The Grand Duchy of Luxembourg Prepares Way For Increased Role For Gold

West German and French bankers, led by West Germany's Dresdner Bank, are setting up the Grand Duchy of Luxembourg as their own off-shore banking and gold-purchasing center in angry competition with the City of London. The Luxembourg plan, which has been made increasingly public over the past few months, and dates back as far as ten years ago when West German banks began to use the Duchy for independent Euromarket operations, is scheduled to enter a completely new phase on January 1, 1978.

Two new international gold regulations which go into effect on that date will greatly increase Luxembourg's leverage in competition with London. First, as reported by an official of the West German Finance Ministry earlier this week, on Jan. 1 the current Rambouillet agreements which forbid central bankers from trading gold with each other will expire. The official explained that "This could allow gold to play a role in reshaping the international monetary system."

Secondly, on the same date, new tax laws will go into effect in Luxembourg allowing much larger tax-free purchases of gold by the dominant foreign banks.

Preparing for these developments, the Dresdner Bank, West Germany's second largest, has been taking a strong position in gold in the recent months. The Dresdner Bank's role in the Luxembourg plan was initiated by its former chairman Jürgen Ponto who, on July 29 was assassinated by a team of Baader-Meinhof terrorists. It is widely known throughout leading Western European industrial and government circles that Ponto's murder was not unrelated to his enmity to the City of London.

Well-placed Italian sources recently reported that City of London banking operatives are already attempting to acquire some sneaky influence in the Luxembourg operation. Their ability to gain a disruptive foothold there will largely be based on whether or not the organizers behind Luxembourg stick to the industrial development policies

For example, the Dresdner Bank recently proposed that a special fund of 150 billion Deutschemarks be created for investments in Europe's nuclear energy, to be based in Luxembourg. In addition, it is known that Luxembourg's founders have also been involved in trying to attract Arab petrodollar funds into investments in European equities.

Importantly, Italian financial newspapers such as *Il Fiorino* recently began to cover Luxembourg's founding. While largely a Franco-West German endeavor with certain Belgian input, inclusion of Italian industrial forces in this plan will greatly strengthen the hand against London.

How The Luxembourg Tax Laws Will Work

Finance Minister Jacques Poos of the Grand Duchy of Luxembourg announced a five-point program in September to encourage more foreign banks to settle operations in Luxembourg, in addition to the 80-odd institutions already there.

The most important development in this plan relates to the liberalization of the gold trade. Beginning on Jan. 1, 1978, transactions in bullion and gold coins will be freed from the 10 percent value-added tax. This will enable Luxembourg to draw a considerable amount of business away from the London and Zurich exchanges.

Up until the spring of this year, Zurich, to a large extent, functioned as Europe's major secondary gold market to London. In May and June, however, a major scandal was unleashed by opponents of Gaullist-linked Euromarket operators, which resulted in the closing down of Zurich's "secret" banking accounting methods. Soon after, the Luxembourg plan was launched.

Luxembourg also plans to permit these foreign banks to avoid double taxation on their earnings from major loans, espcially on loans issued to Third World countries. At present, Luxembourg has treaties permitting such tax benefits with only eight other governments, which has forced many of its resident banks to work through the Caribbean or London on Euroloan transactions.

To aid foreign banks in their attempts to promote bank capital formation in their Luxembourg branches, it is also intended to permit to allow these foreign banks to credit against their Luxembourg taxes the interest on loans issued by these foreign banks to their Luxembourg outposts. Finally, the present coupon tax on interest income on Luxembourg bond issues of 5 percent is to be dropped.

It is broadly estimated, at this early date, the enactment of this legislation will increase Luxembourg's share of the total Euromarket from 17 percent at this time to 25 percent. However, if these laws are enacted in coordination with a push by European Gaullist forces, especially in France, to introduce gold as a stabilizing reserve in the international monetary system, Luxembourg's share as a Euro-market for investments in industrial equities could be much larger.