

Combating illegal trade in precious metals and gemstones: international strategies and regulatory frameworks

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Abstract

The illegal trade in precious metals and gemstones represents one of the most significant challenges to global financial stability and conflict prevention. This trade not only facilitates money laundering and terrorist financing but also perpetuates armed conflicts and human rights violations in resource-rich regions. This article examines the international regulatory frameworks, institutional mechanisms, and collaborative strategies employed to combat illicit trade in precious metals and gemstones, OECD Due Diligence Guidelines, and anti-money laundering measures.

The precious metals and stones (PMS) sector encompasses high-value commodities including gold, silver, platinum, diamonds, rubies, emeralds, and other gemstones. While these materials drive legitimate economic activity worldwide, their unique characteristics—high value-to-volume ratio, portability, liquidity, and subjective valuation—make them attractive vehicles for illegal activities.

Criminal organizations exploit dealers in precious metals and stones (DPMS) to disguise the origins of illicit wealth, move money across borders undetected, and evade financial scrutiny. The anonymity of cash transactions, ease of resale, and varying levels of regulatory oversight across jurisdictions further enable these illegal activities. Understanding the scope and methods of illicit trade is essential for developing effective countermeasures.

Keywords: Illegal trade precious metals, Conflict diamonds, Blood diamonds, Money laundering gemstones, Kimberley Process, OECD Due Diligence Guidance, Anti-money laundering (AML), Precious metals and stones (PMS), Conflict minerals, Supply chain due diligence, Financial crimes enforcement, Terrorist financing, Trade-based money laundering, Dealers in precious metals and stones (DPMS), Responsible sourcing

Conflict Minerals and Blood Diamonds. The concept of "conflict diamonds" or "blood diamonds" emerged in the late 1990s when violent civil wars in Africa became connected to mining and trading of rough diamonds. As defined by United Nations Security Council Resolution 1459, conflict diamonds are "rough diamonds used by

rebel movements or their allies to finance conflict aimed at undermining legitimate governments"⁵. These diamonds have funded conflicts in Sierra Leone, Liberia, Angola, and the Democratic Republic of the Congo (DRC), resulting in hundreds of thousands of deaths and widespread human rights violations.¹

Similarly, conflict gold provides the largest source of revenue to armed groups in eastern DRC, where they control mines and exploit miners. The U.S. Department of Treasury estimates that illicit gold movement from DRC alone is valued at hundreds of millions of dollars annually, directly funding armed conflict and instability².

OECD Due Diligence Guidance. The Organization for Economic Cooperation and Development (OECD) has developed comprehensive due diligence guidance for responsible supply chains of minerals from conflict-affected and high-risk areas. The OECD framework provides step-by-step management recommendations for companies to respect human rights and avoid contributing to conflict through their purchasing decisions.³

Five-Step Framework: The OECD guidance establishes a five-step due diligence framework:

1. Establish strong company management systems
2. Identify and assess risks in the supply chain
3. Design and implement strategies to respond to identified risks
4. Carry out independent third-party audits
5. Report publicly on supply chain due diligence⁴

Gold Supplement: The OECD Gold Supplement provides specific guidance for gold supply chains, recognizing the unique risks associated with gold sourcing. This includes enhanced requirements for artisanal and small-scale mining (ASM) operations, which employ over 40 million people globally but often operate in the informal sector.⁵

¹ U.S. Geological Survey. USGS Scientists Help Address Conflict Mining. <https://www.usgs.gov/news/featured-story/usgs-scientists-help-address-conflict-mining>

² U.S. Department of the Treasury. (2022). Treasury Sanctions Alain Goetz and a Network of Companies Involved in the Illicit Gold Trade. <https://home.treasury.gov/news/press-releases/jy0664>

³ OECD. OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. https://www.oecd.org/en/publications/2016/04/oecd-due-diligence-guidance-for-responsible-supply-chains-of-minerals-from-conflict-affected-and-high-risk-areas_g1g65996.html

⁴ European Commission. Conflict Minerals Regulation: The regulation explained. https://policy.trade.ec.europa.eu/development-and-sustainability/conflict-minerals-regulation/regulation-explained_en

⁵ Responsible Minerals Initiative. Gold supply chains in accordance with the OECD Due Diligence Guidance. <https://www.responsiblemineralsinitiative.org/minerals-due-diligence/gold/>

Responsible Minerals Initiative (RMI). The RMI provides tools and resources for companies to conduct due diligence on mineral supply chains in accordance with OECD frameworks. The Responsible Minerals Assurance Process (RMAP) offers independent third-party assessments of smelters and refiners, creating industry-wide standards for responsible sourcing.

London Bullion Market Association (LBMA). The LBMA has implemented enhanced due diligence requirements for gold refiners, including OECD compliance verification and beneficial ownership disclosure. The LBMA Responsible Gold Guidance requires refiners to demonstrate adherence to responsible sourcing practices.

Responsible Jewellery Council (RJC). The RJC sets standards for ethical, human rights, social, and environmental practices across the jewelry supply chain. RJC certification requires members to implement management systems addressing responsible business practices, human rights, and environmental protection.⁶

Best Practices and Recommendations for Enhanced due diligence

Companies should implement risk-based due diligence systems that go beyond minimum compliance requirements. This includes:

- Comprehensive supplier vetting and ongoing monitoring
- Third-party risk assessments of mining operations
- Regular supply chain audits by independent organizations
- Implementation of grievance mechanisms for affected communities⁷

Industry Collaboration. Multi-stakeholder initiatives prove most effective in addressing complex supply chain risks. Industry associations, civil society organizations, and governments should collaborate to:

- Develop common standards and certification schemes
- Share information about high-risk suppliers and regions
- Coordinate capacity-building efforts in producing countries
- Support formalization of artisanal mining operations⁸

Technology Integration. Investment in technology solutions can significantly enhance supply chain transparency. Promising approaches include:

- Blockchain-based certification systems

⁶ Sanctions.io. Understanding Money Laundering Through Trade-in Diamonds. <https://www.sanctions.io/blog/money-laundering-through-trade-in-diamonds>

⁷ Arctic Intelligence, supra note 1.

International Peace Institute. (2023). The Kimberley Process to Eradicate Conflict Diamonds: Twenty Years of Challenges and Achievements. <https://www.ipinst.org/2023/03/the-kimberley-process-to-eradicate-conflict-diamonds-twenty-years-of-challenges-and-achievements>

⁸ International Peace Institute. (2023). The Kimberley Process to Eradicate Conflict Diamonds: Twenty Years of Challenges and Achievements. <https://www.ipinst.org/2023/03/the-kimberley-process-to-eradicate-conflict-diamonds-twenty-years-of-challenges-and-achievements>

- Digital chain-of-custody tracking
- Satellite monitoring of mining operations
- Artificial intelligence for trade pattern analysis⁹

Regulatory Harmonization. Inconsistent regulatory requirements across jurisdictions create compliance challenges and potential loopholes. International coordination should focus on:

- Harmonizing due diligence standards
- Improving information sharing between regulatory authorities
- Standardizing reporting requirements
- Coordinating enforcement actions¹⁰

Current frameworks primarily focus on specific minerals and conflict-affected regions. Future initiatives should consider:

- Extending coverage to all precious metals and gemstones
- Addressing environmental and labor concerns beyond conflict
- Including synthetic and laboratory-grown materials
- Covering downstream processing and manufacturing
- Increased penalties for non-compliance
- Enhanced international cooperation on investigations
- Improved capacity building in developing countries
- Greater use of financial sanctions and asset freezing
- Investment in legitimate mining infrastructure
- Support for artisanal mining formalization
- Development of alternative livelihoods in mining communities
- Strengthening governance in resource-rich countries¹¹

Combating illegal trade in precious metals and gemstones requires sustained international cooperation, comprehensive regulatory frameworks, and commitment from all stakeholders. While significant progress has been made through initiatives like the Kimberley Process and OECD Due Diligence Guidance, evolving threats demand continuous adaptation and strengthening of existing mechanisms.

The success of future efforts will depend on several key factors: harmonization of international standards, effective enforcement across jurisdictions, integration of new technologies, and addressing the root causes of conflict and poor governance in producing regions. Industry participants must move beyond minimum compliance to

⁹ New Lines Magazine, supra note 16.

¹⁰ Brookings Institution, supra note 36.

¹¹ International Peace Institute, sup. note 41.

embrace comprehensive due diligence practices that truly eliminate illicit materials from global supply chains.

As the precious metals and gemstones trade continues to evolve, the international community must remain vigilant and adaptive. Only through sustained collaboration between governments, industry, and civil society can we ensure that these valuable resources contribute to peace, prosperity, and sustainable development rather than conflict and crime.

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