

Gold by Montresor

The Soviet connection revisited

With the Swiss and South Africans, Moscow will profit vastly when the dollar drops and the gold price leaps.

My predecessor as *EIR*'s gold columnist revealed for the first time in a July 22, 1980 column that the Soviets and South Africans collaborate on world gold markets. That column quoted European gold-market sources' comments on a trip of Consolidated Goldfields officials to Moscow, for the purpose of coordinating gold sales.

The column provoked not merely a furious blast against "Goebbels-style propaganda" in the Nov. 30, 1980 *Izvestiya*, but a discreet visit by officials of the Soviet embassy to the Board of Governors of the Federal Reserve System in Washington, D.C., to obtain information concerning this publication *by way of friendly channels*.

EIR said at the time: "Consolidated Goldfields, the London-based holding company that controls South Africa's second-largest mining group, Goldfields of South Africa, sent a team of gold experts to Moscow last week to confer with Soviet officials. A source at Consolidated Goldfields says the visit was at the invitation of the Soviet government, and marks the first time ever that the Soviets have shown a willingness to share intelligence on the market. 'If Consolidated Goldfields is going to Moscow, it is probably correct to conclude that they are discussing the coordination of gold sales,' commented a European gold source. 'In fact, they might even be seen as a semi-official representative of the South African government.'"

Now, with the gold price in the \$370s, it is important to recall that the Soviets do not worry about the price

of gold, since they depend for revenues, not upon the metal's price, but upon their own control of market mechanisms.

According to well-informed Swiss acquaintances, Soviet profits in gold and related trading operations are in excess of total gold exports (total gold exports were listed by the CIA at \$2.7 billion for the reported peak year, 1981, when the Soviets exported 280 tons, though there is some doubt about the CIA figures' accuracy).

For example, the chief gold trader for the Soviet-owned Wozchod Handelsbank in Zürich spends three months a year in Moscow, providing the Soviets with a detailed profile of major gold trading operations in Western financial institutions, down to the names and habits of all leading trading personnel.

The Soviets will dump physical gold on the Zürich market, making it clear to the press that they were dumping physical gold, while simultaneously buying heavily on margin in New York or Hong Kong futures markets, playing for the rebound effect. As the second-largest gold exporter after South Africa, and a close collaborator of the South Africans no later than 1980, the Soviets were fully capable of anticipating price trends. Although the profits are inestimable, it is believed that they were in excess of the total gold sales themselves.

The Soviets put a substantial portion of their trading profits into trust accounts at Swiss banks, adding to a portfolio of equity in Western institu-

tions estimated at about \$60 billion.

Soviet gold sales were relatively small before 1972, the year the price began to take off; this represented a crucial turning point in Soviet external finances. The CIA's estimates of Soviet gold sales:

Year	Dollar value of sales (in millions)
1970	negligible
1971	\$ 24
1972	\$ 289
1973	\$ 962
1974	\$ 683
1975	\$ 725
1976	\$1,369
1977	\$1,618
1978	\$2,522
1979	\$1,490
1980	\$1,580
1981	\$2,700

The total for 1972-81 is \$13.9 billion; to obtain the actual proceeds of gold operations over the period, roughly double this figure. Of course, the estimates of Soviet gold sales produced by the CIA are drawn from British investment-banking sources. The actual total of physical metal sales is likely to be larger.

Since the Soviets have committed the bulk of their trading activity to the accumulation of a \$30 billion long-dollar position since November, they cannot be unhappy about the low gold price; on the contrary, since they anticipated (and stimulated) the sharp rise in the dollar against European currencies since November, they doubtless anticipated the corresponding fall in the gold price as well. Is it too outlandish to expect that the Soviets, when they choose to cover their dollar-long position—pushing the dollar over a nasty precipice—will use their control of physical metal supplies to run the gold price up?