

A How India Became
One of the World's Largest
Gold Smuggling Hubs
**GOLDEN
WEB.**



A Golden Web

How India Became One of the World's Largest Gold Smuggling Hubs

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Canada 

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ACRONYMS

AGR	African Gold Refinery
ASM	artisanal and small-scale mining
BIS	Bureau of Indian Standards
DMCC	Dubai Multi Commodities Centre
DRC	Democratic Republic of Congo
DRI	Directorate of Revenue Intelligence
GDP	Gross Domestic Product
GJEPC	Gem and Jewellery Export Promotion Council
GST	Goods and services tax
ICGLR	International Conference on the Great Lakes Region
LBMA	London Bullion Market Association
OECD	Organisation for Economic Co-operation and Development
OECD Due Diligence Guidance	OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict- Affected and High-Risk Areas
PAMP	Produits Artistiques Métaux Précieux
PMMC	Precious Minerals Marketing Company
PVDC	Pueblo Viejo Dominicana Corporation
RSBL	Riddi Siddhi Bullion Ltd
UAE	United Arab Emirates
UN	United Nations
WGC	World Gold Council

INTRODUCTION

India is one of the main gold capitals of the world, with almost a third of all of the world's gold passing through its borders.¹

Goldsmiths across the country stand ready to buy gold from traders and turn it into bullion or jewellery. They ask few, if any, questions about the gold's origins or whether it's been legally imported into the country. When paperwork does accompany the gold, many turn a blind eye to potentially questionable information in the documents.

India is at the heart of a web of the illicit trade of gold, with threads spanning the globe.

The illicit trade of gold is a significant problem worldwide, with increasing awareness by stakeholders of its scope. This research seeks to further our understanding of the role that trading hubs play in the illicit gold trade. Specifically, this report examines the role of India as a trading hub and its role for illicitly importing refined gold bullion and *doré*.

The incentives for gold smuggling—and its impact on national economies of resource-rich countries—have been well documented.

A 2017 report by IMPACT spotlighted how Mali's low taxes promoted illicit trade, with traders in neighbouring countries smuggling gold over the border to get a tax break when exporting to trading hubs like the United Arab Emirates (UAE).²

Other research by IMPACT has found that the illegal export of gold from the Great Lakes region of Africa to the UAE grew from some five tons per year in 2007 to more than 22 tons per year by 2012. This illicit trade represented over \$1 billion USD in value and at least \$20 million USD in lost tax revenue to governments in the Great Lakes region per year.³



A THIRD OF ALL OF
THE WORLD'S GOLD
PASSES THROUGH
INDIA'S BORDERS.

¹ Global gold production in 2017 was estimated to be more than 3,000 tons. "World gold production by year in mines from 2005 to 2018 (in metric tons)," *Statista*, March 14 2019, <https://www.statista.com/statistics/238414/global-gold-production-since-2005/>.

² Alan Martin and Hélène Helbig de Balzac, *The West African El Dorado: Mapping the Illicit Trade of Gold in Côte d'Ivoire, Mali and Burkina Faso*, Partnership Africa Canada, January 2017, <https://impacttransform.org/wp-content/uploads/2017/09/2016-Jan-The-West-African-El-Dorado-Mapping-the-illicit-trade-of-gold-in-Cote-DIvoire-Mali-and-Burkina-Faso.pdf>.

³ Shawn Blore, *Contraband Gold in the Great Lakes Region In-region Cross-border Gold Flows Versus Out-region Smuggling*, Partnership Africa Canada, May 2015, <https://impacttransform.org/wp-content/uploads/2017/09/2015-May-Contraband-Gold-in-the-Great-Lakes-Region-In-Region-Cross-Border-Gold-Flows-Versus-Out-Region-Smuggling.pdf>.

As an alternative to paper currency, gold is often favoured for money laundering and illicit trade. It is a high-value, easy-to-transport mineral, making it vulnerable to smuggling and an ideal target for armed groups. The illicit gold trade has been tied to armed groups in countries like the Democratic Republic of Congo, Mali, Venezuela, Colombia and more who use the proceeds from gold to fund their activities.⁴

Artisanal and small-scale mining (ASM) remains largely informal and common. Over 20 percent of the world's gold is produced by artisanal miners and their informality and in many cases, illegality, make them vulnerable to corruption and violence.⁵ While traceability and due diligence efforts have been widely introduced, IMPACT, along with other civil society groups including Human Rights Watch, Amnesty International, and the Enough Project, has highlighted the lack of comprehensive and rigorous implementation by the private sector along the full gold supply chain.⁶ This makes it possible for gold mined in conflict-affected and high-risk areas to enter the international markets.

GOLD IS A HIGH-VALUE, EASY-TO-TRANSPORT ALTERNATIVE TO CURRENCY.



While the trade of illicit gold into the UAE has been well documented, less attention has been paid to what happens to that gold once it leaves the Gulf state. Trade statistics indicate that a significant portion of gold leaving Dubai makes its way to India, the biggest jewellery manufacturing centre in the world.

Little is known however, about the role that India plays in facilitating the illicit trade of gold.

This report examines the links between India and the gold trade in South America, as well as African sources, such as Ghana and Tanzania, that supply Indian refineries.

The research seeks to better understand the policy vulnerabilities and drivers that make India such an attractive destination for illicit gold. In particular, the report examines Prime Minister Modi's "Made in India" policy that boosted the domestic gold refinery sector but led to sourcing artisanal gold of questionable provenance.

The report also examines popular routes for the illicit trade, including the role of Dubai as an intermediary between illicit or conflict gold that is sourced in the Great Lakes region and exported to India.

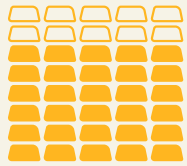
By separating the two streams—*doré* and refined bullion—we're able to examine the vulnerabilities and contextual nuances of these respective supply chains. Both routes expose key challenges to India's official procedures and underscore the lack of proper due diligence by both domestic refiners and designated importers.

⁴ See for example: Global Witness, *River of Gold*, July 2016, <https://www.globalwitness.org/pt/campaigns/conflict-minerals/river-of-gold-drc/>, and Global Initiative Against Transnational Organized Crime, *Organized Crime and Illegally Mined Gold in Latin America*, April 2016, <http://globalinitiative.net/wp-content/uploads/2016/03/Organized-Crime-and-Illegally-Mined-Gold-in-Latin-America.pdf>, and Martin, *The West African El Dorado*.

⁵ Morgane Fritz et al., *Global Trends in Artisanal and Small-Scale Mining (ASM): A review of key numbers and issues*, The International Institute for Sustainable Development, January 2018, p.iv <https://www.iisd.org/sites/default/files/publications/igf-asm-global-trends.pdf>.

⁶ "IMPACT Joins Civil Society Call for Jewellery Industry to Take Action," *IMPACT*, February 8, 2018, <https://impacttransform.org/en/impact-joins-civil-society-call-for-jewellery-industry-to-take-action/> and "Civil society statement at the 10th Forum on Responsible Mineral Supply Chains, Paris, 10-12 May 2016," *IMPACT*, May 12, 2016, <https://impacttransform.org/en/civil-society-statement-at-the-10th-forum-on-responsible-mineral-supply-chains-paris-10-12-may-2016/>.

KEY FINDINGS IN FOCUS



India is importing approximately **1,000 TONS OF GOLD PER YEAR**—a quarter more than what official figures indicate.

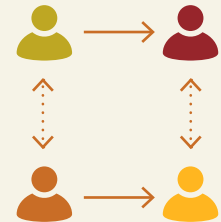
TRADERS FALSIFY DOCUMENTATION to import gold from producing countries or smuggle it in from other trading centers.



VARIOUS POLICIES IN INDIA have incentivized smuggling and the illicit trade of gold.

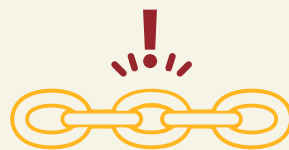


The trade of illicit gold is often **FINANCED THROUGH HAWALA**.



POSSIBLE CONFLICT AND ILLICIT GOLD tied to human rights abuses in Africa and South America **IS ENTERING INDIA**.

DUE DILIGENCE on gold imports carried out by Indian Customs officials and industry actors **IS NEGLIGIBLE**.



The majority of Indian refiners remain largely unaware of, and indifferent to, the **VULNERABILITIES IN THEIR SUPPLY CHAINS**.



ILLICIT GOLD enters the country, is absorbed into the legal market with ease, and **IS RE-EXPORTED BACK OUT AS JEWELLERY**.



KEY FINDINGS

This report makes several key findings.



The first is that India is importing approximately 1,000 tons of gold per year—a quarter more than what official figures indicate. The illicit gold coming into India consists of both refined bullion and *doré*.



Traders falsify import and customs documentation to import gold *doré* that may be linked to conflict, human rights abuses, illegality, and criminal networks from Africa and South America into India. **Refined bullion is smuggled into India from other trading centers**, notably UAE.

Smugglers use various creative means to transport and conceal gold, without proof of origin, allowing it to enter the legal supply chain in India.



Various policies in India have incentivized smuggling and the illicit trade of gold. India has struggled to find policy coherence that balances the country's cultural thirst for gold with macro-economic pressures and enforcement intended to curtail illicit activity.



A number of actors who operate in the Great Lakes region and are linked to the illicit trade of gold from Democratic Republic of Congo (DRC) are known to Indian enforcement agencies for their role in facilitating illicit gold shipments to India. While this research didn't track shipments of DRC gold to India, there is a significant amount of evidence demonstrating that trade routes from the Great Lakes region of Africa go to India, often via Dubai.

This suggests that possible conflict and illicit gold tied to human rights abuses in DRC and other sources in the Great Lakes region is entering India.



The trade of illicit gold—both from Uganda to UAE, and UAE to India—is often financed through *hawala*.

In Uganda, the practice usually involves the exporter repaying the trader in construction materials or other commodities that can be sold in market towns in eastern DRC. The UAE-India trade is routinely used by criminal syndicates to either hide gold imports or to launder money earned from the proceeds of crime. The opaqueness of the *hawala* system not only makes gold transactions invisible to law enforcement and revenue authorities, it also poses a serious threat to the credibility and scalability of supply chain traceability and due diligence.



The research finds that due diligence on gold imports carried out by Indian Customs officials and industry actors is negligible or nonexistent. This makes it extremely easy for illicit gold—whether *doré* or refined bullion—to enter India from different parts of the world. In this case, due diligence often extends no further than taking import and export documentation at face value.



Some actors in the Indian government and the country's gold sector are aware of the supply chains risks and are taking steps towards due diligence implementation. **However, the majority of Indian refiners remain largely unaware of, and indifferent to, both the vulnerabilities in their supply chains and the need to carry out supply chain due diligence.**



This report also demonstrates India's major role in gold manufacturing, including manufacturing gold jewellery for North American and European markets. **Illicit gold enters the country, is absorbed into the legal market with ease, and is re-exported back out as jewellery.** Due diligence in the broader global gold sector is neither rigorous nor credible, allowing for serious questions to be raised about the provenance of gold and its potential ties to conflict, child and forced labour, human rights abuses, sexual and gender-based violence, and corruption.



RECOMMENDATIONS

TO ALL GOVERNMENTS IN GOLD IMPORTING COUNTRIES:

Taxes are one of the major drivers of the illicit gold trade. Harmonize export and import taxes with regional neighbours and other trading partners to disincentivize illicit trade. Ensure taxes on *doré* and refined bullion are comparable, so as not to encourage smuggling.

Enhance regulatory controls by requiring additional information from importers of ASM gold, including verification of the consignee, authentication of the certificates of origin or export permits, and custom clearance documents, including tax receipts in the country of export.

Enforcement agencies should take immediate steps to investigate and take action against those behind the illicit gold trade. Agencies should identify patterns and anomalies in national trade statistics, such as production, import and export data. Relevant authorities should be engaged to address trade discrepancies and customs practices that facilitate smuggling and illicit trade. International cooperation between relevant law enforcement agencies should be fostered.

Promote and disseminate the OECD Due Diligence Guidance, including adopting it into law, ensuring that private sector actors in the country operate according to the five step process outlined in the guidance. Develop capacity building programs and incentives for private sector actors to implement international standards on due diligence.

In India, take actions to ensure private sector actors are moving towards responsible sourcing. Make it mandatory for banks and refineries listed as nominating agencies to implement the OECD Due Diligence Guidance, including but not limited to by participating in OECD-aligned industry schemes. Ensure that the OECD Due Diligence Guidance implementation is part of the proposed mandatory hallmarking scheme for refiners and jewellers.

TO GOVERNMENTS IN GOLD PRODUCING COUNTRIES:

Enforcement agencies should investigate and bring to account those who, until now, have been operating with impunity. Revoke the trading licenses of individuals and companies involved in the illicit trade. Share information about de-listed individuals and companies involved in the illicit trade with counterparts in other countries and with other industry actors.

Ensure that all exports of gold have been subjected to the proper export procedures and are accompanied by the proper export permits and custom clearance documents, including tax receipts.

Adopt the OECD Due Diligence Guidance into law, ensuring all companies in the country follow the five step process outlined in the guidance including the publication of supply chain risks and measures taken to mitigate those risks. Undertake a comparative analysis of due diligence systems in place in the Great Lakes region, including the Regional Initiative against the Illegal Exploitation of Natural Resources implemented by the twelve Member States of the International Conference on the Great Lakes Region (ICGLR) and consider whether a similar initiative and related lessons learned can be adapted to other gold producing regions.

TO THE GOLD INDUSTRY:

Companies must implement all five steps of the OECD Due Diligence Guidance in full, including publically reporting on their supply chain due diligence efforts each year. In order to understand and mitigate risks, gold traders, refiners, and jewellers have a responsibility to carry out due diligence on their supply chains, all the way to the mine sites for any red flags in any conflict-affected and high-risk areas.

Ensure all private sector actors understand the full range of supply chains risks covered by the OECD Due Diligence Guidance, and how they apply to both large-scale mining and ASM.

Private sector actors should be encouraged to source artisanal gold, provided it is accompanied by evidence that ASM activities were legitimate and that adequate due diligence was carried out, risks identified and managed accordingly, in keeping with the OECD Due Diligence Guidance.

The LBMA should further strengthen the due diligence requirements of all Members. LBMA listed refiners should work towards enhanced transparency and disclosure. Public reports produced by LBMA listed refiners should consistently include supply chain risks, mitigation and remediation measures applicable to both *doré* and refined bullion supply chains.

The DMCC should strengthen the due diligence requirements of its Members and tighten its regulatory controls to ensure that all gold imports are accompanied by evidence of having been legally exported from their country of origin, such as export permits and custom clearance documents, including tax receipts in the country of export.



METHODOLOGY

This report is based on the findings of field research conducted in India and Uganda investigating the illicit gold trade, as well as analysis of media clippings, previous research, and available data on India's gold trade.

IMPACT conducted a field visit to Mumbai, India and the cities of Entebbe and Kampala in Uganda. The report relies on evidence gained from interviews and on-site observations. Researchers interviewed over 30 individuals involved in or with knowledge of India's gold industry—including government officials, civil society representatives, traders, buyers, and analysts—in India, Africa's Great Lakes region, and beyond.

Additionally, the report integrates information from media report compilations prepared by Claigan Environmental on gold smuggling to India.

This report builds on previous research IMPACT has done on the illicit trade of gold from the Great Lakes region and West Africa, and the role of trading hubs, such as the UAE, in the trade. Previous research found that lax practices at trading hubs increase the potential for smuggling of conflict-prone minerals like gold.

This report is comprised of four sections. The first examines current trends in India's gold market and its leading role as a gold jewellery manufacturer. The second analyzes *doré* exports to India and illustrates how *doré* is smuggled into the legal supply chain in the country. The third examines the role of the UAE as an intermediary in the illicit trade of gold between Africa's Great Lakes region and India. The fourth analyzes how refined bullion is smuggled into India, primarily from the UAE.



THE INCENTIVES FOR
GOLD SMUGGLING—
AND ITS IMPACT ON
NATIONAL ECONOMIES
OF RESOURCE-RICH
COUNTRIES—HAVE BEEN
WELL DOCUMENTED



SECTION 1:

**TRENDS
AND ANALYSIS
OF INDIA'S
GOLD MARKET**

THE CULTURAL VALUE OF GOLD

The nerve centre of the Indian gold trade is the Zaveri Bazaar in Mumbai. It is here in Zaveri that the magnitude of what gold means to Indians comes into focus. Every day, an estimated 500,000 people come to buy or sell from the 20,000 goldsmiths that inhabit the bustling area.⁷



The privately held gold reserves in India are staggering. Gold reserves held by households and religious temples exceed 20,000 tons, much of it passed down through generations.⁸ The amount of gold held by private reserves in India is equivalent to the amount of gold held by the central banks of the United States, the Eurozone, and China—combined.⁹

Gold has huge cultural and economic significance for Indians. It is used to celebrate all of life's big milestones—births, graduations, engagements, weddings, and anniversaries. Indians of all socio-economic levels invest in gold—from rural farmers who want economic security during difficult periods, to families building an inheritance for their children.

An estimated 68 percent of the population lives in rural areas and the more than 600,000 villages, according to the 2011 government census, have at least one goldsmith who caters to the local market.¹⁰

Yet, while gold is culturally significant in India, its high value, its utility as a financial instrument, and the ease with which it can be transported, also makes it a prime target for criminals and illicit networks.



GOLD RESERVES HELD BY HOUSEHOLDS AND RELIGIOUS TEMPLES EXCEED 20,000 TONS.

⁷ Kumar Jain, Vice President, Mumbai Jewellers Association. Interview with IMPACT, Mumbai, May 14, 2018.

⁸ Government of India's Ministry of Finance, Budget 2015-2016, February 28, 2015, p. 13, <https://www.indiabudget.gov.in/budget2015-2016/ub2015-16/bs/bs.pdf>.

⁹ This compares to the United States Gold Reserve reported to be 258,641,878.085 troy ounces (equal to over 8,867 tons) as of June 30 2019. "Status Report of U.S. Government Gold Reserve," *U.S. Department of the Treasury*, June 30, 2019, <https://fiscal.treasury.gov/reports-statements/gold-report/current.html>. Also see Tadit Kundu, "Why the gold monetisation initiative is failing to enthuse Indians," *LiveMint*, May 1, 2017, <https://www.livemint.com/Money/YdkUMJB4KyndfpW2ByQhrJ/Why-the-gold-monetisation-initiative-is-failing-to-enthuse-1.html>.

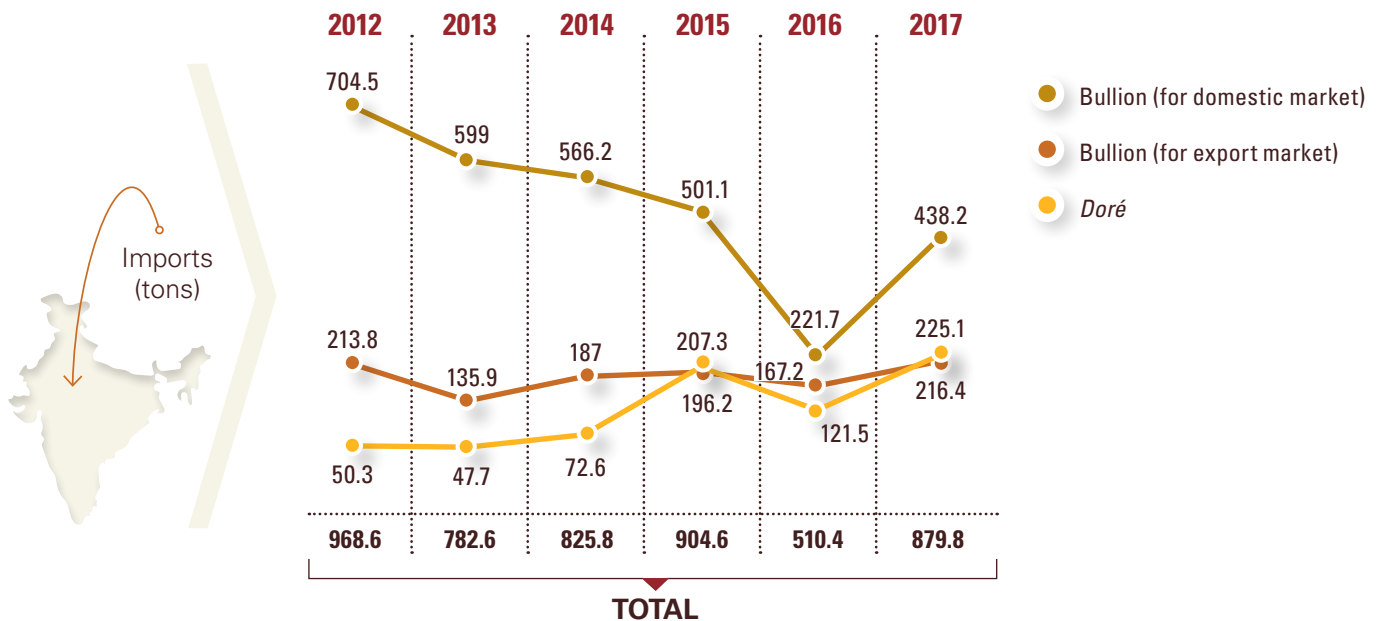
¹⁰ "70% Indians live in rural areas: Census," *Business Standard*, January 20, 2013, https://www.business-standard.com/article/economy-policy/70-indians-live-in-rural-areas-census-111071500171_1.html.

AT THE CENTRE OF GLOBAL GOLD MANUFACTURING

India is a large consumer of gold, with official imports averaging 800 tons per year between 2012-2017, worth an estimated annual value of \$30 billion USD.¹¹

Gold *doré* bars represent approximately 30 percent of the legal import market.¹² *Doré* bars are semi-pure, most often smelted at point of export before being refined and purified at a trading centre like those in India. While the United Nations statistical database, Comtrade, reports all of India's gold imports as *doré*, in reality—according to industry analysts—annual *doré* imports only represented an average of about 120 tons per year over this period, rising to a high of 225 tons in 2017.¹³

GOLD IMPORTS INTO INDIA—OFFICIAL FIGURES FROM 2012 TO 2017¹⁴



¹¹ Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018, and Ministry of Finance, *Budget 2015-2016*, p. 13, and UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>.

¹² Somasundaram PR, Managing Director, World Gold Council. Interview with IMPACT, Mumbai, May 16, 2018.

¹³ Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018.

¹⁴ Figures provided by Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018.

While Mumbai, a sprawling metropolis of 22 million people, is one of the main gateways for gold entering the country, the cities of Delhi, Chennai, Kolkata, and Ahmedabad are other significant legal entry points.

But India also imports an additional estimated 150-200 tons a year in illicit gold.¹⁵ In 2014, the smuggling hit a record high of 335 tons.¹⁶ This means that imports of both legal and illicit gold to India are closer to 1,000 tons a year on average.¹⁷

While the majority of the smuggled gold entering India is refined bullion from the UAE, the country is also facing problems with illicit gold *doré*.

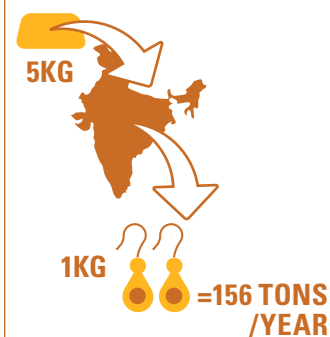
Contrary to the common belief that most gold imports are swallowed up by India's domestic market, Comtrade data shows that an average of 156 tons of gold jewellery—worth about \$8 billion USD—leaves India each year.¹⁸ According to data from India's Gems and Jewellery Export Promotion Council (GJEPC), gold jewellery exports increased to over \$9.6 billion USD in 2017 and 2018.¹⁹

China is India's largest competitor in the sector, but with gems and jewellery contributing almost 15 percent to India's merchandise exports and 7 percent of its GDP,²⁰ India is clearly one of the world's great centres of gold jewellery manufacturing.

Gold jewellery exports from India represent about 19.5 percent of the total amount of gold imported to India each year.²¹ For every 5 kg of gold that comes in, almost 1 kg goes back out as jewellery.

The majority of these exports—approximately 65 percent between 2013 and 2016—are sent to the UAE, whose famed souks attract buyers from around the world. In 2016, these exports were worth almost \$5.6 billion USD. The same year, companies in North America, Australia, and Europe imported approximately 24 percent of the gold, worth a combined value of over \$2.2 billion USD.²² According to GJPEC, Hong Kong, UAE, and the United States account for over 80 percent of the country's total exports of gems and jewellery.²³

This puts India not only at the heart of the world's gold manufacturing sector, but also at the heart of an illicit supply chain with tentacles that extend around the globe.



FOR EVERY 5 KG OF GOLD THAT COMES INTO INDIA, ALMOST 1 KG IS EXPORTED OUT AS JEWELLERY.

¹⁵ Somasundaram PR, Managing Director, World Gold Council. Interview with IMPACT, Mumbai, May 16, 2018 and World Gold Council, *India's gold market: evolution and innovation*, p. 60.

¹⁶ The World Gold Council estimates that 335 tons of gold was smuggled into India between Q3 2013 and Q4 in 2014. This includes its estimates of unofficial imports of gold bullion into India of 150 tons in 2013, 225 tons in 2014, 119 tons in 2015, and between 120-135 tons in 2016. World Gold Council, *India's gold market: evolution and innovation*, January 24, 2017, p. 16, 60, 75, <https://www.gold.org/goldhub/research/india-gold-market>.

¹⁷ Kumar Jain, Vice President, Mumbai Jewellers Association. Interview with IMPACT, Mumbai, May 14, 2018.

¹⁸ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>.

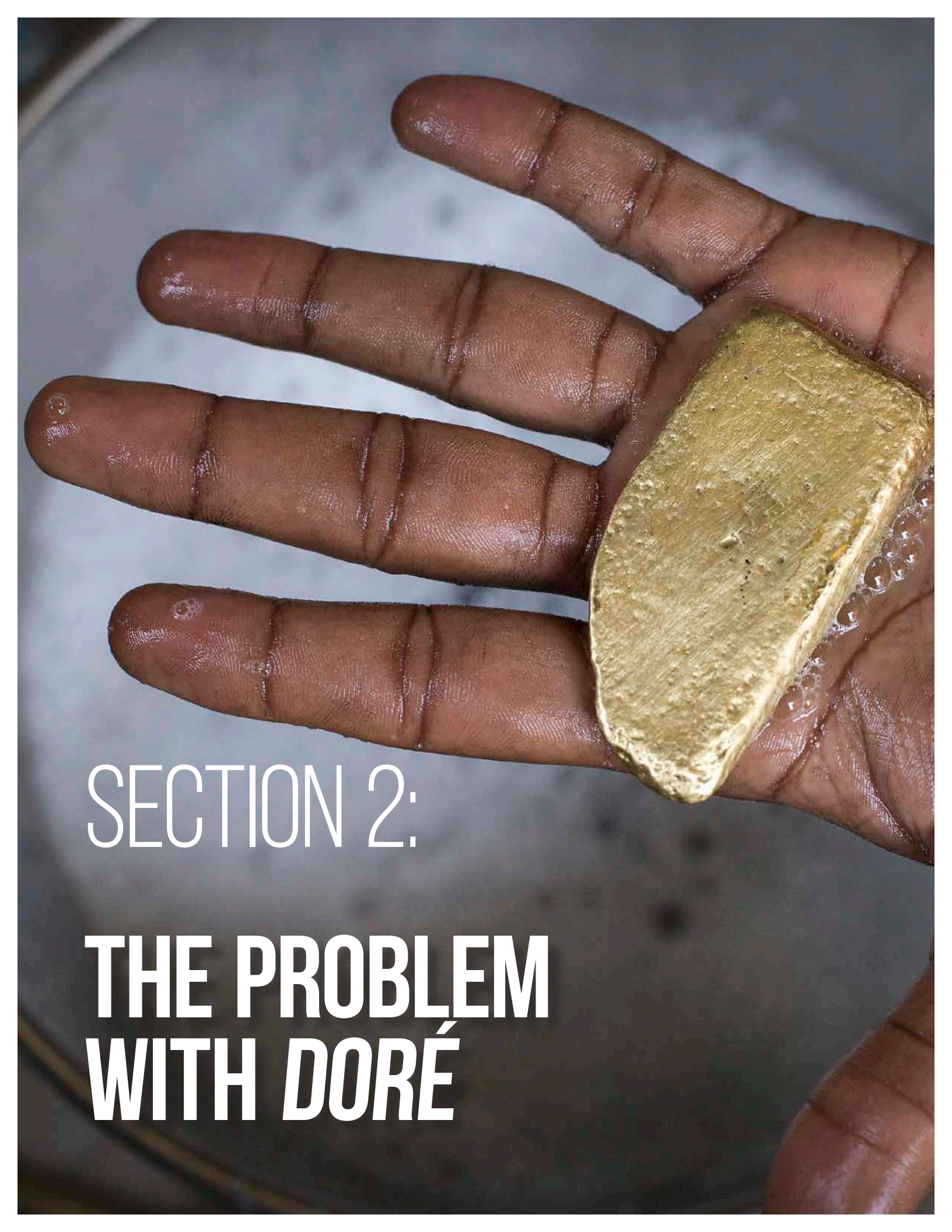
¹⁹ "India's Gross Exports of Gold Jewellery for Last Ten Years," *GJPEC India*, accessed August 14, 2019, [https://www.gjpec.org/admin/StatisticsExport/75993761_The%20Gross%20Exports%20of%20Gold%20Jewellery%20\(2008-09%20to%202017-18\).pdf](https://www.gjpec.org/admin/StatisticsExport/75993761_The%20Gross%20Exports%20of%20Gold%20Jewellery%20(2008-09%20to%202017-18).pdf) and "Gems, jewellery exports dip 5.32% in 2018-19," *The Economic Times*, June 2, 2019, <https://economictimes.indiatimes.com/news/economy/foreign-trade/gems-jewellery-exports-dip-5-32-in-2018-19/articleshow/69619758.cms?from=mdr>.

²⁰ "Gems and jewellery exports dip 22% in April," *The Economic Times*, May 21, 2018, <https://economictimes.indiatimes.com/industry/cons-products/fashion-/cosmetics-/jewellery/gems-and-jewellery-exports-dip-22-in-april/articleshow/64258680.cms?from=mdr>.

²¹ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>.

²² Ibid.

²³ "Gems and jewellery exports dip 22% in April," *The Economic Times*.



SECTION 2:

**THE PROBLEM
WITH *DORÉ***

DORÉ (n):

Semi-pure, most often smelted at point of export before being refined and purified at a trading centre like India.

.....

THE EXTENT OF THE PROBLEM

While all the analysts and industry members IMPACT spoke to for this report agree that India has a gold smuggling problem, the latter bristle at the suggestion that *doré* imports include smuggled gold. They insist that all the *doré* comes with the proper paperwork, including certificates of mining origin, and satisfies all customs requirements.

Most *doré* smuggling is done within the “legal” system. The smuggling occurs at the front end in the producing and trading nations, where any problematic provenance issues are sanitized, ensuring illicitly mined or traded gold obtains all the legal documentation necessary for its exports, especially the certificates of mining origin.

Because Indian refiners want to ensure they get tax breaks offered for gold *doré*—discussed further on in this section—they have no incentive to smuggle or under-declare the true value of their imports upon entry into India. Based on his knowledge of the market and illicit trade, a Mumbai-based gold smuggler estimates that as much as 40 percent of the *doré* legally entering India comes from illegitimate sources.²⁴

While the *doré* market in India is very nascent, it has seen huge spikes in imports since 2012. Obtaining accurate trade statistics is difficult and disputed. After triangulating data from other sources and taking industry analysts’ review into account, it’s clear that official *doré* imports reported by Comtrade include refined gold imports that skew reality, while their 2014 statistics are false.²⁵

However, by analyzing data from the World Gold Council (WGC) and Thomson Reuters, clear patterns can be established. The most important one is that *doré* imports shot from 23 tons in 2012 to over 229 tons by 2015.²⁶ Much of this gold is imported from countries that do not have proper due diligence procedures in place.²⁷



GOLD *DORÉ* BARS REPRESENT APPROXIMATELY 30 PERCENT OF THE LEGAL IMPORT MARKET.

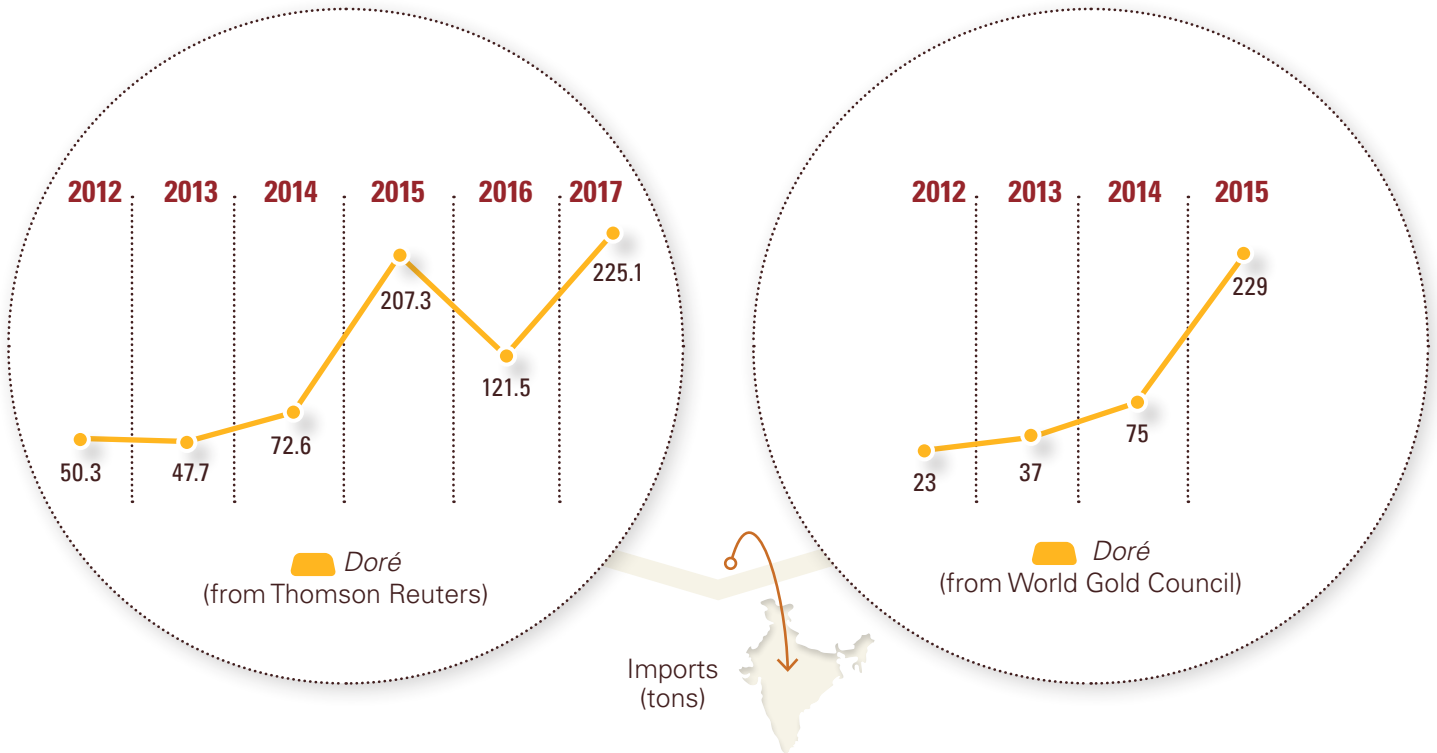
²⁴ Mumbai-based gold smuggler. Interview with IMPACT, Mumbai, May 16, 2018.

²⁵ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/> with analysis by author; Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018; and Shawn Blore, gold researcher. Email correspondence with IMPACT, January 26, 2018.

²⁶ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/> and World Gold Council, *India’s gold market: evolution and innovation*, p. 58.

²⁷ World Gold Council, *India’s gold market: evolution and innovation*, p. 58.

INDIA'S IMPORTS OF *DORÉ*—OFFICIAL FIGURES FROM 2012 TO 2017²⁸



HOW POLICY DECISIONS CONTRIBUTED TO THE PROBLEM



The reason for the spike in *doré* imports lies in a 2013 decision by Prime Minister Nehandra Modi to boost the domestic refinery sector through a “Made in India” policy.²⁹

Gold and oil imports are the two commodities that contribute the most to India’s current account deficit, in which the country is spending more on imports than it is profiting from exports. Modi’s policy sought to boost domestic refining and decrease imports of refined gold from trading hubs, notably the UAE and Switzerland.

As a result, *doré* imports only had an 8 percent import tax—compared to 10 percent for refined bullion.

²⁸ World Gold Council, *India’s gold market: evolution and innovation*, p. 58 and Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018.

²⁹ Rahul Gupta, Director, Gold Bullion Association. Interview with IMPACT, Paris, April 18, 2018 and Srivatsava Ganapathy, President, Foretell Business Solutions. Interview with IMPACT, Paris, April 18, 2019.

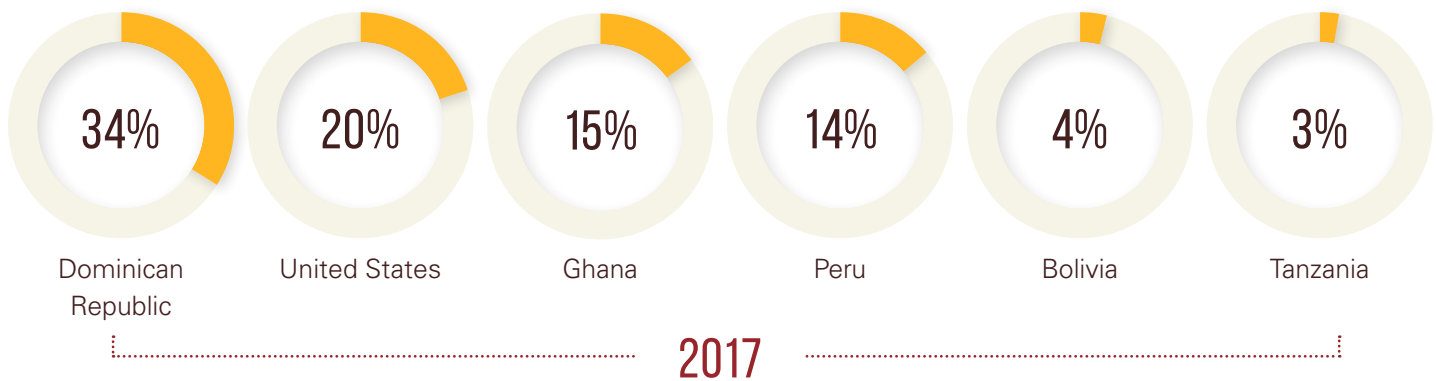
The government offered further tax breaks to those who set up refineries in special economic zones in disadvantaged states, such as Uttarakhand along the Nepal-Tibet borders. Cheaper labour and operating costs added a further advantage over foreign refiners, particularly those in UAE.³⁰

“The consequence was that Indian refiners had a net positive margin of 1 percent, which is unheard of in the formal gold sector,” a refinery analyst told IMPACT. “Essentially, it was a license to print and press that saw Indian taxpayers effectively bankrolling speculators.”³¹

Even after the Indian government readjusted the tax differential to 0.65 percent in 2016, domestic refiners were still selling their refined gold at least \$3 USD an ounce cheaper than the refined bullion they were importing.³²

Buoyed by their tax advantages, Indian refiners moved forward and went directly to the source. Indian gold buyers used their tax breaks to offer premium prices on gold, including to gold from ASM sources. IMPACT spoke with people familiar with the local gold markets in Ghana, DRC, Tanzania, and Uganda who all confirmed that Indian buyers offer premiums ranging from \$6-9 USD a gram.³³

Official statistics show *doré* was being imported from six main sources in 2017: Dominican Republic (34%), United States (20%), Ghana (15%), Peru (14%), Bolivia (4%), and Tanzania (3%).³⁴



These official imports of *doré* raise serious questions about the provenance of the gold and their trade, including possible links to smuggling and criminal or illicit networks.

³⁰ Refiners in the UAE charge approximately 0.35% to refine gold, compared to 0.15% in India. Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018.

³¹ Refinery industry analyst. Telephone interview with IMPACT, Johannesburg, June 27, 2018.

³² Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018 and Nirakar Chand, CEO, Diamond India Ltd. Interview with IMPACT, Mumbai, May 18, 2018.

³³ Africa-based industry analyst. Telephone interview with IMPACT, April 13, 2018, and Kampala-based gold trader. Interview with IMPACT, Kampala, May 4, 2018, and Former mine security chief. Interview with IMPACT, Dar es Salaam, April 12, 2018, and DRC-based industry professional. Interview with IMPACT, Paris, April 17, 2018.

³⁴ Sudheesh Nambiath, “Indian gold imports rise amidst the rising share of *doré* to domestic supplies,” *Bullion Bulletin*, October 2016.

CASE STUDY: DOMINICAN REPUBLIC

India reported imports from Dominican Republic of 6.72 tons of gold in 2014, rising up to 56.86 tons in 2015, 43.98 tons in 2016, and 40.95 tons up to September 2017.³⁵

There are only two sources of gold during this period. The majority of the exports come from Barrick-owned Pueblo Viejo Dominicana Corporation (PVDC), the only industrial gold producer on the island. There are also some limited exports from PanTerra Gold's subsidiary, EnviroGold (Las Lagunas) Limited. EnviroGold reprocesses high grade gold from the tailings of the Pueblo Viejo mine and claims an annual production of approximately 1.4 tons.³⁶

The massive spike in exports can mostly be explained by Barrick's decision to reroute gold to India in order to take advantage of generous tax incentives offered to their traditional refiner, PAMP. Barrick's three gold mines in Tanzania similarly shifted their refining from Switzerland to India during this time.³⁷

The Swiss-based refiner PAMP is the majority owner of MMTC-PAMP, India's largest refiner. However, production and export data provided to IMPACT by PVDC show significant discrepancies with Comtrade data, with PVDC reported exports to India of 1.26 tons in 2014, 13.45 tons in 2015, 15.62 tons in 2016, and 11.94 tons in 2017.³⁸

Based on these figures, PVDC never represented more than 35 percent of Dominican exports. This leaves an unexplained difference between PVDC's confirmed exports to India and what the Indian government recorded as "Dominican" imports of more than 100.63 tons over the four years.

Even if one were to add the entirety of Panterra and EnviroGold's exports, it would make no material impact on these anomalies, shaving off approximately 5.1 tons from the unexplained difference. ►

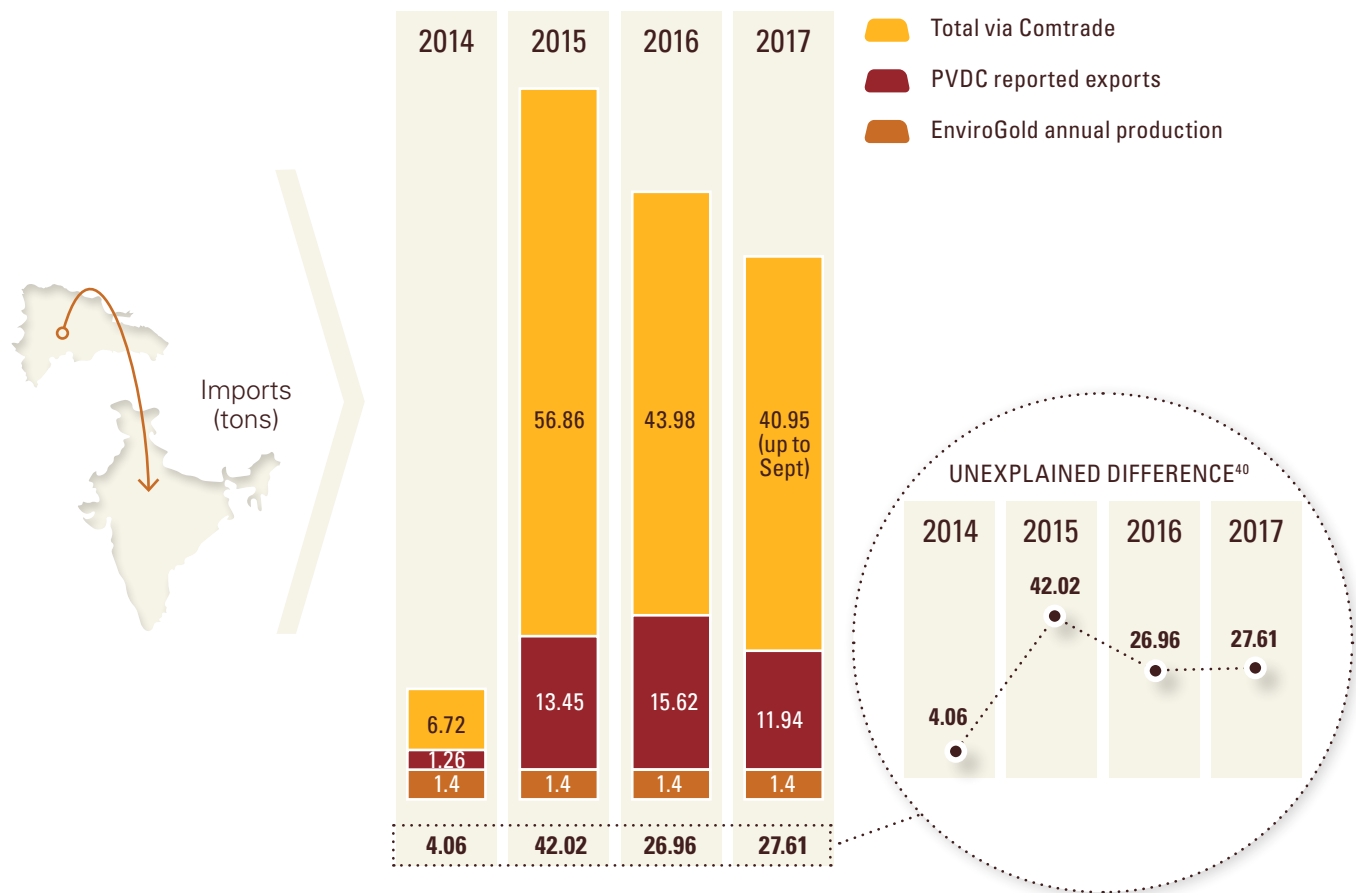
³⁵ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>.

³⁶ According to its website, the company has an annual gold production of 45,000 ounces. "Las Lagunas Gold Project," *PanTerra Gold*, accessed August 13, 2019, http://www.panterragold.com/en_US/las-lagunas-gold-project/.

³⁷ Acacia Mining is the Tanzanian subsidiary of Barrick. It currently has four mines in operation.

³⁸ Juana Barcelo, Executive Director, Pueblo Viejo Dominicana Corporation. Email correspondence with IMPACT, April 23 and May 9, 2018.

INDIA'S IMPORTS OF GOLD *DORÉ* FROM DOMINICAN REPUBLIC³⁹



Another anomaly in Dominican exports is the per gram value—\$10.90 USD in 2016 and \$8.76 USD in 2015. This is significantly different from the median import value of \$30.57 USD for both years.⁴¹ The discrepancy between the gold's per gram value and the median import value indicates massive tax evasion by Dominican exporters.

WHAT CAN EXPLAIN THE DIFFERENCE IN THE DATA?

The answer lies partially in anomalies in the export statistics of the United States. South American gold sources are treated with suspicion by import and customs authorities due to their association with red flags including illegal gold mining, organized crime, environmental destruction, corruption, and human trafficking. ►

³⁹ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>; PVDC reported exports from Juana Barcelo, Executive Director, Pueblo Viejo Dominicana Corporation. Email correspondence with IMPACT, April 23 and May 9, 2018; "Las Lagunas Gold Project," *Pan Terra* Gold, accessed August 13, 2019, http://www.panterragold.com/en_US/las-lagunas-gold-project/.

⁴⁰ Calculated by subtracting the reported PVDC exports and the entirety of EnviroGold's exports from India's reported imports of gold from Dominican Republic.

⁴¹ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>.

CRIMINAL NETWORKS IN SOUTH AMERICA ARE AGGREGATING THEIR GOLD IN A LESS STRINGENT JURISDICTION LIKE THE DOMINICAN REPUBLIC.



In fact, in Peru and Colombia—the number one and two cocaine producers in the world, respectively—the value of illegal gold exports has surpassed the value of cocaine exports, making gold the largest illicit export from these two countries.⁴² Investigative reports by Verité and the Global Initiative against Transnational Organized Crime cite illegal mining as one of the easiest and most profitable ways to launder money tied to drug trafficking.⁴³

Analysts say several high profile criminal cases, involving drug cartels smuggling gold to refiners in the United States, Switzerland, and the UAE, led established mining companies and refiners to look for ways to disguise the origin of South American gold.⁴⁴

One analyst points out that while the United States is the fourth largest gold producer in the world, some of its gold exports to India actually originate from industrial miners operating in South America who are looking to keep their LBMA membership in good standing.⁴⁵ By transiting the gold through an aggregator in Miami, the miners are able to recast their gold as originating from the United States rather than South America.

This could mean that some of the gold declared as being imported into India from the Dominican Republic and the United States has potential ties to illicit networks operating in the region.

It is possible that the increased scrutiny in the United States led drug cartels and other criminal networks from South America to shift where their gold is being aggregated to a less stringent jurisdiction like the Dominican Republic.

It is worth noting that, in addition to its exports to India, the Dominican Republic also reported exports to Canada, Switzerland, and the United States in 2015 and 2016 that were larger than those PVDC sent to MMTC-PAMP.⁴⁶ The fact that there is no other possible legitimate production source for these exports indicates that refiners and customs officials in these countries are not carrying out adequate due diligence on what is reported as Dominican gold.

⁴² Verité, *Conflict Minerals, Expanded: The Nexus of Organized Crime, Human Trafficking, Corruption, and Conflict in Latin American Mining*, June 30, 2015, <https://www.verite.org/conflict-minerals-expanded-the-nexus-of-organized-crime-human-trafficking-corruption-and-conflict-in-latin-american-mining/>.

⁴³ Global Initiative Against Transnational Organized Crime, *Organized Crime and Illegally Mined Gold in Latin America*.

⁴⁴ “Dirty Gold, Clean Cash: How drug lords make billions smuggling gold to Miami for your jewelry and phones,” *Miami Herald*, January 16, 2018, <https://www.miamiherald.com/news/local/community/miami-dade/article194187699.html> and “Goldex CEO caught on bus in US\$790m Colombia laundering case,” *The Business Times*, January 21, 2015, <https://www.businesstimes.com.sg/banking-finance/goldex-ceo-caught-on-bus-in-us970m-colombia-laundering-case>.

⁴⁵ Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018.

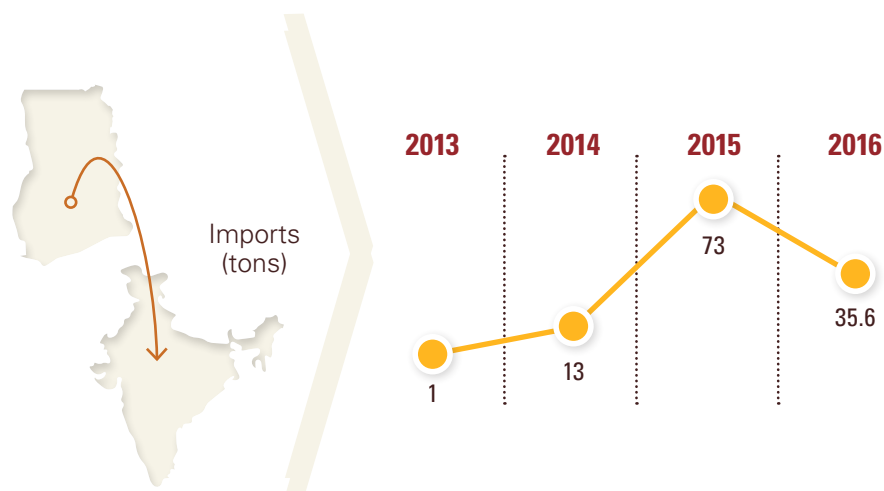
⁴⁶ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>.

CASE STUDY: GHANA

THE STORY OF GHANAIAN EXPORTS TO INDIA TELLS A SIMILAR TALE.

Inconsistencies in trade data aside, Ghanaian exports to India went from less than 1 ton in 2013 to a staggering 73 tons in 2015, and dropped to 35.6 tons in 2016.⁴⁷ The spike in trade caught the attention of Indian Customs and the Directorate of Revenue Intelligence (DRI) who travelled to Ghana in early 2016 to assess the situation first hand. They visited mine sites and met with the Precious Minerals Marketing Company (PMCC), Ghana's state agency that regulates the export of gold. Both agreed that Ghanaian exports undoubtedly included production from neighbouring countries, most notably Burkina Faso and Mali.⁴⁸ ►

INDIA'S IMPORTS OF GOLD *DORÉ* FROM GHANA⁴⁹



⁴⁷ World Gold Council, *India's gold market: evolution and innovation*, p. 58, and UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>.

⁴⁸ Seth Klaye, gold industry analyst. Telephone interview with IMPACT, Accra, Ghana, April 13, 2018.

⁴⁹ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>.

Case Study: GHANA (cont'd)

Porous borders, lax implementation of export procedures, preferable tax rates, and corruption all facilitate the illicit movement of precious metals and stones. In the case of Ghana, the biggest incentives promoting the illicit gold trade from its neighbours was not only the premium prices offered by Indian buyers, but also its zero tax rate on gold exports—compared to 3 percent in both Mali and Burkina Faso.⁵⁰

Concerned that gold from conflict-affected and high-risk areas was being absorbed into Ghana's supply chain, Indian authorities insisted that all future exports from Ghana and other producer countries be accompanied by a certificate of mining origin.⁵¹

Ghana had its own concerns about its gold trade, noting that the UAE reported gold imports of \$7 billion USD, while Ghanaian agencies only had a record of \$2 billion USD in exports. Compounding matters was the fact that 145 registered exporters could not be located in the country and foreign exchange payments for gold shipments never arrived in Ghana, exposing a massive money laundering scheme.⁵²

INDIA'S CERTIFICATE OF MINING ORIGIN WAS ADDITIONAL BUREAUCRACY FOR GHANIAN TRADERS.



The certificate of mining origin added an extra layer of bureaucracy for traders, but questionable and sizeable exports of gold *doré* continued to flow to India. In one instance, an \$18 million USD shipment of Ghanaian *doré* was seized in India.⁵³ In April 2017, the Ghanaian government instituted a ban on artisanal gold mining that lasted until May 2018. While the policy was meant

to introduce better practices for artisanal gold mining and end illicit trade, it ultimately proved unsuccessful in formalizing the sector and discouraging smuggling.⁵⁴

Although West Africa has no shortage of artisanal and small-scale mines, there was another surprising source of gold spikes—the UAE.

In 2015, industry observers began noticing a strange trend. Recycled gold jewellery was being sent from the UAE to Ghana to be mixed with artisanally-mined gold, melted down, and exported to India as *doré*, accompanied by certificates of mining origin.⁵⁵ The size of this trade is unknown but most of the processing is believed to happen at Gold Coast Refinery in Ghana.⁵⁶ By round tripping the gold and converting it back to *doré*, the gold becomes eligible for the tax incentives that the Indian government offers its refiners.

⁵⁰ Martin, *The West African Ed Dorado*.

⁵¹ "Ghana makes government certificate mandatory for exporting *doré* gold," *Economic Times (India)*, November 3, 2016, <https://economictimes.indiatimes.com/markets/commodities/news/ghana-makes-government-certificate-mandatory-for-exporting-dore-gold/articleshow/55221442.cms>.

⁵² Seth Klaye, gold industry analyst. Telephone interview with IMPACT, Accra, Ghana, April 13, 2018.

⁵³ "Ghana loses \$6m in taxes through gold smuggling to India," *Business Day*, March 8, 2016, <http://citifmonline.com/2016/03/08/ghana-loses-6m-in-taxes-through-gold-smuggling-to-india/>.

⁵⁴ "End of small-scale mining ban in Ghana to hamper efforts to combat illegal mining," *Creamer Media's Mining Weekly*, May 28, 2018, <http://www.miningweekly.com/article/end-of-small-scale-mining-ban-in-ghana-to-hamper-efforts-to-combat-illegal-mining-2018-05-28>.

⁵⁵ Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018 and Philip Olden, Independent Consultant, Signet. Telephone Interview with IMPACT, March 24, 2018.

⁵⁶ India-based Industry analyst. Interview with IMPACT, May 2018; Internationally-based Industry analyst. Interview with IMPACT, 2018; India-based Industry member. Interview with IMPACT, May 2018.

CASE STUDY: TANZANIA

Tanzania is the only country in Africa’s Great Lakes region that recorded direct gold exports to India during the 2014-2016 period. Tanzania’s statistics pose multiple problems, including inconsistent Comtrade data, a resistance by both the government and Acacia Mining to disclose data to IMPACT, and almost non-existent data on either ASM gold production or exports.

Tanzania has an established industrial mining sector, with Acacia Mining operating three mines—North Mara, Buzwagi and Bulyanhulu—in the north west of the country. AngloGold Ashanti operates the nearby Geita Gold Mine. As with Barrick’s Dominican subsidiary, Acacia exports some of its production to the MMTC-PAMP refinery. While the company did not disclose the weight of the exports to IMPACT, sales figures show that Acacia exported almost all of its production to India in 2014 and 2015, dropping to 80 percent in 2016 and 2017.⁵⁷

Statistics on Tanzania’s ASM gold production are unavailable. One estimate puts production in the ballpark of 4 tons per year,⁵⁸ but anecdotal evidence points to more significant production when considering gold mined by artisanal miners who reprocess industrial tailings.

The Geita tailings in particular are especially profitable, producing as much as 200 kg of *doré* a week, according to one gold buyer in Kampala whose one associate buys 100 kg a week.⁵⁹ This was corroborated by an Indian buyer who referred to Geita as the “mecca of Tanzania,” with the gold concentrate boasting an average of 200 parts per million—almost 20 times that of an average artisanal mine.⁶⁰ ▶



THE GEITA TAILINGS ARE ESPECIALLY PROFITABLE, PRODUCING AS MUCH AS 200 KG OF *DORÉ* A WEEK.

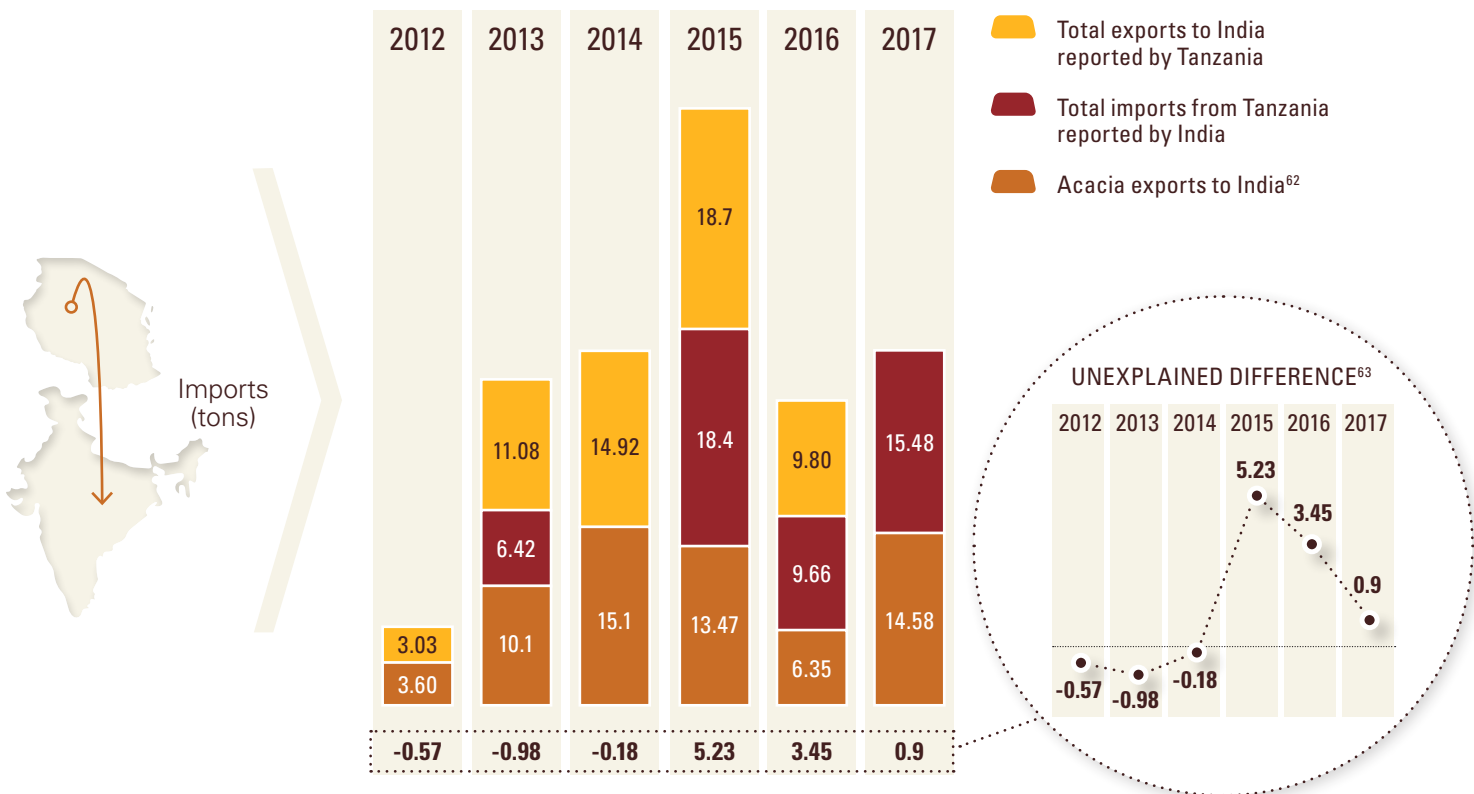
⁵⁷ Acacia reported *doré* sales India of \$143.8 million USD in 2012, \$404 million USD in 2013, \$603.8 million USD in 2014, \$538.5 million USD in 2015, \$253.9 million USD in 2016 and \$582.9 million USD in 2017. Giles Blackham, Head of Investor Relations, Acacia Mining. Email correspondence with IMPACT, May 2, 2018.

⁵⁸ Marcello Veiga, “Information about the Project Site (Rwamagasa, Geita District) in Tanzania, Global Mercury Project,” *UNIDO*, February 2004, <https://iwlearn.net/resolveuid/4572f0eedbc55133723f7f1ec94a2bfc>.

⁵⁹ James Mugisha, Owner, Bullion Refinery. Interview with IMPACT, Kampala, May 4, 2018.

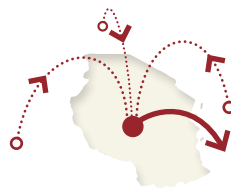
⁶⁰ Manish Jain, Managing Director, RL Jewels. Interview with IMPACT, Mumbai, May 14, 2018.

EXPORTS AND IMPORTS OF GOLD *DORÉ* FROM TANZANIA TO INDIA⁶¹



Despite the difficulty in accessing reliable data about the import and export of gold *doré* between the two countries, it's clear that Tanzanian exports to India include more than just its industrial production. The country's artisanal gold production is also being included in exports.

TANZANIA'S GOLD EXPORTS TO INDIA INCLUDE GOLD FROM ITS NEIGHBOURS.



At the same time, it is just as possible that Tanzania's gold exports to India include gold from its neighbours. Previous research has demonstrated the ease with which gold from conflict-affected and high-risk areas in the Great Lakes region can enter the country.⁶⁴ Similar to the example of the Dominican Republic, traders are able to import illicit gold *doré* into India by falsifying paperwork to state the country of origin as Tanzania.

⁶¹ UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/> and Giles Blackham, Head of Investor Relations, Acacia Mining. Email correspondence with IMPACT, May 2, 2018.

⁶² Based on sales figures provided by Acacia Mining to IMPACT and divided by spot price of \$40,000 USD/kg.

⁶³ Calculated difference between total exports reported by Tanzania and Acacia Mining's production based on Acacia sales figures provided to IMPACT, except for in 2017 where difference is between total imports reported by India and Acacia Mining.

⁶⁴ Blore, *Contraband Gold in the Great Lakes Region*, and Alan Martin and Bernard Taylor, *All that Glitters is Not Gold: Dubai, Congo and the Illicit Trade of Conflict Minerals*, Partnership Africa Canada, May 2014, <https://impacttransform.org/en/all-that-glitters-is-not-gold-dubai-congo-and-the-illicit-trade-of-conflict-minerals/>.



INDIA IS
AT THE HEART
OF A WEB
OF THE ILLICIT
TRADE OF GOLD,
WITH THREADS
SPANNING
THE GLOBE



SECTION 3:

**INDIA AND THE
GREAT LAKES
CONNECTION—
UAE AS THE
INTERMEDIARY**

TRADE ROUTES FOR ARTISANAL AND ILLICIT GOLD *DORÉ*

The UAE is India’s largest source of smuggled refined gold. The ways in which refined bullion from UAE is smuggled into India will be discussed more in-depth in Section 4 of this report. However, the role that the UAE plays as an intermediary—importing gold *doré* without proper due diligence, which is refined and then exported to India—warrants closer examination.

Although there are no official statistics showing a direct link between DRC and India’s gold trade, considering that India imports a third of the world’s gold, it’s clear that gold from the DRC, which is linked to serious abuses such as torture, forced and child labour, widespread human rights abuses, and corruption, would end up within its borders.⁶⁵

MWANZA, TANZANIA

While some of the artisanally-mined gold from Geita tailings are being exported from Tanzania, the majority of the gold travels through Uganda. The biggest city in the region is Mwanza, a port on the southern coast of Lake Victoria that offers direct cargo service to Port Bell outside Kampala. The port also has direct road links with Kigoma, a town directly across Lake Tanganyika from the mineral-rich Kivu Provinces of eastern DRC. There are also air and road links to Nairobi, preferred by merchants of Somali and Indian origin, who are known to export primarily to the UAE and India. In recent years, Nairobi has become a magnet for Congolese and South Sudanese gold—the latter of which is often exported as “gold sand” (small, grain-like beads) and easily transported by smugglers on direct flights to Mumbai.⁶⁶

A former mining security chief for a large extractive company in the region says that Mwanza is notorious for its illegal commerce. Several hotels and one office above an FME Bank are known as the go-to places to sell gold mined either from tailings or from eastern DRC. He observed that Indian buyers offer premium prices in the city, with rural traders paid above the London Bullion Market (LBMA) price. In an interview, he mentioned how gold goes from Mwanza to Kampala, Nairobi, Zanzibar, and Dar es Salaam, and then straight to Dubai, “where they are more concerned about what clothes you are wearing than what you are bringing in your bags.”⁶⁷



⁶⁵ The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas provides a framework for companies to source responsibly. See the full guidance online: <https://www.oecd.org/daf/inv/mne/mining.htm>.

⁶⁶ Nairobi-based gold trader. Interview with IMPACT, Paris, November 5, 2018.

⁶⁷ Former mine security chief. Interview with IMPACT, Dar es Salaam, April 12, 2018.

Manish Jain, an Indian gold buyer with operations in Tanzania, does not operate a mine himself. Instead, he purchases gold from miners. He has similar arrangements in DRC'S Ituri Province and in Mali. He says he follows all of the laws in Tanzania and does nothing illegal, even though the gold he buys comes from tailings that legally belong to AngloGold Ashanti. He says he exports the gold to Dubai, as it is a "safer and more predictable" destination than India. However, when asked about his trading route, he doesn't offer specifics about how the gold is exported—whether it goes via Dar es Salaam, Kampala, or Nairobi—and whether the gold eventually makes its way to India.⁶⁸

UGANDA



For the better part of two decades, Uganda has been the first stop for smuggled Congolese gold on its journey to the legitimate market. The UN Group of Experts and organizations like IMPACT have long established the role gold traders in Kampala, and to a lesser extent in Kigali and Bujumbura, have played in buying, semi-refining, and exporting gold *doré* to the UAE, mostly through hand-carried luggage.⁶⁹

Kampala's gold market is a well-oiled machine. For decades, even before the civil war in eastern DRC began, gold, ivory and timber have been trafficked through Uganda.

Despite the scrutiny of the United Nations (UN) and organizations like IMPACT, illicit traders not only operate with impunity, some have actually intensified their business.

While there is now some ASM production coming from Mubende in the south-west of the country, Uganda remains a conduit country for illicit Congolese gold. Even though Congolese *doré* does not go directly to India, it makes its way there nonetheless—most often after first being refined in the UAE.

The extra step is largely due to the fact that Uganda's small domestic production makes it impossible for exporters to credibly claim and receive legal certificates of mining origin for the tons of illicit gold that are being smuggled.

The African Gold Refinery (AGR) in Entebbe was established in 2014 and is the first professional refinery north of South Africa. AGR also has a well-documented history of sourcing gold from DRC and other countries.⁷⁰ By 2017, the refinery was reportedly sourcing 100-150 kg of gold per week from eastern DRC alone—equivalent to 5.2-7.8 tons per year.⁷¹ Other sources have pegged AGR's annual exports at closer to 9.3 tons.⁷²

⁶⁸ Manish Jain, Managing Director, RL Jewels. Interview with IMPACT, Mumbai, May 14, 2018.

⁶⁹ See for example, Martin, *All that Glitters is Not Gold*.

⁷⁰ The Sentry, *The Golden Laundromat: The Conflict Gold Trade from Eastern Congo to the United States and Europe*, October 2018, https://cdn.thesentry.org/wp-content/uploads/2018/10/GoldenLaundromat_Sentry_Oct2018-final.pdf, Gabriele Steinhauser and Nicholas Bariyo, "How 7.4 Tons of Venezuela's Gold Landed in Africa—and Vanished," *The Wall Street Journal*, June 18, 2019, <https://www.wsj.com/articles/how-7-4-tons-of-venezuelas-gold-landed-in-africa-and-vanished-11560867792>, Kasper Goethals, "Gold is a dirty business even if I do say so myself," *De Standard*, April 20, 2019, https://www.standaard.be/cnt/DMF20190503_04370790.

⁷¹ The Sentry, *The Golden Laundromat: The Conflict Gold Trade from Eastern Congo to the United States and Europe*, p. 9.

⁷² The Sentry, *The Golden Laundromat: The Conflict Gold Trade from Eastern Congo to the United States and Europe*, p. 8.

Reports have detailed how AGR has exported its gold to Goetz Gold LLC and Agor DMCC, both located in Dubai.⁷³ The website of a similarly named AGOR Precious Metals says it is licensed with the Dubai Multi Commodities Centre (DMCC) representing NV Tony Goetz, having “gained tremendous character in the world of precious metals within the UAE, Europe, Asia and Africa.”⁷⁴ It is unclear where this gold goes to after leaving Dubai.

While the route that refined gold takes to India is discussed later in this report, enforcement officials say that Indian traders and members of the diaspora are intricately tied to the illicit trade in Kampala, and therefore play a key role in undermining clean gold flows to India.⁷⁵

Another refiner operating in Kampala is an Indian only known as Patel who operates on Kira Road in the Kisemete neighbourhood. In an interview with IMPACT, Patel minimized his role in Uganda’s gold trade, but over the course of 30 minutes, a steady stream of cars was observed making gold deliveries to the compound. At least two gold traders claim that Patel trades as much as 200 kg a week—almost on par with AGR. While the provenance of the gold arriving at the refinery was unclear, it is believed that most of his supplies are sent to Zee Gold DMCC in Dubai, a subsidiary of Mumbai-based refiner Shirpur.⁷⁶

The probability of east African gold of questionable provenance with links to conflict or other illegal activity entering the Indian market is irrefutable. Beyond the links between the Bhimji family and Prithviraj Kothari (see Spotlight on Sameer Bhimji below), enforcement sources are aware of other India-based gold dealers operating in East Africa. An industry member notes that in 2017, the eight largest Indian refineries imported almost 200 tons of *doré*, sourced mostly from African countries and not following standard responsible sourcing practices in keeping with the OECD Due Diligence Guidance.⁷⁷

⁷³ The Sentry, *The Golden Laundromat: The Conflict Gold Trade from Eastern Congo to the United States and Europe*, pp. 1, 3, 20 and Global Witness, *Under Mined: How corruption, mismanagement and political influence is undermining investment in Uganda’s mining sector and threatening people and environment*, June 2017, pp. 72, https://www.globalwitness.org/documents/19088/Undermined_Report.pdf.

⁷⁴ “About Us,” *Agor Precious Metals*, accessed September 30, 2019, <http://www.agor.com/about.html>.

⁷⁵ Senior official, Directorate of Revenue Intelligence (DRI). Interview with IMPACT, Mumbai, India, May 15, 2018 and Former Enforcement Directorate official. Interview with IMPACT, Mumbai, India, May 16, 2018.

⁷⁶ Two gold traders. Interviews with IMPACT, Kampala, May 3-4, 2018.

⁷⁷ Surendra Mehta, National Secretary, Indian Bullion and Jewellery Association. Interview with IMPACT, May 14, 2018.



SPOTLIGHT ON SAMEER BHIMJI

In 2014, the UN Group of Experts identified the Bhimji family as being one of the three principal exporters of illicit gold from Uganda.⁷⁸ Though not sanctioned by the UN, the Bhimji family is known to enforcement officials both in Uganda and India.

The exposure brought on by the UN forced Sameer Bhimji and his father to relocate abroad.⁷⁹ The Bhimji patriarch runs a property management business in the United Kingdom.⁸⁰ However, Sameer is still active in the gold sector—both in Dubai and Kampala. He also reportedly runs an import-export business, selling household commodities between Dubai and eastern DRC.

In late 2016, the Ugandan Revenue Authority raided Sameer Bhimji's house and impounded 51.3 kg of gold valued at over \$2 million USD.⁸¹ In a 2014 court judgement, Bhimji was also

identified as an "agent" for Royal City Gold LLC of Dubai, after Royal Gold LLC sued Emirates Airlines when its \$300,000 USD gold shipment was stolen from a flight at Entebbe airport.⁸²

While police know Bhimji visits India occasionally, he does not carry out any direct business there, preferring to stay in Dubai. A Mumbai-based gold smuggler confirms Bhimji's role in the illicit trade to India, affirming that he moves between 500 and 700 kg of gold a month between Uganda and Dubai. This gold is refined and then exported to India.⁸³

Sameer Bhimji is on Indian enforcement authorities' radar for his links to Prithviraj Kothari, known as the "Bullion King" of Mumbai. Kothari is the patriarch of Riddi Siddhi Bullion Ltd. (RSBL), a gold refinery, and the vice-president of the Indian Bullion and Jewellery Association.⁸⁴ Kothari is alleged to have commissioned Bhimji to help procure gold from east Africa after he had trouble with his regular suppliers. The role the Kothari family plays in the illicit trade in India is discussed further in the next section.

According to a former member of the Enforcement Directorate, Bhimji is also known to have a business relationship with Kothari's nephew, Raju, who reportedly runs a *hawala* business based in Dubai, with links to the illicit gold trade.⁸⁵

⁷⁸ United Nations Security Council, *Final report of the Group of Experts on the Democratic Republic of the Congo S/2014/42*, January 23, 2014, p. 39, http://www.un.org/ga/search/view_doc.asp?symbol=S/2014/42.

⁷⁹ James Mugisha, Owner, Bullion Refinery. Interview with IMPACT, Kampala, May 4, 2018.

⁸⁰ "Jennplus Limited," *Companies House*, accessed September 9, 2019, <https://beta.companieshouse.gov.uk/company/02343592/officers>.

⁸¹ "URA impounds gold valued at Shs6 billion," *Daily Monitor*, December 21, 2016, <http://www.monitor.co.ug/News/National/URA-impounds-Shs6-billion-gold/688334-3493128-14gngepz/index.html>.

⁸² "Royal City Gold LLC v Emirates Airlines," *Uganda Legal Information Institute*, December 11, 2014, <https://ulii.org/node/21069>.

⁸³ Gold smuggler. Interview with IMPACT, Mumbai, May 16, 2018.

⁸⁴ "National Board," *India Bullion and Jewellers Association LTD*, accessed November 27, 2018, <http://www.ibja.co/team.aspx>.

⁸⁵ Former Enforcement Directorate official. Interview with IMPACT, Mumbai, India, May 16, 2018. Also see: "Rs 5k crore hawala racket: More names emerge," *The Times of India*, July 5, 2015, <https://timesofindia.indiatimes.com/city/ahmedabad/Rs-5k-crore-hawala-racket-More-names-emerge/articleshow/47951555.cms>, "Hawala scam: Arrest warrant issued against bullion trader," *The Economic Times*, August 31, 2018, <https://economictimes.indiatimes.com/news/politics-and-nation/hawala-scam-arrest-warrant-issued-against-bullion-trader/articleshow/48068166.cms>.



SECTION 4:

THE PROBLEM WITH REFINED GOLD

THE EXTENT OF THE PROBLEM

While Switzerland is the biggest source of legal bullion entering India,⁸⁶ enforcement sources and the WGC identify Dubai as the key source of smuggled gold into the India market.⁸⁷

While smuggling implicitly implies bypassing official channels, a sizeable portion of both *doré* and bullion enters India through subterfuge or manipulation of legal procedures. As previously discussed, this usually involves sending questionably sourced gold to Dubai under false origins. In the *doré* market, this is simpler and lower risk than bribing African officials to issue forged certificates of mining origin in order to export directly to India under the “Made in India” policy.

From Dubai, traders smuggle illicit gold to many locations—mostly to Bangladesh, Bhutan, Nepal, Pakistan, Singapore and Thailand—but almost invariably, the gold ends up in India.

India offers many advantages to a gold smuggler. Geographically, India has land borders with five countries, all of which have porous and unguarded frontiers. For centuries, Indians have been trading with Gulf states across the Arabian Sea. The construction and service industries in the Gulf are dependent on mobile and disposable labour from the Indian sub-continent. India has 25 international airports, with innumerable flights from Dubai—13 a day to Mumbai alone—allowing smugglers to adjust their destinations to suit supply demands or diversify their detection risk.

How illicit gold is smuggled into India depends on several factors. For significant volumes, traveling by road is the most efficient but offers the biggest risk. The Bangladesh border appears to be the most porous and offers easy access to Kolkata. By air, DRI and Enforcement Directorate officers have found gold hidden in ingenious places, including toys, chewing gum packets, sewing machines, wheelchair frames, and suitcase liners. Other air couriers work in collusion with flight attendants or ground crews, depositing their gold in airplane and airport toilets for later collection by other members of the smuggling syndicates.⁸⁸

SMUGGLED GOLD

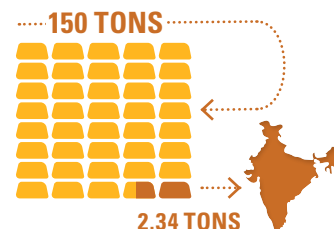


⁸⁶ Comtrade data shows that between 2012-2017, India imported on average 55% of its refined bullion from Switzerland, followed by 12% from the UAE. UN Comtrade International Statistics Database, accessed August 16, 2019, <https://comtrade.un.org/>.

⁸⁷ The WGC estimates 65-75% of smuggled gold comes by air, 20-25% by sea, and 5-10% by land. World Gold Council, *India's gold market: evolution and innovation*, p. 60.

⁸⁸ “Bangladesh seizes 25kg of gold from man posing in wheelchair,” Dawn, August 6, 2017, <https://www.dawn.com/news/1349957> and Special Correspondent, “Two airport staffers arrested for attempting to smuggle out gold,” *The Hindu*, April 25, 2017, <https://www.thehindu.com/news/cities/mumbai/two-airport-staffers-arrested-for-attempting-to-smuggle-out-gold/article18202082.ece> and Parag Deulgaonkar, “Gold smuggling bid foiled on Jet Airways’ Dubai-Mumbai flight,” *Arabian Business*, June 22, 2017, <https://www.arabianbusiness.com/gold-smuggling-bid-foiled-on-jet-airways-dubai-mumbai-flight-678778.html> and HT Correspondent, “1-kg gold found under plane seat at Chandigarh airport; Rs 22 lakh cash seized from passenger” *Hindustan Times*, December 15, 2017, <https://www.hindustantimes.com/punjab/1-kg-gold-found-under-plane-seat-at-chandigarh-airport-rs-22-lakh-cash-seized-from-passenger/story-z4sRlxAwYM28oJhNhCQkeK.html> and Tamil Nadu, “Customs officials seize gold worth 53 lakh,” *The Hindu*, December 10, 2017, <https://www.thehindu.com/news/national/tamil-nadu/customs-officials-seize-gold-worth-53-lakh/article21383103.ece> and Tamil Nadu, “Gold seized from air passengers,” *The Hindu*, October 16, 2017, <https://www.thehindu.com/news/national/tamil-nadu/gold-seized-from-air-passengers/article19867452.ece> and Pankaj P. Khelkar, “Passenger caught with gold worth Rs 1 crore at Pune International Airport,” *India Today*, December 21, 2017, <https://www.indiatoday.in/india/story/passenger-caught-with-gold-worth-rs-1-crore-at-pune-international-airport-1113533-2017-12-21> and “Mangaluru: Passenger caught smuggling gold worth Rs 24 lac in footwear at airport” *Daiji World*, November 27, 2017, <http://www.daijiworld.com/news/newsDisplay.aspx?newsID=483405>.

While regional newspapers regularly print stories of airport or border seizures, enforcement officials know they are only scratching the surface. 2014 was the most successful year for the Mumbai office of the DRI when it seized 1.04 tons of gold at the Chhatrapati Shivaji International airport—by far the biggest smuggling hub.⁸⁹ Total seizures for the country in 2013 were 2.34 tons. The same year, the WGC conservatively estimated that illicit gold flows into India were 150 tons, meaning that authorities were intercepting less than 2 percent of smuggled gold.⁹⁰



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150 TONS OF GOLD
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HOW POLICY DECISIONS CONTRIBUTED TO THE PROBLEM

Those looking to understand why India is so susceptible to contraband gold flows need to look at the policy drivers that serve to unwittingly feed the illicit market. In the 1990s, economic liberalization in the country jumpstarted economic growth and opened India’s highly regulated economy to the world.

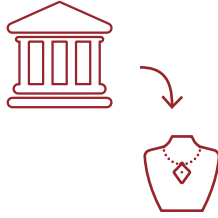
While the liberalizations were largely a success, the imports of two commodities in particular—crude oil and gold—exposed India to an account deficit from which it has never recovered. As oil is an everyday necessity, the government is loath to take steps to curtail its import. Gold, on the other hand—notwithstanding the cultural affinity for it, or the numbers employed in the jewellery manufacturing and retail sector—is a luxury good. And so began India’s struggle to find a policy coherence that balances the cultural thirst for gold with macro-economic pressures and enforcement vulnerabilities that enable illicit activity.

The government approach to date has three overarching objectives: reduce gold imports, increase transparency in the sector, and turn the sizeable, privately-held gold reserves into an “asset class.”

⁸⁹ Senior official, DRI. Interview with IMPACT, Mumbai, India, May 15, 2018.

⁹⁰ World Gold Council, *India’s gold market: evolution and innovation*, p. 60 and Senior official, DRI. Interview with IMPACT, Mumbai, India, May 15, 2018.

22 BANKS AND NOMINATED AGENCIES
HAVE LEGAL AUTHORIZATION TO
IMPORT REFINED GOLD INTO INDIA.
THEY SELL THE REFINED GOLD TO
INDIAN JEWELLERS AND TRADERS.



While some of these objectives, like the “Made in India” policy, are specifically tailored to the import of *doré* gold, the policies affected the gold sector overall. Included were the 22 banks and nominated agencies that have legal authorization to import refined gold into India. They, in turn, have the exclusive right to

sell refined gold to Indian jewellers and traders.⁹¹ The majority of the nominated agencies are established banks, the biggest of which are the Bank of India, Bank of Nova Scotia (ScotiaMacotta), and the ICICI Bank. MMTC-PAMP, the Handicraft and Handlooms Export Corporation, and the Diamond India Ltd are some of the leading nominated agencies. With the exception of MMTC-PAMP, these entities do not import *doré* directly, preferring to obtain their refined gold from UAE and Swiss sources. While this may include LBMA-approved sources, they are not legally precluded from purchasing gold directly from other sources, such as UAE refiners and banks that have not completed due diligence on their gold.⁹² According to their website, MMTC-PAMP is the only LBMA-accredited gold refinery in India.⁹³

TAXATION

The biggest enabler to illicit activity in the precious minerals market is taxation, and India is no exception. Import duties on refined gold were 1 percent in the 1990s. Now, they are 10 percent plus 3 percent GST, for 13 percent total in taxes.⁹⁴ Despite concerted efforts by India to harmonize taxes with key trading partners like the UAE, a substantial tax arbitrage continues to exist.⁹⁵

As a result, Indian jewellers pay INR 32,100 (\$461.24 USD) for 10 grams of gold—much higher than the international LBMA price of INR 28,500 (\$409.52 USD) per 10 grams.⁹⁶

As one gold trader told IMPACT, “That translates into about a \$50 USD per 10 gram difference. That’s a big value difference and it is good for smuggling.”⁹⁷

This price difference explains the massive illicit trade between the UAE and India, as jewellers seek to minimize their costs.

DEMONETIZATION

Another key policy impacting the gold sector was demonetization, introduced by Prime Minister Modi in 2016. The policy sought to crack down on the grey economy by requiring Indians to declare assets and pay VAT on all purchase transactions. With

⁹¹ Nirakar Chand, CEO, Diamond India Ltd (DIL). Interview with IMPACT, May 18, 2018. DIL is one of India’s nominated agencies legally authorized to import gold.

⁹² Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018.

⁹³ “Who We Are,” *MMTC-PAMP*, accessed August 13, 2019, <https://www.mmtcpamp.com/who-we-are>.

⁹⁴ Sudheesh Nambiath, gold analyst, Thomson Reuters. Interview with IMPACT, Mumbai, May 22, 2018.

⁹⁵ While UAE has imposed a 5% tax on gold imports, the tax is waived if the import is done through a local jeweller who refines it within a two month period.

⁹⁶ Kumar Jain, Vice President, Mumbai Jewellers Association. Interview with IMPACT, Mumbai, May 14, 2018.

⁹⁷ *Ibid.*

respect to the gold sector, Modi declared India's considerable gold reserves, estimated at over 20,000 tons,⁹⁸ a dead asset, hidden away in temples and under the proverbial mattresses of the nation.⁹⁹

By encouraging people to declare their holdings, deposit them in banks, and show proof of payment or ownership of their gold, Modi sought to expose black market holdings while also allowing the government to borrow against the gold reserves to fund infrastructure projects. However well-intended it might have been, commentators unanimously declared demonetization an epic failure, mostly due to the public's distrust of government and concerns that people would be declared criminals if they could not provide a paper trail for their gold.¹⁰⁰ As a result, the policy reinforced the practice of keeping gold hidden from official sources.

THE "MADE IN INDIA" POLICY

The "Made in India" policy sought to limit imports of refined gold and create economic beneficiation by boosting the local refinery sector. In reality however, the policy undermined responsible sourcing practices by Indian refiners. While the overarching objective of boosting the domestic sector was legitimate, not enough thought was put into preparing Indian authorities for the large number of imports that followed.

Until recently, both the Indian government and gold industry members—refiners in particular—appeared to be oblivious and indifferent to sourcing risks.¹⁰¹ According to the analysis done by one Indian industry member, only approximately 10 percent of refiners in India have a passing knowledge of responsible sourcing practices, such as those laid out by the OECD.¹⁰² The role Indian refiners and their buyers play in corruption, skirting local laws, or sourcing from clearly questionable sources is downplayed or ignored.

One Indian refiner echoed a common refrain when he told IMPACT, "If Ghana is sending illegal gold, it should be stopped there, not here. Why are people coming and saying it is irresponsible gold? It's not my duty."¹⁰³

The result of the "Made in India" policy is that refiners became more focused on maximizing market share and imports than addressing substantive questions around poor sourcing practices. There is also no mandatory standard for gold refining in India, leading to varying degrees of accuracy and quality in the refining.



BOOSTING INDIA'S
REFINERY SECTOR
LED TO TAX BREAKS
FOR *DORÉ*—AND
QUESTIONABLE
SOURCING PRACTICES.

⁹⁸ Ministry of Finance, *Budget 2015-2016*, p. 13.

⁹⁹ The World Gold Council estimates the reserves to be bigger, between 23,000-24,000 tons worth \$800 billion USD. World Gold Council, *India's gold market: evolution and innovation*, p. 51, and Metals Focus, *Gold Focus 2017*, p. 54.

¹⁰⁰ "India's Cash Ban Failed Even to Create a Bank Savings Culture: The chaos of demonetization probably made millions leery of formal finance," *Bloomberg*, September 2, 2018, <https://www.bloomberg.com/opinion/articles/2018-09-02/indian-demonetization-failed-even-to-create-a-savings-culture>.

¹⁰¹ According to Surendra Mehta, National Secretary, Indian Bullion and Jewellery Association. Interview with IMPACT, May 14, 2018.

¹⁰² Based on analysis done by Rahul Gupta, Director, Gold Bullion Association. Interview with IMPACT, Paris, April 18, 2018.

¹⁰³ Privthviraj Kothari, gold refiner. Interview with IMPACT, Mumbai, May 18, 2018.

Hallmarking for gold was introduced in India in 2000 as a voluntary standard,¹⁰⁴ with only an estimated 40 percent of the country's gold jewellery hallmarked.¹⁰⁵ Additionally, enforcement officials struggle with reports of fake hallmarks appearing on gold.¹⁰⁶

Despite the best efforts of the government and some industry members to draft responsible sourcing protocols in-line with the OECD Due Diligence Guidance and to introduce mandatory refining standards through the Bureau of Indian Standards (BIS), extensive sensitization of industry members and tougher inspection policies by customs officials are clearly needed.

THE 80:20 SCHEME

Another short-lived policy targeting refined gold imports was the 80:20 Scheme through which importers were obligated to re-export 20 percent of their gold as finished jewellery. The policy was introduced in 2013 with the intention of minimizing India's account deficit and adding value to the gold sector. It had the exact opposite effect, resulting in record-setting illegal imports of approximately 335 tons of gold in 2014.¹⁰⁷



A SMUGGLER'S JOURNEY FROM DUBAI

Traders do not only rely on misguided government policies to support their smuggling habits. The illicit gold trade relies heavily on the courier services of mostly low-paid migrant labourers from rural India who work in the Gulf. Smuggling syndicates especially prey on indebted workers, some of who have to pay medical bills for family members in India and neighbouring states.

Criminal syndicates operate in small cells, with the courier only ever meeting the person who gives them the gold in Dubai and possibly the person who receives the delivery. The courier is given a cell number to call after clearing customs in India. If, for whatever reason, the courier is arrested and does not call at the agreed upon time, the SIM card is destroyed, removing the ability of police to track other syndicate members.

Even if a courier is caught, the prospects of conviction are unlikely. The low likelihood of conviction lies mostly in India's massive population, the many common names, and the lack of a centralized system that records offences. This means that even if someone is arrested, the worst the police can do is to confiscate their passport and hold them in jail for a maximum of 60 days. After their release, a courier simply has to return to their home area, reapply for a new passport, and never show up for their trial.¹⁰⁸

¹⁰⁴ Full details about hallmarking can be found on the BIS website: https://bis.gov.in/?page_id=247. The BIS moved to make hallmarking mandatory in 2016, however this was never implemented. The BIS renewed its plan in August 2019 for mandatory hallmarking. See more details: Sutanuka Ghosal, "Government plans to make BIS hallmarking mandatory for gold jewellery," *The Economic Times*, August 23, 2019, <https://economictimes.indiatimes.com/industry/cons-products/fashion-/cosmetics-/jewellery/government-plans-to-make-bis-hallmarking-mandatory-for-gold-jewellery/articleshow/70802542.cms> and "Gold hallmarking to become mandatory," *The Hindu Business Line*.

¹⁰⁵ "Gold hallmarking to become mandatory," *The Hindu Business Line*, August 20, 2019, <https://www.thehindubusinessline.com/markets/gold/gold-hallmarking-to-become-mandatory/article29183324.ece>.

¹⁰⁶ "All that glitters may not be gold, police warn buyers," *The Times of India*, August 9, 2019, <https://timesofindia.indiatimes.com/city/bengaluru/all-that-glitters-may-not-be-gold-police-warn-buyers/articleshow/70611313.cms>.

¹⁰⁷ World Gold Council, *India's gold market: evolution and innovation*, p. 75.

¹⁰⁸ Senior official, DRI. Interview with IMPACT, Mumbai, India, May 15, 2018.

THE GOLD ECONOMY

Although approximately three quarters of the gold smuggled into India is refined bullion from Dubai, DRI and customs officials do occasionally intercept African traders—mostly women—who smuggle gold into India in order to purchase commodities they can resell at home.

Due to stringent foreign exchange controls in many African countries, these traders use gold as a parallel currency. In 2014, about 100 kg of the 1.04 tons of gold seized at the Mumbai airport came from African sources.¹⁰⁹ This trade is not necessarily linked to organized criminal networks.

However, parallel economies like this play a critical role in the broader movement of gold out of Africa, as well as into India. The preferred means of payment for illicit gold shipments is *hawala*—an informal, trust-based form of payment popular in northeast Africa, the Middle East, and India.

Hawala first came to Western attention when authorities discovered that it funded the attacks in the United States on September 11, 2001. Transactions are based entirely on trust and networks (linked to a particular family, village, clan, or ethnic group), whereby money is exchanged between two geographically separated places without the money itself being physically sent. The system is attractive to criminals as it allows for transactions to be completely “off the books.”

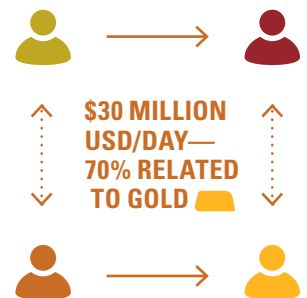
Gold smugglers use various forms of *hawala* depending on the location, the amount of money and gold, and the relationship between the parties. In Kampala, for example, buyers use a hybrid form of *hawala* whereby payment can be made in part or in full with commodities that can be sold easily in market towns in eastern DRC. This form of *hawala* can include buyers importing cars from Nairobi to frontier towns with limited selection in order to increase profits for the gold trader, or paying for a flatbed truck delivery of commonly needed and inconspicuous construction materials like concrete and metal sheeting. The desired product can change according to what the trader wants, but the value is always equal to the gold sold to the buyer.¹¹⁰

Between the UAE and India, the *hawala* uses are just as creative. The most common practice is for the gold buyer in India to pay for the gold shipment from UAE directly in Dubai and then have the gold smuggled into India. The whole premise of using *hawala* is to keep sales receipts off the books and away from tax authorities.

HAWALA (n):

An informal, trust-based form of payment.

THE HAWALA TRADE BETWEEN INDIA AND THE GULF STATES IS ESTIMATED TO BE \$30 MILLION USD A DAY—70% RELATED TO GOLD.



¹⁰⁹ Ibid.

¹¹⁰ James Mugisha, Owner, Bullion Refinery. Interview with IMPACT, Kampala, May 4, 2018.

The trade between India and the Gulf states is estimated to be as much as \$30 million USD a day—70 percent of which is related to the gold trade.¹¹¹ One official estimates that there are about seven other *hawala* dealers in Dubai that play a brokering role between illicit African gold on the same level as Kothari’s nephew, Raju—mentioned in Section 3.¹¹²

While enforcement officials are aware of gold-for-drug *hawala* exchanges, these exchanges are rare and not linked to the main groups operating in the sector. The more common association with the drug trade is for criminal networks to purchase gold as a way to launder the proceeds of drug sales, and then use *hawala* to expatriate the funds to another jurisdiction.

LAUNDERING ILLICIT GOLD INTO THE LEGAL SUPPLY CHAIN

The method of laundering gold into the legal stream changes depending on whom you talk to. The gold traders in Zaveri insist that anyone who tries selling illicit gold into the bazaar will be either rebuffed or reported to the police. Instead, they claim, the gold is sent directly to one of India’s more than 650,000 villages, where local goldsmiths melt it down for either jewellery or investment purposes.¹¹³

Enforcement officials see it very differently: “If you take a Cadbury bar [1 kg of refined gold] to Zaveri, you will have your cash in 20 minutes.”¹¹⁴

Enforcement agents say that absorbing an average of 150 tons of smuggled gold a year into the legal market is not the work of a handful of bad apples—it requires an organized system, and the collusion of respected and otherwise legitimate businesses.¹¹⁵

A final step in gold laundering is for Indian jewellers or refiners to recast the gold to remove the UAE or Swiss markings.

¹¹¹ Sarika Malhotra, “The *Hawala* link to gold smuggling,” *Business Today (India)*, November 21, 2013, <https://www.businesstoday.in/current/economy-politics/Hawala-money-lifeline-for-gold-smuggling-west-asia-to-kerala/story/200775.html>.

¹¹² Former Enforcement Directorate official. Interview with IMPACT, Mumbai, India, May 16, 2018. Also see: “International hawala racket busted in Jaipur, Rs 4.25 crore seized,” *The Times of India*, September 13, 2019, <https://timesofindia.indiatimes.com/city/jaipur/intl-hawala-racket-busted-in-city-rs-4-25cr-seized/articleshow/71120039.cms>, “DRI busts Dubai to Mumbai racket, seizes 110kg of gold,” *The Times of India*, March 30, 2019, <https://timesofindia.indiatimes.com/city/mumbai/dri-busts-dubai-to-mumbai-racket-seizes-110kg-gold/articleshow/68637277.cms>.

¹¹³ Kumar Jain, Vice President, Mumbai Jewellers Association. Interview with IMPACT, Mumbai, May 14, 2018.

¹¹⁴ Senior official, DRI. Interview with IMPACT, Mumbai, India, May 15, 2018.

¹¹⁵ *Ibid.*



SPOTLIGHT ON PRIVTHIRAJ KOTHARI

One of the key actors in the illicit import of refined bullion into India is the Kothari family, who own RSBL. Comprised of three brothers—Privthviraj, Manek Chand, and Bhavar—the family is referred to as the “Bullion Kings” of India. A fourth brother, Labuch, was killed in a gangland slaying in Dubai in the 1980s.¹¹⁶

The family’s Dubai operations are run by Raju Kothari, the son of Manek. Raju is considered one of the top 10 biggest *hawala* dealers in Dubai and is a known business associate of Sameer Bhimji.¹¹⁷ Rakesh, the son of Bhavar, served a seven-month jail sentence in 2014 for laundering over \$1 billion USD through *hawala*.¹¹⁸

Due to concerns about their business practices, the Director General of Foreign Trade—the government entity that issues refining licenses—revoked RSBL’s nominated agency certificate in 2017, thereby ending its ability to import and refine any gold.¹¹⁹

Despite this ban, Privthviraj Kothari is believed to be a shareholder in at least one refinery in India.¹²⁰ During an interview with IMPACT, Prithviraj Kothari claimed his refinery refined an average of 2 tons a month, “depending on supply.”¹²¹ Kothari’s continued presence in the refining business underscores the weakness of the government’s enforcement in the sector.

¹¹⁶ Gold refiner. Interview with IMPACT, Mumbai, May 17, 2018 and Jeweller in Zaveri Bazaar. Interview with IMPACT, Mumbai, May 18, 2018.

¹¹⁷ Former Enforcement Directorate official. Interview with IMPACT, Mumbai, India, May 16, 2018 and Gold smuggler. Interview with IMPACT, Mumbai, May 16, 2018.

¹¹⁸ “Mumbai bullion firm MD’s kin held in 7k-cr hawala scam” *The Times of India*, September 2, 2014, <https://www.pressreader.com/india/the-times-of-india-mumbai-edition/20140902/282119224726201>

¹¹⁹ “Directorate General of Foreign Trade slaps Rs 100 crore fine on Riddhi Siddhi Bullion,” *The Economic Times*, March 17, 2017, <https://economictimes.indiatimes.com/news/economy/foreign-trade/directorate-general-of-foreign-trade-slaps-rs-100-crore-fine-on-riddhi-siddhi-bullion/articleshow/45888990.cms>.

¹²⁰ The business registry, Zaubacorp, lists Prithviraj as a director of a number of businesses including Augmont International Ltd., while his brother Bhavar is listed as a director of Augmont Enterprises. Augmont Enterprises also occupies at least one floor of Privthviraj’s building in Zaveri Bazaar, accessed September 16, 2019, <https://www.zaubacorp.com/director/PRITHVIRAJ-SAREMAL-KOTHARI/00229996>. Also: Gold refiner. Interview with IMPACT, Mumbai, May 17, 2018 and Jeweller. Interview with IMPACT, Zaveri Bazaar, Mumbai, May 18.

¹²¹ Privthviraj Kothari, gold refiner. Interview with IMPACT, Mumbai, May 18, 2018.



CONCLUSION:

**INDIA'S
PROBLEMS
ARE EVERYONE'S
PROBLEMS**

INDIA PLAYS A CENTRAL ROLE IN LAUNDERING AND LEGITIMIZING GOLD FROM NUMEROUS QUESTIONABLE AND HIGH-RISK SOURCES.

Conservative estimates based on interviews and analysis of India's gold trade suggest that over a quarter of India's gold sector is tainted with gold from questionable sources. Gold—both *doré* and refined bullion—being imported into India can potentially be linked to conflict, human rights violations, smuggling, child labour, corruption, and other abuses in Africa and South America.

Official statistics claim that India imports approximately 800 tons of gold a year—worth an estimated \$30 billion USD. Analysts and authorities agree that the real figure is closer to 1,000 tons.

Gold is either smuggled into the country surreptitiously, with tons of refined bullion evading the authorities, or simply enters the country with falsified paperwork.

This gold is irrefutably bought and used by Indian manufacturers who supply Western jewellery brands. Assessing which companies took receipt of this gold is difficult and beyond the scope of this report, but it underscores vulnerabilities in current sourcing practices.

While India requires that its jewellers and manufacturers purchase their gold from one of the legally mandated, nominated agencies, there is no stipulation outlining from which refineries or sources the nominated agencies source their gold. There is no requirement, for example, that the nominated agencies adhere to the LBMA Responsible Gold Guidance or the OECD Due Diligence Guidance.

India's nascent relationship with artisanal gold sources—whether in South America, or West and Central Africa—underscores a staggering indifference to supply chain risks.

IMPACT spoke to several Indian refiners who were unaware of the reputational risks associated with the likely sources of their gold. They had clearly not done even cursory due diligence on their suppliers or risk assessments of either potential business partners or gold sources.¹²²

Both Indian Customs and the gold industry consider gold imports to be legitimate as long as the shipments arrive with the certificate of mining origin.

However, if gold is being illicitly mined or traded along its journey from a producing country to India—whether or not it picks up legal paperwork along the way—it remains a tainted product.

Some authorities within the Indian government and the country's gold sector are aware of supply chain risks and are taking steps to introduce responsible sourcing practices in line with the OECD Due Diligence Guidance. There are also industry members who are sincere and committed to improving sourcing practices.

The Government of India is also attempting to standardize refining practices through the Bureau of Indian Standards. While these efforts are ongoing at the time of writing, both of these initiatives are welcome steps forward in improving the framework of India's gold sector.

Quantifying the percentage of the global jewellery market tainted by Indian exports from illicit and problematically sourced gold is an imprecise science and requires further research.

However, based on the findings of this report, one can deduce that it is significant enough that the Indian government and industry members, both in India and in the wider jewellery sector, should urgently expedite efforts to introduce measures that will force sourcing practices to align with the OECD Due Diligence Guidance. In the meantime, industry members in the jewellery manufacturing and gold trading sectors should apply added vigilance with respect to Indian gold.

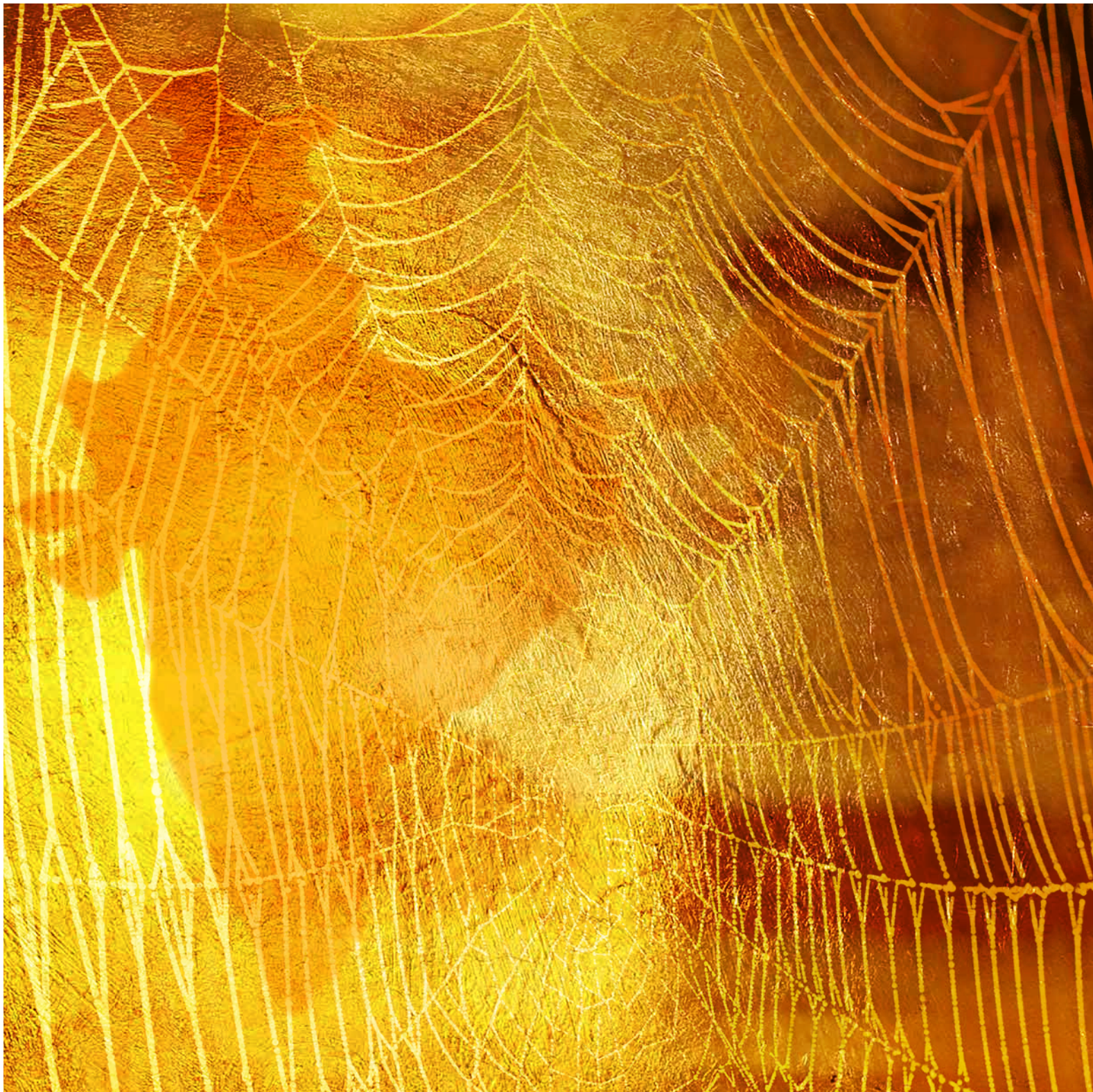
With one third of the world's gold passing through its borders, India has established itself not only as one of the leading gold manufacturing centres, but also one of the world's largest smuggling hubs.

IT'S TIME FOR INDIA AND ITS TRADING PARTNERS TO UNTANGLE THIS ILLICIT GOLDEN WEB.

¹²² Rahul Gupta, Director, Gold Bullion Association. Interview with IMPACT, Paris, April 18, 2018 and Privthviraj Kothari, gold refiner. Interview with IMPACT, Mumbai, May 18, 2018.



INDIAN GOLD INDUSTRY
MEMBERS—REFINERS IN
PARTICULAR—APPEAR
TO BE OBLIVIOUS
AND INDIFFERENT TO
SOURCING RISKS



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