Gold by Alice Roth

Euro-Arab deals mooted

London and New York are worried over what looks like a new set of steps toward remonetization.

The old specter of a deal between continental Western European governments and Arab OPEC states such as Saudi Arabia and Iraq to reestablish gold's role in the monetary system is once again haunting the Anglo-American financial establishment. In a Sept. 15 editorial, "Trading Oil for Gold," the London *Financial Times* declaimed against those who wish to remonetize gold at high prices, a move that the *Times* deemed "inflationary."

Although the *Times* did not identify the culprits, it is no secret that since the launching of the European Monetary System (EMS) nearly two years ago, both France and West Germany have been committed to the restoration of gold. Last year, French President Giscard attempted to organize a formal dialogue between the European and Arab OPEC countries.

Although this conference was stalled for political reasons, the proposals floated by the Elysée Palace then are still very much alive—namely, moderate oil pricing and guaranteed oil supplies for the EC in exchange for gold guarantees and a new system for recycling petrodollars which would channel more funds into Third World industrial development.

Very little is being said about this in Paris now, at least publicly, but it would not be too surprising if Franco-German influence was behind Saudi Oil Minister Yamani's reluctance to lower oil production at the Vienna OPEC meeting.

In a Sept. 15 article, *Financial Times* columnist David Marsh analyzed Swiss customs statistics, revealing that Iraq, Kuwait, the United Arab Emirates and Iran transferred about 145 tons of gold worth $2.9 billion from Switzerland during the first seven months of 1980. Iraq alone transferred about 74 tons, well up from the 23 tons moved to Baghdad during the whole of 1979. It is impossible to tell from these figures whether the gold was bought this year or represented previously bought stocks which the owners had decided to repatriate.

Nevertheless, the transfers by Iraq could be significant, since the country has not previously been identified as a major gold investor. Iraq has maintained close ties to France and has become increasingly allied with Saudi Arabia against the "Islamic fundamentalist" fanaticism and high pricing policies of Iran and Libya.

Significantly, the *Financial Times'* diatribe against remonetization policy ends with a call to deal with the gold issue within the context of the International Monetary Fund. The *Times* suggests that at the upcoming IMF annual meeting, the world's central bankers "consider how they could best take advantage of the demand for gold to help steer the world monetary system through a period of difficult economic adjustment."

The *Times* may be hinting at some scheme to use the IMF's gold reserves to back up those institutions borrowing in international capital markets, as part of London and Washington's effort to transform the IMF into a world central bank.

The building of the European Monetary Fund as an alternative gold-backed system with Arab support would obviously threaten such a scheme. In its Sept. 15 *Financial Digest* newsletter, Manufacturers Hanover suggested that the decision by Saudi Arabia and Kuwait not to lend to the IMF would result in these governments deploying still more funds into the precious metals markets.

Meanwhile, there is increasing evidence that the Soviets may be coordinating with European and Arab governments on the gold remonetization question. The Swiss customs statistics show that the Soviets have sold no gold in Zürich since January. This has raised speculation that the Soviets may be selling gold through direct bilateral deals with Arab OPEC countries. Zürich was previously the Soviets' main outlet for sales of gold to the West.

At this point, it is difficult to say exactly how these complicated political maneuverings around gold will be manifested in a specific gold price. The failure of OPEC to proceed with oil production cutbacks implying major price hikes has momentarily halted gold's rise towards the $700 an ounce mark. It is reasonable to expect that Western European and Arab central banks will continue to provide a floor under gold, as they have in the past at the $600 level.