however, that legal gold shipments are typically transported by heavily secured air freight, raising concerns of potential smuggling in order to circumvent taxes and royalties.

Of the 70 stolen gold bars, 56 were seized by local police. In 2013, another 11 gold bars, sent from Curaçao by postal mail, was confiscated by U.S. customs in Puerto Rico, when packages were flagged as suspicious due to their unusual weight.

This particular incident attracted worldwide media attention leading to the request by U.S. authorities to delve deeper into potential smuggling cases between Curaçao and the United States, outlined in a letter dated January 21, 2013. The letter also inquired why the Curaçao authorities selectively investigated this specific robbery, as opposed to smuggling between Guyana and Curaçao in general. Purportedly, there was a dossier stating that gold smuggling between Guyana and Curaçao had been ongoing for the past 15 years. The gold is brought to the

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30 Multimillion gold heist from Curaçao boat, November 30, 2012, USA Today.
31 Gold bars found in Puerto Rico point to Curaçao heist, January 11, 2013, Guyana News.
32 U.S. authorities want an investigation of gold smuggling cases, January 25, 2013, Curaçao Chronicle.
island illegally and leaves with legal papers bound for the United States. U.S. authorities are of the opinion that the potential involvement of customs is not being properly investigated.

Seven suspects were arrested in the Summer Bliss case: one Bonaire national, three Venezuelans, and three Curaçao nationals.\textsuperscript{33} To this date, it is unclear whether charges were brought against the suspects.

**Curaçao Dubbed as Gold Smuggling Hub by United States**

*Due Diligence in Colombia's Gold Supply Chain: Where Does Colombian Gold Go?,* a report\textsuperscript{34} published by the OECD in 2018, states that strict regulation of gold sourcing introduced in 2015 fostered gold contraband coming from Colombia. The research indicates that international traders had to turn away gold from local traders who could not provide legal documentation about the origin of their product. At that time, law enforcement agents started tracing flows of contraband gold leaving Antioquia to Venezuela by airplane and arriving in Curaçao and Aruba. Traders that were consulted noted there are direct flights from Medellín and Bogotá to Curaçao, Aruba, and Barbados, taking hundreds of kilograms of gold from unauthorized producers every month via human couriers or parcel services (OECD 2018 p.7).

Since the early 2010s, U.S. authorities have singled out Curaçao as a hub for gold smuggled from Guyana into Surinam as well as from Venezuela, but Curaçao could also be receiving significant volumes of gold coming from Colombia. Traders in Curaçao and Aruba finally sell the gold to traders in Miami, sometimes via their subsidiaries in the British Virgin Islands, or directly to Europe (mainly to the Netherlands), further diluting the potential for traceability (OECD 2018 p.8).

The report continues to state that the proliferation of gold smelters and subsidiary offices of gold refiners in the region—some in Free Trade Zones—has further raised concern about the sourcing of contraband gold. Smelters in Antigua, Barbados, and Curaçao, and the recent opening of two gold refineries in Surinam suggest that these places are becoming important hubs for smelting and reselling significant quantities of gold. However, Colombian official figures do not report any gold export to these countries (OECD 2018 p.8).

This OECD report is clearly indicative of active gold smuggling from South America through the Caribbean.


\textsuperscript{34} *Due Diligence in Colombia's Gold Supply Chain: Where Does Colombian Gold Go?* by Frederic Masse and Juan Muneevar, 2018, OECD.
In 2011, the Caribbean Financial Action Task Force (CFATF) performed its second mutual evaluation of Curaçao as autonomous country within the Dutch Kingdom. During the 1999 and 2002 evaluation, Curaçao was still part of the Netherlands Antilles, consisting of several island territories (Bonaire, Curaçao, Saba, Sint Maarten, and Sint Eustatius).

The Mutual Evaluation Report (MER) was based on the laws, regulations and other materials supplied by Curaçao, and information obtained by the evaluation team during its onsite visit to Curaçao from August 22 to September 2, 2011. Subsequently, during the onsite visit, the evaluation team met with officials and representatives of relevant Curaçao government agencies and the private sector.

The report provides a summary of the AML/CFT measures in place in Curaçao as of the date of the onsite visit or immediately thereafter. It describes and analyzes those measures and provides recommendations on how certain aspects of the system could be strengthened. (CFATF 2012 p.5)

The report mentions how several aspects of then-current AML/CFT measures could be strengthened. For the sake of this paper, our focus will be on the governance of the tracking and movement of gold in particular.

Remarkably, in 2012, when the MER was published, it stated that the Curaçao authorities were engaged with the governments of Venezuela and Colombia with regard to breaches of gold exporting regulations and money exchange regulations respectively. (CFATF 2012 p. 57)

The report also stated that prosecutors and other law enforcement authorities indicated that customs does not have or does not use the power to further look into unusual cross-border movement of gold or other precious metals or precious stones. As such, customs is not obligated to have the expertise to establish the source, destination, or purpose of the movement of this item. According to law enforcement authorities and prosecutors, in recent cases, it would have been useful to have customs seeking additional information on the true origin of gold being imported into the country. (CFATF 2012 p.108)

The evaluation team concluded that there was no adequate process in place to identify the source, destination, and purpose of movement of gold or other precious metals and stones. It duly recommends that customs should be obligated to better monitor the source, destination, or purpose of the movement of gold or precious metal and stones. (CFATF 2012 p.109 and p.268)
In November 2016, Curacao gained the largely compliant status after submittal of several follow-up reports indicating that the country had strengthened its legal and regulatory AML and financing of terrorism framework and, by doing so, addressed all the deficiencies identified in the MER 2012 as related to the FATF Core and Key Recommendations, number 4, 5, 13, 26, and 35, and special recommendations number I, II, III and IV (see Appendix 1). Subsequently, the country applied to exit the next round of the follow-up evaluation process, which was duly granted by the plenary in Providenciales, Turks and Caicos Islands.

Unfortunately, the tracking of the movement of precious metals and stones does not fall under the aforementioned FATF recommendations addressed by the Country of Curaçao in their effort to gain the largely compliant status.

There is no indication of any measures taken to address the deficiencies identified in FATF recommendation 32 (see Appendix 2), despite overwhelming evidence of lax custom and border controls.

**Call to Action for Regional Governments to Join Forces**

Many organizations such as the OECD, Verité, and RAISG, to name a few, have been making recent efforts to demonstrate the scope of the problem concerning illegal gold mining and its effects on the environment and the global economic impact due to illegal smuggling of minerals. The consequences are not limited to South America and the Caribbean alone, but affect the entire world, due to the global demand for minerals by both poor and rich countries.

The only way to put an end to the destruction of the Amazon, the labor exploitation of vulnerable individuals, and the facilitation of organized crime through smuggling of minerals is to make a combined effort by regional governments and respective companies to stop the export and purchase of illegally mined minerals.

Government agencies must strengthen oversight regulations on the tracking and movement of minerals to combat illegal practices, starting with border controls. They can raise fines and take disciplinary action against offenders; make funds available to educate individuals on the detrimental health and environmental effects of illegal mining; and offer special facilities for victims of labor exploitation and sex trafficking.

Most importantly, governments need to combine efforts, taking into consideration that many gold producing countries do not have the financial means to combat illicit practices.

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36 International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, FATF.
37 Curacao jurisdiction exiting the third round of mutual evaluations, CFATF.
A global holistic approach in order to combat the nefarious gold industry would be the introduction of gold certificates\(^{38}\), ensuring that the provenance of the gold is sustainable and legal. Worldwide cooperation would be required to ensure efficacy, which in itself would be an arduous task.

Verité suggests that a possible solution to minimize the purchase of illegally mined gold, linked to human trafficking and other labor and human rights abuses, would be to implement the following recommendations:

**Verité’s top recommendations for governments of gold importing countries:**

- Ensure that all federal suppliers conduct rigorous due diligence.
- Prevent illegally produced gold from entering the country by strengthening and enforcing existing laws on corruption and forced labor.
- Prosecute individuals and companies in violation of laws due to engaging in gold laundering and importing illegal gold.
- Fund projects to combat human and labor rights violations in gold producing countries.
- Provide incentives to companies importing gold from internationally certified ethical sourcing initiatives such as Fairtrade and Fairmined.

**Verité’s top recommendations for companies that process gold:**

- Follow internationally recognized due diligence for sourcing of gold.
- Purchase traceable and conflict-free gold whenever possible.
- Support initiatives to improve countries’ abilities to address illegal gold mining.

**The IMF Advocates Countries to Strengthen AML/CFT Frameworks Concerning the Tracking and Movement of PMS**

Although FATF recommendation 32 regarding cash couriers does not include precious metals and stones as bearer negotiable instruments, as suggested by the IMF\(^{39}\), it would benefit the battle against illegal smuggling significantly if countries were to have a disclosure system in place obliging travelers to declare cross-border movement of precious metals and stones.

\(^{38}\) Opportunities, not oppression, to stop illegal mining in the Peruvian Amazon, by David J.X. Gonzalez, February 18, 2016, Yale Global Online.

\(^{39}\) Implementing AML/CFT Measures in the Precious Metals Sector: Preventing Crime While Making Revenue, by Emmanuel Mathias and Bert Feys, August 2014, IMF.
A means of information exchange between countries would offer great insight into the movement of minerals. The country of transit would be enabled to notify the originating country and country of destination if precious metals and stones were considered a required reportable item alongside currency and bearer negotiable instruments. In most countries customs, border controls and declarations are already in place; a slight adjustment including mandatory declaration of cross-border transit of PMS would be a valuable asset.

Customs would then report any declarations of interest, above a certain threshold or related to any unusual activities to the Country’s Financial Intelligence Unit (FIU), to enable law enforcement to unveil patterns and flow of minerals in order to close in on organized crime circuits.

**Case Study Illustrating How the Financial Sector Can Be Affected by the Cross-Border Cash Couriers**

**GOLD TRADE MARKET Curaçao**

Two companies with the same directors imported gold from Venezuela. Several reporting entities reported the transactions related to these two companies to the FIU. In a few years, approximately ANG 120,000,000 was reported to the FIU. Most of the transactions were reported with indicators stating that these transactions were possibly related to money laundering and/or terrorist financing. A large portion of the transactions was not in line with the normal business profile of the respective companies. On a regular basis, large cash amounts were also deposited on the company accounts in Curaçao. Research revealed that a portion of the Euros came from Venezuela and were brought to Curaçao by courier. To our knowledge, these border transactions were reported to Customs.

**Typologies**

- Trade-based money laundering
- Money laundering through the gold trade market
- Money laundering through cross-border cash couriers

**AML/TF Indicators**

- The transactions are not in line with the normal profile of the subject.
- Physical transportation of cash brings a significant security risk.
- The way in which the money was transported and/or offered
- Although the money is generated in Latin America, the cash amount is in Euro.

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40 Annual Report 2011, MOT, Unusual Transaction Reporting Center (FIU) Curaçao.
• Most of the transactions were indicated by the indicator for possible money laundering and/or terrorist financing.

**What Role Can the International Financial Sector Play?**

**De-Risking**  
Although it might be tempting for financial institutions and services providers in the financial sector to de-risk and eliminate all ties with the gold trade market driven by cost reduction and resource allocation, de-risking will not eliminate the worldwide phenomenon of illegal gold mining and smuggling. In fact, it will force gold traders underground to utilize more opaque channels with the result that law enforcement will lose all tracks of criminal activities and behavioral patterns.

**SAR, UTR, & STRs**  
By reporting suspicious activity reports, unusual transaction reports, and suspicious transaction reports to the Country FIU, law enforcement will be more able to effectively monitor, pinpoint, and combat illegal practices.

Regulators should provide incentives and fund educational programs for financial institutions in order to better equip these organizations and enable them to effectively identify and report any suspicions connected to the gold trade market as it concerns a global nodus.

Rules and regulations in various jurisdictions that involve production, import, or even transit of gold could be adapted to grant immunity to financial institutions and financial services providers from personal liability and prosecution, once illegal practices are identified, documented, and reported accordingly—provided there is no indication of facilitation or willful blindness.

**FATF’s Top Behavioral Patterns and Red Flags When Dealing with Gold Trade Market Activities**

**Customer Behavior**

- Customer buying gold bullion and using a general post office (GPO) or private service provider mailbox as their address, without listing a corresponding box number
- Unusual pattern of bullion transactions and nature of the transactions inconsistent with the customer profile

**Company Behavior**

- Movement of abnormally large sums of money in various accounts of the individuals and companies that are not related to the nature of their business
Unusual deposits, i.e., use of cash or negotiable instruments (such as traveler’s checks, cashier’s checks, and money orders) in round denominations (to keep below reporting threshold limit) to fund bank accounts and to pay for gold. The negotiable instruments may be sequentially numbered or purchased at multiple locations and may frequently lack payee information.

Use of a corporate structure of shell companies located across the jurisdictions

Significant number of companies registered to one natural person

Trade-Based Behavior (also related to TBML)

- Cash payments for high-value orders are an indication of trade-based money laundering (TBML) activity.
- Misclassification of gold purity, weight, origin, and value on customs declaration forms
- Gold is shipped to or from a jurisdiction designated as "high risk" for money laundering activities or sensitive/non co-operative jurisdictions.
- Gold is transshipped through one or more such high-risk/sensitive jurisdictions for no apparent economic reason.

Payment Behavior

- Purchase of gold bullion with bank checks may be an attempt to conceal the source of the funds and underlying ownership.
- Cash is used to purchase bullion, especially when there are multiple purchases in a short timeframe, or when large amounts are purchased at or when large amounts are purchased at once, or when there are structured cash deposits into an account to finance a single gold bullion purchase.
- Original source of funds to buy gold bullion cannot be established. The transaction involves the receipt of cash (or by other payment methods, including checks or credit cards) from third-party entities that have no apparent connection with the transaction or front or shell companies or wire instructions/payment from parties who were not identified in the original letter of credit or other documentation.
- Transactions between domestic buyers and sellers with sales proceeds are sent to unknown third-parties overseas.

Gold Mining Behavior

- The development of mining activities without compliance with the administrative, technical, social, and environmental regulation
- The development of mining activities in prohibited areas

IMF Identifies Possible Risk Indicators for Financial Institutions When Dealing With PEPs

- Significant sums are transferred to or from the accounts of persons known to be active in the precious minerals industry.
- Known associates or family members of politically exposed persons (PEPs) do business with dealers in the precious minerals sector frequently for significant amounts, or in
sectors that lie outside of what they are expected to engage in (e.g., business dealings with persons active in the scrap gold market as opposed to jewelers).

PEPs request special facilities at financial institutions, such as safe deposit boxes of a certain size, which could be used to safeguard precious minerals.

**Recommendations for Consumers and Final Users**

**What Role Can Consumers and Final Users Play to Minimize Consumption of Products Fabricated Using Illegally Mined/Obtained Gold?**
Collectively, consumers have a great deal of influence on the fabrication of products. Just as the consumer can look for the Fairtrade logo on packets of tea and chocolate or the cruelty-free logo on cosmetics and toiletries, the consumer can also start demanding Fairtrade\(^{41}\) and Fairmined\(^{42}\) logos on jewelry or electronic devices. Large corporations have undeniably come a long way in recent years to accommodate consumer demands. The key to success is awareness.

![Fairtrade and Fairmined logos]

**Conclusion**

**Conclusion**
President Maduro may actually have been onto something; however, his current reign of corruption is driving Venezuela deeper and deeper into economic crisis and is undoubtedly fueling the illicit gold trade. It is speculated that large-scale smuggling of minerals to the ABC islands occurs under the watchful eye of the Venezuelan military.\(^{43}\) Much to the dismay of many islanders and Venezuelans alike, Nicolas Maduro was inaugurated for a second term of presidency on January 12, 2019.

Meanwhile, there has been significant development concerning Curaçao and Venezuela, as Dutch Minister Stef Blok has declared Curaçao a hub for humanitarian aid geared at Venezuela in close collaboration with Juan Guaido and the United States.\(^{44}\) The Netherlands is one of the 50

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\(^{41}\) Gold miners, Fairtrade Foundation.

\(^{42}\) Alliance for Responsible Mining, Fairmined.

\(^{43}\) Large-scale gold smuggling from Venezuela, January 15, 2018, *Curaçao Chronicle*.

\(^{44}\) Netherlands sets humanitarian hub for Venezuela in Curaçao, February 13, 2019, *Fox News*. 
countries that recognize Juan Guaido as interim president of Venezuela.\footnote{Dutch to set up Venezuela aid hub on Curacao, February 14, 2019, \textit{Channel News Asia}.} Subsequently, President Maduro closed Venezuela's borders once again to the neighboring ABC islands, this time in an attempt to block any aid from reaching Venezuela.\footnote{Venezuela closes borders to 3 Caribbean islands ahead of aid showdown, by Nicholas Casey, February 20, 2019, \textit{The New York Times}.}

One thing is certain: The geographical location of the ABC islands, Curaçao in particular, is definitely a contributing factor for the transit of both legally and illegally obtained minerals originating from South America.

Aside from being the center of the triangular slave trade orchestrated by the Dutch between 1670 and 1815, a dynamic illicit trading cycle with Spanish colonials on mainland South America also developed on Curaçao around 1670. Curaçao is no stranger to being a key point of transit for questionable merchandise. History is simply repeating itself.

The island would be greatly benefited if the governance and oversight on the tracking of the movement of precious metals and stones would be strengthened. Not only would it create job opportunities for the island’s inhabitants, but more importantly aid in the universal battle against crime.

**A Whole Gold World**

As an experienced AML/CFT professional with a long history of working in the financial services sector, I have never entertained the idea that illegal mining and smuggling of gold were such extensive conduits for money laundering, terrorist financing, and corruption. Having said that, my objective in writing this paper is to raise awareness of the immense suffering involved with labor exploitation and the detrimental impacts on the environment related to illegal mining and smuggling of gold in order to satisfy our material demands. This paper will hopefully make you more conscientious the next time you purchase an “easily” attainable object such as a piece of gold jewelry or an electronic device.

**Thanks**

I dedicate this paper to my proofreader for helping to make this all possible: You truly have a heart of gold. Special thanks to my mentor for helping me navigate through uncharted waters: You are an Angel.
Appendix 1
FATF Recommendations

**Recommendation 4 – Confiscation and Provisional Measures**
“Countries should adopt measures similar to those set forth in the Vienna Convention, the Palermo Convention, and the Terrorist Financing Convention, including legislative measures, to enable their competent authorities to freeze or seize and confiscate the following, without prejudicing the rights of bona fide third parties: (a) property laundered, (b) proceeds from, or instrumentalities used in or intended for use in money laundering or predicate offences, (c) property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organizations, or (d) property of corresponding value.

Such measures should include the authority to: (a) identify, trace and evaluate property that is subject to confiscation; (b) carry out provisional measures, such as freezing and seizing, to prevent any dealing, transfer or disposal of such property; (c) take steps that will prevent or void actions that prejudice the country’s ability to freeze or seize or recover property that is subject to confiscation; and (d) take any appropriate investigative measures.

Countries should consider adopting measures that allow such proceeds or instrumentalities to be confiscated without requiring a criminal conviction (non-conviction based confiscation), or which require an offender to demonstrate the lawful origin of the property alleged to be liable to confiscation, to the extent that such a requirement is consistent with the principles of their domestic law.”

**Recommendation 5 – Terrorist Financing Offence**
“Countries should criminalize terrorist financing on the basis of the Terrorist Financing Convention, and should criminalize not only the financing of terrorist acts but also the financing of terrorist organizations and individual terrorists even in the absence of a link to a specific terrorist act or acts. Countries should ensure that such offences are designated as money laundering predicate offences.”

**Recommendation 13 – Correspondent Banking**
“Financial institutions should be required, in relation to cross-border correspondent banking and other similar relationships, in addition to performing normal customer due diligence measures, to:

(a) gather sufficient information about a respondent institution to understand fully the nature of the respondent’s business and to determine from publicly available information the reputation of the institution and the quality of supervision, including whether it has been subject to a money laundering or terrorist financing investigation or regulatory action;

(b) assess the respondent institution’s AML/CFT controls;

(c) obtain approval from senior management before establishing new correspondent relationships;

(d) clearly understand the respective responsibilities of each institution; and
(e) with respect to ‘payable-through accounts,’ be satisfied that the respondent bank has conducted CDD on the customers having direct access to accounts of the correspondent bank, and that it is able to provide relevant CDD information upon request to the correspondent bank.

Financial institutions should be prohibited from entering into, or continuing, a correspondent banking relationship with shell banks. Financial institutions should be required to satisfy themselves that respondent institutions do not permit their accounts to be used by shell banks.”

Recommendation 26 – Regulation and Supervision of Financial Institutions
“Countries should ensure that financial institutions are subject to adequate regulation and supervision and are effectively implementing the FATF Recommendations. Competent authorities or financial supervisors should take the necessary legal or regulatory measures to prevent criminals or their associates from holding, or being the beneficial owner of, a significant or controlling interest, or holding a management function in, a financial institution. Countries should not approve the establishment, or continued operation, of shell banks.

For financial institutions subject to the Core Principles, the regulatory and supervisory measures that apply for prudential purposes, and which are also relevant to money laundering and terrorist financing, should apply in a similar manner for AML/CFT purposes. This should include applying consolidated group supervision for AML/CFT purposes.

Other financial institutions should be licensed or registered and adequately regulated, and subject to supervision or monitoring for AML/CFT purposes, having regard to the risk of money laundering or terrorist financing in that sector. At a minimum, where financial institutions provide a service of money or value transfer, or of money or currency changing, they should be licensed or registered, and subject to effective systems for monitoring and ensuring compliance with national AML/CFT requirements.”

Recommendation 35 – Sanctions
“Countries should ensure that there is a range of effective, proportionate, and dissuasive sanctions, whether criminal, civil, or administrative, available to deal with natural or legal persons covered by Recommendations 6, and 8 to 23, that fail to comply with AML/CFT requirements. Sanctions should be applicable not only to financial institutions and DNFBPs, but also to their directors and senior management.”

FATF Special Recommendations

I. Ratification and implementation of UN instruments
“Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism. Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.”

II. Criminalizing the financing of terrorism and associated money laundering
“Each country should criminalize the financing of terrorism, terrorist acts, and terrorist organizations. Countries should ensure that such offences are designated as money laundering predicate offences.”

III. Freezing and confiscating terrorist assets
“Each country should implement measures to freeze without delay funds or other assets of terrorists, those who finance terrorism, and terrorist organizations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts. Each country should also adopt and implement measures, including legislative ones, which would enable the competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts, or terrorist organizations.”

IV. Reporting suspicious transactions related to terrorism

“If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts, or by terrorist organizations, they should be required to report promptly their suspicions to the competent authorities.”

Appendix 2

FATF Recommendation 32

Recommendation 32 — Cash Couriers

“Countries should have measures in place to detect the physical cross-border transaction of currency and bearer negotiable instruments, including through a declaration system and/or disclosure system.

Countries should ensure that their competent authorities have the legal authority to stop or restrain currency or bearer negotiable instruments that are suspected to be related to terrorist financing, money laundering or predicate offences, or that are falsely declared or disclosed.

Countries should ensure that effective, proportionate, and dissuasive sanctions are available to deal with persons who make false declaration(s) or disclosure(s). In cases where the currency or bearer negotiable instruments are related to terrorist financing, money laundering or predicate offences, countries should also adopt measures, including legislative ones consistent with Recommendation 4, which would enable confiscation of such currency instruments.”