Audit of the effectiveness of the precious metals control

Federal Customs Administration

Key facts

State control of precious metals in Switzerland is conducted at two levels. The Federal Customs Administration (FCA) offices are responsible for border controls. A specialised unit of the FCA, Precious Metals Control (PMC), checks the quality of gold, silver, platinum and palladium articles for industrial purposes. It is decentrally organised into the Central Office and Precious Metals Control Offices. With a budget of CHF 10 million, the Precious Metals Control guarantees (hallmarks) more than 2 million articles each year.

In 2018, nearly 2,300 tonnes of gold imported into Switzerland were submitted to the FCA offices (value CHF 63 billion). Over the same period, the PMC checked imports of watches and jewellery made of precious metals worth CHF 18 billion. In addition, it also monitors the domestic market and precious metal melting activities.

The audit by the Swiss Federal Audit Office (SFAO) examined the compliance and economic efficiency of the PMC, the effectiveness of import controls and the supervision of the trade and melting of precious metals. The audit results show that there is significant potential for improving effectiveness through enhanced precious metals control.

Incorrect customs data and limited import controls

The SFAO found errors in the customs tariff headings due to the VAT exemption for investment gold and gold destined for refining or recovery. The Precious Metals Control Offices receive customs declarations according to these tariff headings. The insufficient quality of the tariff data makes it difficult for them to detect the cases that need to be checked. The heading for raw gold includes gold ore and gold for banking purposes, and is not subject to checks. According to the SFAO, banking gold accounts for half the volume of imported gold and three-quarters of its value. In 2018, the value of imported gold was estimated to be close to CHF 50 billion.

Precious metals are not a priority for customs offices. Checks are limited to targeted inspections of those tariff headings where a financial risk exists. With regard to the risks of non-compliance with the Precious Metals Control Act (PMCA), the SFAO noted declarations for precious metal articles were not always passed on to the Precious Metals Control Offices. The SFAO also noted the absence of a common risk analysis approach between the PMC and the FCA. Import controls are limited to verification by the PMC for compliance with the legal provisions on the hallmarking of watches and jewellery made of precious metals.

Precious metals control compliant and economical

The PMC carries out its duties in a compliant manner largely through the Central Office's internal monitoring of its Precious Metals Control Offices. The SFAO found one activity in the Chiasso office to be a source of potential conflicts of interest. This concerned the analysis of gold melting at refineries on behalf of foreign mining companies. The SFAO's reservations convinced the PMC to terminate this activity at the end of 2019.

The PMC's organisation is cost-effective thanks to the careful geographical distribution of production sites (Jura Arc and Ticino) and precious metal entry points (Zurich, Basel and Geneva airports). There is still potential for improvement in the use of synergies in all the offices and the possible consolidation of activities from the Noirmont (Jura) subdivision to the Bienne office. Self-financing of the hallmarking and laboratory activities is guaranteed and its level is expected to increase with the entry into force of the revised ordinance on fees in 2020.

Supervision of assayer/melters in development

The Precious Metals Control Ordinance (PMCO) imposes on assayer/melters a duty of care regarding the origin of precious metals. Until the beginning of 2019, the Central Office limited its supervision to short administrative examinations for assayer/melters.

At the end of 2019, the Central Office conducted two pilot inspections to examine the process of incoming materials control and cases of potentially problematic imports. It was able to form an initial opinion on the risks of non-compliance with the provisions of the PMCO. These inspections demonstrated the shortcomings of the current supervisory system. The SFAO highlighted the lack of clear criteria and the very limited sanctions.

Recommendations for strengthening the effectiveness of precious metal controls in the long term

Against the background of the upcoming legislative revisions (Anti-Money Laundering Act (AMLA); Border Security and Control Act (BSCA); PMCA), the SFAO issued four recommendations to strengthen the effectiveness of the system in the long term.

It invites the FCA to establish and develop a global and integrated approach to risk analysis and control for the import of precious metals. This should be coordinated between customs offices, border guards and precious metals control offices. To improve the transparency of gold statistics and the quality of controls, the SFAO recommends that the FCA introduce a distinction between gold ore and banking gold. The FCA should examine the communication of estimates on these two types of gold. It should also analyse the possibility of introducing two tariff subheadings under the heading for gold ore.

The SFAO invites the FCA to specify the scope, criteria and possible sanctions in terms of the PMC's monitoring of melters' and assayer/melters' duty of care. Finally, it recommends that the FCA strengthen the supervisory function within this Office in terms of independence, skills and resources.

The revision of the AMLA will have a significant impact on the implementation of these recommendations. On the initiative of the sector, the current AMLA revision project entrusts the PMC with the supervisory function over financial intermediaries in the precious metals sector. The question of the scope of application of the law remains. As it stands, it is limited to precious metal transactions between financial intermediaries and banks. The SFAO regrets the exclusion of purchases of material for melting. The removal of this exemption from the future AMLA should in any case be accompanied by an in-depth review of the needs and associated supervisory resources.

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