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Russian Banks May Be Engaging in Cash-For-Gold Scheme to Obtain Foreign Currency

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Summary

Russia is likely retaining access to the global financial market despite international sanctions enacted following its invasion of Ukraine in part by exchanging gold for bulk cash through countries including the UAE and Turkey, according to corporate and trade records.

Russia has been blocked from accessing Western currency through sanctions,[1] and finding willing markets for its gold — typically Russia's second most valuable export after energy[2] and sixth largest exporter of gold globally — facilitates bulk payments of U.S. dollars and euros outside the traditional global banking system from which some Russian financial institutions are banned.[3]

An analysis of Russian trade data reveals that in the first quarter of 2023, over $82,000,000 in U.S. dollars, euros, and United Arab Emirates dirham were shipped from entities in Turkey and Dubai to Russia. Within the same month of receiving those currencies, gold valued at approximately $725,000,000 was shipped from Russia to the same entities in Dubai and Turkey, providing direct evidence of Russia's ongoing ability to obtain foreign currency via the export of gold.[4 5]

Sanctions After the Invasion

Since the invasion, the Group of Seven (G-7) has designed and implemented a broad program of economic sanctions and export controls to degrade Russia's warfighting capabilities, inflict pain on the Russian economy, and impose economic consequences on Russia's political elite.

Sanctions have targeted individuals, banks, businesses, and entire sectors, with a focus on isolating Russia from the global financial system and reducing the profitability of Russian exports.

One way the U.S. and EU sought to impede Russia's ability to obtain foreign-made goods and technology — and engage in global commerce more broadly — is by blocking the export of USD and euro banknotes to Russia. The EU enacted these measures on the second of March, 2022 with the U.S. executive order following shortly on March 11, 2022. Global trade is dominated by the dollar and, to a lesser extent, the euro. Therefore, Russia relies on foreign currency reserves to import a variety of goods and critical technology.

Beyond the financial sector, the U.S., UK, and EU also have levied sanctions on a variety of Russian exports seeking to degrade the country's war chest. The U.S., EU, and UK blocked all imports of Russian gold, and have targeted specific companies involved in Russia's gold trade, including gold producers, traders, and refineries based in the United Arab Emirates.

In response to these measures, public reporting suggests that Russia has rerouted its gold exports through friendly countries such as the UAE, China, and Turkey, which have filled in for the loss of the G7 market.

1 https://ofac.treasury.gov/media/919146/download?inline.

2 https://www.gold.org/goldhub/data/gold-production-by-country.

3 https://ofac.treasury.gov/media/918471/download?inline.

4 11,756 Kg valued at $725,000,000 as of mid-October 2023 gold valuation.

5 https://www.forbes.com/advisor/investing/gold-price/.

In fact, between February 24, 2022 and March 3, 2023, the UAE, China, and Turkey made up 99.8% of Russian gold exports, according to an analysis of Russian customs data by Reuters.[6] This has allowed Russia to continue exporting gold, albeit through alternative channels, in an attempt to mitigate the impact of sanctions.

Lanta Bank and Vitabank Engage in Cash-For-Gold Scheme

In an effort to better understand how Russia's gold trade has evolved as a result of sanctions, and to identify new avenues for sanctions evasion, the analysis was initiated by examining Russian exports from a data-analysis and patterns perspective. With a focus on gold exports, attention was specifically directed towards the exports of raw materials in the post-invasion period. Gold was a key export commodity prior to the invasion, and the subsequent sanctions prohibiting the import of Russian gold into G7 countries meant that Russia needed to find new markets to sell its gold. Within this context, the goal of this analysis is to better understand how Russia's exportation of gold has evolved.

There has been significant discussion on general trends of the Russian gold market, specifically, the shift in exports from G7 countries to the UAE, China, and Turkey.

However, a deeper analysis into the Russian entities involved in the export of gold suggests that some Russian financial institutions appear to be obtaining USD and euro banknotes in exchange for gold, thus circumventing U.S. and EU restrictions on currency exports to Russia.

As a side note, Sayari's Russian trade data is gathered from bills of lading. Bill of lading data often includes the name of the importer and exporter, goods description and HS code, and origin and departure country, making it especially useful for identifying macro trends in trade activity as well as specific entities involved.

This research focuses on two banks for their role in this exchange — Joint Stock Company Commercial Bank Lanta Bank (JSC Lanta Bank) and Public Joint Stock Company (PJSC) Vitabank, both of which are domiciled in Russia. OFAC sanctioned JSC Lanta Bank on February 24, 2023 for operating or having operated in the financial services sector of the Russian Federation economy,[7] but as of mid-October 2023, PJSC Vitabank was sanctioned only by the Government of Ukraine.

Russian trade records indicate that these two financial institutions received a combined 21 shipments of various foreign currencies — primarily U.S. dollars and Euros, and also including smaller quantities of UAE dirhams and Chinese renminbi (RMB) — from four trading partners in the first quarter of 2023. These 21 shipments account for over $82,000,000 U.S. dollars in these currencies shipped directly to Lanta Bank and Vitabank. The U.S. government put restrictions in place after Russia's 2022 invasion of Ukraine meant to prohibit Russian banks such as these from accessing U.S. dollars. Additionally, The European Union has put into place sanctions that prohibit the export, supply or delivery of European Union denominated banknotes to Russia.[8]

6 https://home.treasury.gov/news/press-releases/jy1296.

7 https://www.reuters.com/markets/russia-with-gold-uae-cashes-sanctions-bite-2023-05-25/.

8 https://www.reuters.com/markets/russia-with-gold-uae-cashes-sanctions-bite-2023-05-25/.

Trade records for these currency shipments contain identifying text alluding to contracts, agreements, and invoices. The dates in the shipment description generally correlate to the onward shipments of gold with the "dated delivery agreement" coming in the days immediately preceding currency shipments.

Currency Shipments		**Gold Shipments**	
Original Shipment Description:	**Translated Shipment Description:**	**Original Shipment Description:**	**Translated Shipment Description:**
БАНКНОТЫ, ЯВЛЯЮЩИЕСЯ ЗАКОННЫМ ПЛАТЕЖНЫМ СРЕДСТВОМ. ДОЛЛАРЫ США, КУРЮРЫ ДОСТОИНСТВОМ 100 USD. ПРЕДОПЛАТА ЗА ТОВАР ПО КОНТРАКТУ № 2097/22-ОР ОТ 16.11.2022 И ПОДТВЕРЖДЕНИЮ К ДОГОВОРУ ПОСТАВКИ № 4/23 ОТ 16.01.2023. СОГЛАСНО ИНВОЙСА № 04-USD-KV/2023 ОТ	BANKNOTES ARE LEGAL TENDER. US DOLLARS, CURIORS IN 100 USD DENOM. ADVANCE PAYMENT FOR GOODS UNDER CONTRACT No. 2097/22-OR DATED 11/16/2022 AND CONFIRMATION FOR DELIVERY AGREEMENT No. 4/23 DATED 01/16/2023. ACCORDING TO INVOICE No. 04-USD-KV/2023 FROM	ЗОЛОТО В ПРОЧИХ НЕОБРАБОТ.ФОРМАХ, НЕ ИСПОЛЬЗУЕМОЕ ДЛЯ ЧЕКАНКИ МОНЕТ, В СЛИТКАХ С СОДЕРЖАНИЕМ НЕ МЕНЕЕ 995 ЧАСТЕЙ ЗОЛОТА НА 1000 ЧАСТЕЙ СПЛАВА (СЛИТКИ ЗОЛОТА), МАРКИ ЗЛА-1 (СОГЛАСНО ГОСТ 28058-2015), ИТОГО:4 СЛИТКА. МАССОВАЯ ДОЛЯ ЗОЛОТА: 99.99%.	GOLD IN OTHER UNPROCESSED FORMS, NOT USED FOR MINTING COINS, IN INGRONS CONTAINING NOT LESS THAN 995 PARTS OF GOLD PER 1000 PARTS OF ALLOY (GOLD INGOT), GRADE EVIL-1 (ACCORDING TO GOST 28058-2015), TOTAL: 4 C LITKA. MASS GROUND OF GOLD: 99.99%.

Fig 1. *Bill of lading details pertaining to shipments of gold and currency containing references to contracts and agreements.*

Of the shipments investigated, most corresponding shipments of gold were dispatched within a one week window of shipment of the currency, observable in figure 2 below. The circular shipping relationship between currency supplier and financial institution is illustrated in an individual example between sanctioned financial institution JSC Lanta Bank and KV Gold Altin Trade Limited, a company located in the Kuyumcukent AVM, a mall in the Bahçelievler neighborhood of Istanbul directly east of the former Ataturk Airport.[9]

For example, on January 18, 2023, JSC Lanta Bank received two shipments of U.S. dollars valued and insured for $6,914,900 from KV Gold Altin Trade Limited, according to Russian trade data. One day later, KV Gold Altin Trade received 114.66 kg of gold valued at approximately $6,931,884.

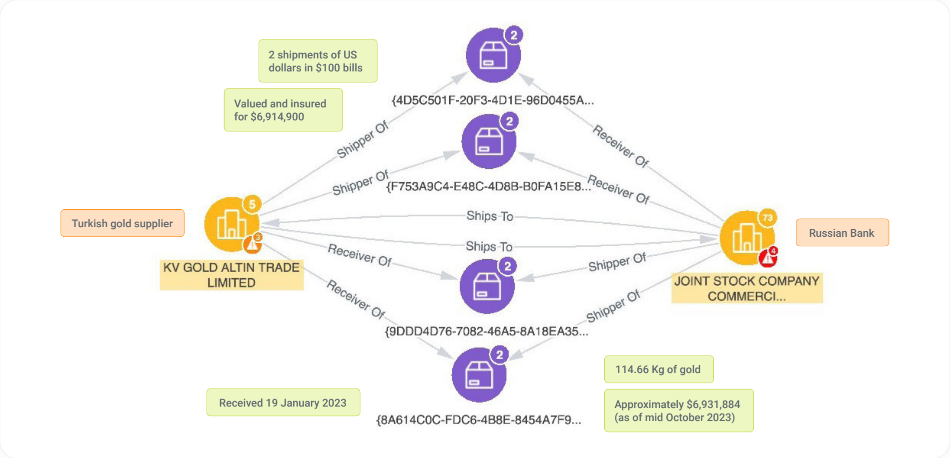

Fig 2. *Turkish gold supplier shipping US dollars to a sanctioned Russian financial institution for gold in January 2023.*

9 https://www.kuyumcukentavm.com.tr/Hakkimizda.

Kuyumcukent AVM is home to approximately 330 gold resellers,[10] and some of the retailers in this location directly advertise their affiliation with Dubai-based gold resellers such as Gold Era Turkey.[11] On its website, Kuyumcukent AVM requests payments through Denizbank, which is currently owned by Emirates NBD Bank PJSC and previously controlled by Russian bank Sberbank from 2012 to 2019.

PJSC Vitabank has engaged in a similar typology to obtain USD and EURO banknotes. Between January and May of 2023, Vitabank sent roughly 614 kg of gold valued at approximately $30.7 million to United Arab Emirates-based ILS Global General Trading LLC. ILS has, in turn, shipped over $17 million in USD and Euro banknotes to Vitabank between February and March. Vitabank also received 10 shipments of USD banknotes valued at approximately $7.5 million and $14.9 million from UAE-based Auroom Trading LLC and Turkey-based Demas Kuyumculuk Ihr Ith San Ve Tic A.S., respectively.

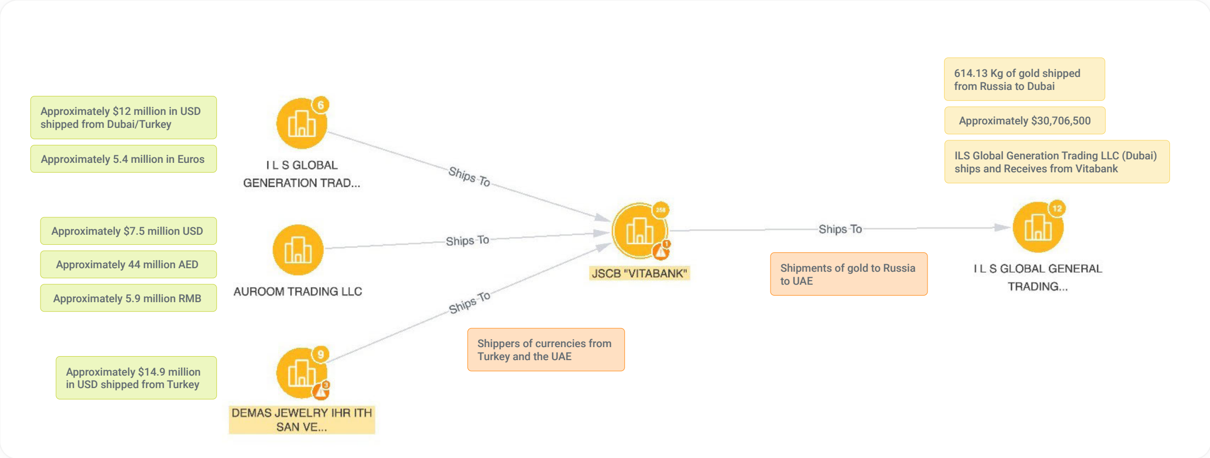

Fig 3. *Sayari Graph illustration of Vitabank's supply of currencies from Turkey and the UAE with gold exchanged.*

Larger Picture

This cash for gold scheme is just one instance of how Russia is finding ways to participate in the global financial market and obtain USD and Euro banknotes despite strict sanctions by using more neutral or friendly countries — or countries with looser regulations — as avenues for trade. G7 countries[12] banned imports of Russian gold in June 2022,[13] and given Russia previously exported an estimated 90% of its gold to the G7,[14] Moscow needed to find new markets for its gold exports, which were valued at $19.1 billion in 2021 according to the OEC.[15]

10 https://www.kuyumcukentavm.com.tr/Magazalar?Kategori=49.

11 https://www.linkedin.com/company/gold-era-turkey/about/.

12 Canada, France, Germany, Italy, Japan, the United Kingdom, the United States, and the European Union.

13 https://home.treasury.gov/news/press-releases/jy0838#:~:text=As%20announced%20at%20the%20G7,Federation%20were%20sanctionable%20under%20E.O.

14 https://www.npr.org/2022/06/26/1107687336/biden-says-g-7-countries-will-ban-russian-gold-in-response-to-the-war-in-ukraine.

15 https://oec.world/en/profile/bilateral-product/gold/reporter/rus.

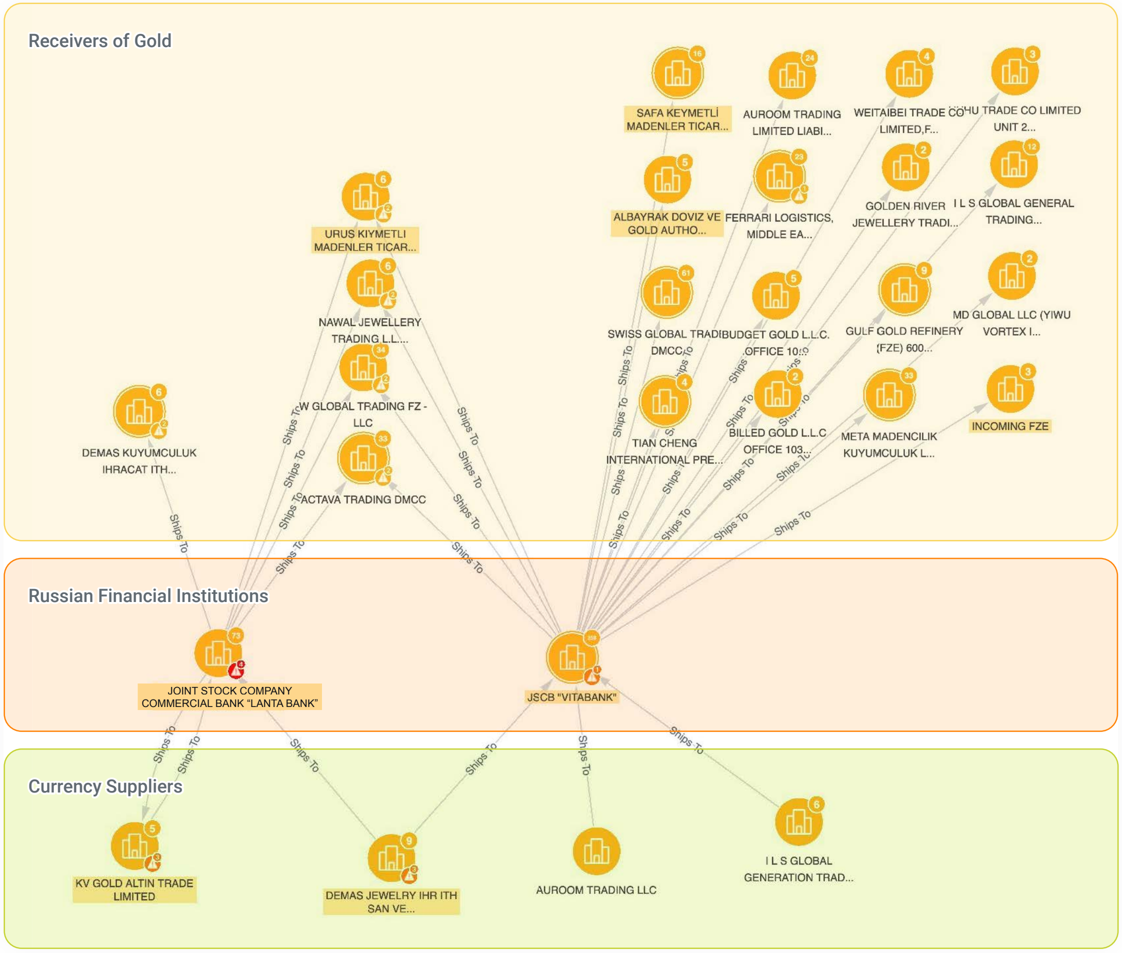

Fig 4. *Larger image showing common currency suppliers (green), the financial institutions (red), and the receivers of the $725,000,000 in gold (yellow), all of which is available in greater detail in the included appendix.*

Access to foreign reserve currencies could enable the Russian economy to be more resistant to financial sanctions. Based on information from the European Central Bank, as of early 2023, Russia has diversified and re-established trade routes to evade sanctions and identified new trading partners to replace the lost trade opportunities due to sanctions.[16] Turkey and the UAE, among others, have not banned the import of Russian gold, allowing entities in these countries to serve as midpoints to exchange gold for the foreign currency Russia needs. In order to identify possible involvement in transactions like these as part of due diligence, banks would need to examine correspondent banking relationships in jurisdictions more likely to be midpoints for Russian access to U.S. dollars or euros. Any bank that has a correspondent banking relationship with a U.S. or European institution is vulnerable to exposure to this type of scheme.

It is not clear, based on public and commercial data alone, who the ultimate recipients of this bulk cash are or if the recipients include or have ties to sanctioned elements of the Russian government; identifying the ultimate recipients would likely require direct access to the institutions and individuals involved.

16 https://www.ecb.europa.eu/press/blog/date/2023/html/ecb.blog.230412~1d6e657dd5.en.html.

Press reporting suggests Russia increased the pace of its gold mining operations once sanctions were initially enacted, with Russian oligarchs buying gold bullion to prepare for being shut out of more traditional financial exchanges.[17] Russia's central bank restarted the practice of buying Russian gold following the 2022 implementation of sanctions to prevent its currency from collapsing, according to media reports, holding between $100 and $140 billion.[18]

Conclusion

This research identifies a methodology through which Russia, despite facing strict and growing international sanctions in the aftermath of the Ukraine invasion, has navigated restrictions by operating a potential cash-for-gold trade scheme. By focusing on the roles of two financial institutions, JSC Lanta Bank and PJSC Vitabank, the study reveals a circular relationship between bulk-currency shipments and gold exports. Through the use of intermediary countries such as the UAE and Turkey, Russia gains access to foreign currencies and identifies new buyers for Russian gold. Throughout the first quarter of 2023, these financial institutions imported over $82 million in U.S. dollars, euros, and UAE dirhams, and exported approximately $725 million in gold.

This identified typology not only serves as a potential safeguard for Russia against the impact of sanctions on its economy but also highlights the challenges for regulatory enforcement. As gold remains one of Russia's most valuable exports, the identification of a typology and pattern can facilitate the easier recognition of further attempts to circumvent sanctions and regulations against the Russian economy.

This research emphasizes the importance of investigations performed with global trade data and corporate records to piece together a more complete picture. Furthermore, the initial analysis hints at the widespread nature of this cash-for-gold strategy, extending beyond the UAE and Turkey. While this examination is not comprehensive and instead focuses on a specific tranche of companies within the methodology, the paper, accompanied by detailed graphs and data in the provided appendix, illuminates the intricacies of Russia's efforts to obtain various currencies through the export of gold.

Download the Appendix >

17 https://www.nytimes.com/2022/06/27/business/russian-gold-imports-ban.html.

18 https://www.nytimes.com/2022/06/27/business/russian-gold-imports-ban.html.