Eddie George's strategy to steal the gold

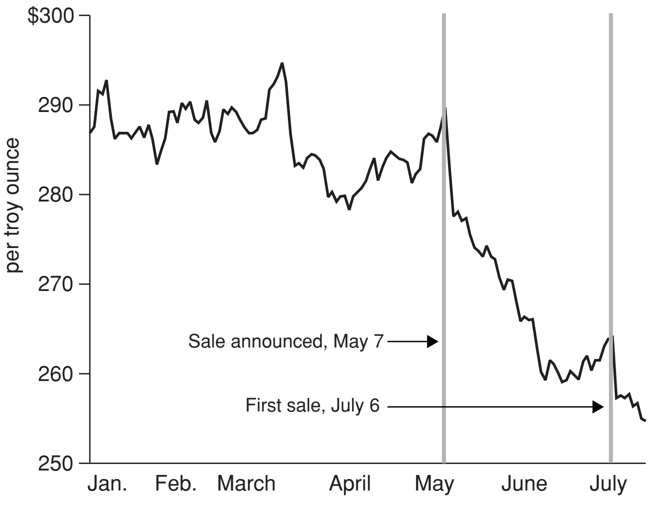
by Richard Freeman and John Hoefle

Acting on behalf of the financier oligarchy, Bank of England Governor Eddie George has been caught in a theft of at least $600 million, and perhaps much more, from his own bank, in a "skim and park" operation.

On May 7, George announced that the Bank of England would sell more than half of its gold reserves—415 metric tons of its total reserves of 715 metric tons. Sale of the first 25 metric tons took place July 6. On the morning of George's May 7 announcement, gold was trading at $289.25 per troy ounce. The announcement sent the gold price plummeting. On July 6, the Bank of England sold its first 25 tons at $261.20 per ounce—$27.05 per ounce below where the price of gold had been on May 7. Because of the Bank's actions, the price of gold continued to fall in subsequent weeks almost another $10 per ounce (**Figure 1**).

An officer of the Washington, D.C.-based Gold and Silver Institute reported, "When we heard May 7 that the Bank of England was going to sell its gold, we were astonished. This was, after all, the Bank of England. The Bank of England had always been supportive of the price of gold, and England is, after all, the place where the gold price is fixed. This is astonishing."

FIGURE 1
Bank of England manipulates gold price, 1999
(New York Comex daily gold closing price per troy ounce)



Source: New York Commodity Exchange.

A select group

The Bank of England did not sell its gold to the general public. Rather, it sold it to a very select group, consisting of the London Bullion Market Association (LBMA) and official institutions. The official institutions are the central banks, the International Monetary Fund (IMF), and the Bank for International Settlements (BIS). Because many central banks have been selling gold, and the IMF is considering selling some of its gold, this left the members of the LBMA as the exclusive buyers.

Who are these members of the LBMA that were deemed the only "eligible bidders"? There are 12 Market Making and 50 Ordinary members, which are primarily banks, but also include commission houses, refiners, brokers, and security transporters (see box). They are comprised of the leading financial institutions, representing the most powerful and wealthiest families of the financier oligarchy. For example, the chairman of the LBMA is Peter Fava of HSBC Midland, the parent company of the Hongkong and Shanghai Bank, which reportedly has been a central institution in laundering money for the world's drug trade since it began facilitating Britain's opium running in China in the nineteenth century. HSBC is one of the ten largest banks in the world, and owns Samuel Montagu, one of the five banks that sets the daily gold price fix in London.

Institutions ranging from N.M. Rothschild, Bank of Nova Scotia-Mocatta, and Barclays Bank, to Morgan Guaranty Trust and UBS AG, are the core of the LBMA.

These institutions, and their wealthy controllers, on July 6, stole the first installment of 25 metric tons of gold at the artificially depressed price. The legendary bank robber Willie Sutton would have cried foul at the dimension of George's scam, protesting that at least in his day, bank robbers had to do some work to walk away with such a huge haul.

How much did this cost the Bank of England? The sale of 25 metric tons of gold left the Bank of England with 680 metric tons. The $27.05 drop in price per ounce cost a devaluation of the Bank's remaining gold holdings of $613 million. But, by July 20, the price of gold was down to $252.80 per ounce—a devaluation of $797 million. Through the sale of its 25 tons of gold, the Bank of England only received $210 million. It devalued its remaining gold holdings by nearly four times the amount it received for its first installment sale. This loss comes, ultimately, at the expense of the country's people. The financiers who made off with the gold cheap, are accumulating the gold for a post-collapse world, in which financial paper will have the same value as wall-paper.

This cheapening of gold reserves value is having a worldwide impact. In March 1999, the world's central banks and official institutions (such as the IMF and BIS) held a combined 33,604 metric tons of gold reserves. Between May 7, when George announced the Bank of England's gold sale, and July 6, when the Bank sold the first installment, the central banks and official institutions lost $30.3 billion in the value of their official gold reserves, due to the drop in the gold price. By July 20, this loss had reached $39.3 billion.

Looting gold mining properties

The British oligarchy's strategy in forcing down the price of gold, is to also bankrupt financially weaker gold-mining companies, in order to acquire them at fire-sale prices. It would thus tighten its grip on future gold production.

George's actions have driven the market price of gold to below the average cost of production in many of the major gold-producing nations.

According to a gold specialist at the U.S. Geological Survey, "The average cost of production of mining gold is about $273 per ounce in South Africa, $267 per ounce in Canada, $261 per ounce in Australia, and $257 per ounce in America." He stressed, "This is is the average price, so while some mines are mining gold below this cost, some are mining gold above this cost, and the market gold price is now below this average cost."

This has put several mining operations in severe straits, making them more vulnerable for takeover.

The officer at the Gold and Silver Institute told *EIR* on July 20, "At this price, we're going to see a further consolidation of the industry. There are gold-mining companies that are sound companies, with good properties and relatively inexpensive gold [to mine], but over the last number of months their stock price may have fallen by 30 to 35%, or even 40%. They can't compete with the larger gold-mining companies, which have more financial strength. We're going to see some more firms taken over by companies like Barrick, Anglo American, Newmont, and Rio Tinto." The latter firms are the major gold producers, and all are in the British oligarchical orbit.

He also stated that the major gold producers will shift production to their cheaper mines for the current period.

The takeover strategy is exemplified by the action of Anglo American Corp., the largest precious minerals and raw materials producer in the world. Anglo American is the owner of Anglo Gold, the largest gold producer in the world. Through cross-onwnership shares, Anglo American owns DeBeers Centenary and DeBeers Consolidated, which together control the Central Selling Organization that markets 80% of the world's diamonds. Anglo American is also the world's largest producer of platinum, and ranks as one of the top ten producers for many of the world's minerals.

Anglo American is used to pillage gold and other properties. In 1996, during Ugandan President Yoweri Museveni's invasion of the Democratic Republic of the Congo (then Zaire), Anglo American, operating through its subsidiary MDDZ, obtained a substantial chunk of the leading mining concern, the Société Minière et Industrielle de Kivu (Sominki), in mineral-rich Kivu Province. Anglo American obtained this at distress-sale prices. In December 1998, Anglo American effectively stole from the government of Zambia, one of the world's largest copper-mining producers, the Nchanga and Nkana mines of the Zambia Consolidated Copper Mines, for a pitiful $72 million. The IMF, the World Bank, and the international donors had cut off most funds to this starving nation, until it sold its copper mines to foreign interests. On Nov. 19, 1998, Zambian President Frederick Chiluba denounced the pressure that was applied to make him sell.

Who is getting the Bank of England's gold

The London Bullion Market Association (LBMA) has a total of 62 members—12 Market Making and 50 Ordinary—including banks, commission houses, refiners, brokers, and security transporters.

The Market Makers are: AIG International, Goldman Sachs' J. Aron & Co., Bank of Nova Scotia-Mocatta, Barclays, Chase Manhattan, Crédit Suisse First Boston, Deutsche Bank, HSBC's Midland Bank, Morgan Guaranty Trust (J.P. Morgan), N.M. Rothschild & Sons, Republic National Bank of New York, and UBS AG.

The Ordinary Members are: Amalgamated Metal Trading Ltd., BankBoston, Bankers Trust, Bank of America, Bank of China, Bayerische Vereinsbank, Billiton Metals Ltd., Brambles Security Services, Brink's, Canadian Imperial Bank of Commerce, Commerzbank, Cookson Precious Metals, Crédit Lyonnais Rouse, Degussa, Derel Pobjoy Int'l., Dresdner Bank, Englehard-Clal, Englehard Metals, Fleet Bank, Gerald Ltd., GFI Brokers, GNI Ltd., Guardforce Int'l., Itochu Europe, Johnson Matthey, Jordan International, ED&F Man Int'l., Marubeni Europe, Metallgesellschaft, Mitsubishi Corp., Mitsui & Co., Morgan Stanley, Moscow Narodny Bank, Nissho Iwai, Phibro Bullion, Prudential-Bache, Rabobank, Royal Bank of Canada, Royal Mint, Rudolf Wolff, Société Générale, Sogemin Metals, Standard Bank London, Sucden, Sumitomo, Tomen, Tradition Financial Services, Triland Metals, and Via Mat Int'l.

"Our donors are making the point that copper is a new millstone around our necks, by insisting that aid is tied to the sale of the copper mines," he said.

Anglo American is poised to pounce on new gold properties. It was formed in 1917, with financing from the Rothschild bank and J.P. Morgan. It is owned by the billionaire Oppenheimer family, which has membership in the Anglo-Dutch oligarchy's elite 1001 Club of royalty, leading aristocrats, and raw materials executives. Since its founding, Anglo American had been based in Johannesburg, South Africa, but this year it registered as a London-based company, to solidify direct British control. As well, Anglo American, most of whose directors had been from South Africa, has now placed on its board some of the top names of the British financier oligarchy, including Peter Wilmot-Sitwell, formerly of Warburg investment bank (as part of United Bank of Switzerland, Warburg is one of the 12 Market Making companies of the LBMA); Christopher Fay, a senior executive of Shell Oil; and Robert Margetts, vice chairman of Imperial Chemical Industries.

Debilitating effects

George's decision to sell 415 metric tons of gold was taken in tandem with the announcement by the British-run IMF that it plans to sell 10 million ounces (311 metric tons) of its gold reserves. The IMF sale must be approved by countries representing 85% of the voting strength of the IMF board. The United States, which reportedly has 16.4% of the IMF voting strength, could veto the IMF gold sales. However, Eddie George's action, combined with the threat of IMF sales, have been enough to exert tremendous downward price pressure on gold.

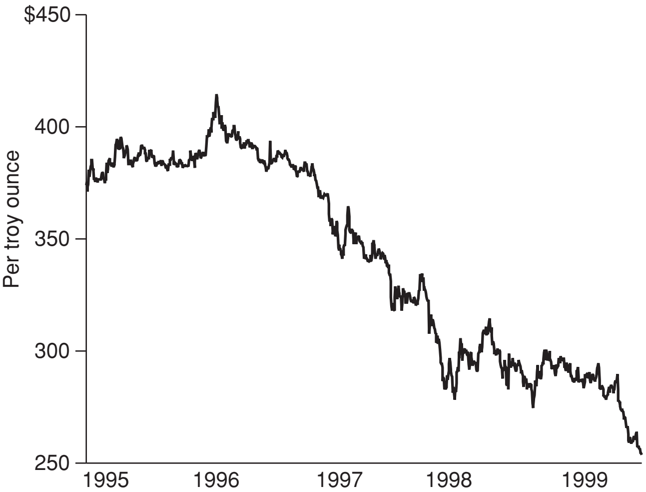
The gold sales are devastating South Africa and other nations of Africa.

Since the start of 1997, according to a report of the South African Ministry of Mines, 103,000 gold miners have lost their jobs in South Africa. South Africa had brought the price of mining an ounce of gold down from $342 in 1997, to nearly $273 presently. But, with the gold price at $252.80 an ounce, eight of South Africa's 16 gold mines are rated "marginal," and two are running at a loss.

On July 6, East Rand Proprietary Mines Ltd., which is one of South Africa's oldest and deepest mines, filed for bankruptcy.

On July 13, James Motlatsi, president of the South African Union of Mineworkers, and Bobby Godsell, the president of South Africa's Chamber of Mines, issued a joint statement that warned that at today's prices, about 40% of South Afri-

FIGURE 2
The price of gold, 1995-99
(New York Comex daily gold closing price per troy ounce)



Source: New York Commodity Exchange.

ca's gold mining is uneconomical, and another 80,000 mineworkers could lose their jobs. The Motlatsi-Godsell statement said, "Our industry is under attack. This is a time for all South Africans, indeed all Africans, to stand together in defense of gold and the industry it supports." The loss of 183,000 mining jobs in South Africa's already fragile economy, whose official unemployment rate is 30% with the real rate much higher, is overwhelming.

Despite a trip to London by Motlatsi and Godsell to meet with members of the government of Prime Minister Tony Blair to ask them to halt England's gold sales, Blair has defiantly said that he will not alter policy. On July 14, Blair said, "We did this on technical advice from the Bank of England." He called the policy "entirely sensible."

Further, mineworkers from other countries work in South Africa: Mozambican miners working in South African mines send $50 million home to their families in Mozambique; each miner has more than five dependents, and the salary sent home may feed as many as 20 people. Ghana's largest mining company, Ashanti Goldfields Corp., announced on July 20 that it plans to lay off 2,500 workers because of the gold price fall.

But George's thieving of Britain's official gold supplies, on behalf of his oligarchical friends, signals the contempt with which George and his banker friends hold the world's people. They are openly stealing the gold, and look upon any protest as in vain, because they don't expect their own global financial system will last much longer. They are positioning themselves for a post-collapse world.

Central banks rescued sinking Tiger Fund

As of June, the global financial system has been brought to the brink of a new meltdown, for the second time since the collapse of the Long Term Capital Management (LTCM) hedge fund on Sept. 23, 1998. At the center of attention is the huge $13 billion Tiger Management LP, and the episode is not over.

On June 11, Tiger was the subject of emergency talks at the New York Federal Reserve, which feared that the fund was nearly insolvent. Tiger is the world's second-largest hedge fund, after George Soros's Quantum Group, and typically leverages its speculation through borrowed money, to *50 times its capital*. Thus $650 billion could have been at stake.

Tiger denied the rumors of insolvency outright. The same day, the New York Treasury bond market underwent a mini-collapse, pushing interest rates on 30-year bonds to 6.14%, and threatening a crash the following Monday, June 14.

Careful scrutiny of the actions of the Bank of Japan, the U.S. Federal Reserve, the European Central Bank and relevant G-7 governments, shows that, during the weekend of June 12-13, the leading governments of the G-7, meeting in Frankfurt, Germany, agreed to another system bailout (this time covert), to prevent a repeat of the October 1998 LTCM meltdown, or worse. Curiously, press reports of troubles in major hedge funds disappeared that same June 12 weekend. Reports to *EIR* from senior City of London sources indicate that G-7 central bankers let it be known discreetly through their market and media contacts that reports of the Tiger fund crisis were not to be printed or broadcast.

The following is the chronology of events in this latest international bailout attempt, which continue up through July.

February 1999: Bank of Japan brings interest rates effectively to zero.

April-May: Hedge funds, led by the $13 billion Tiger Fund Group of Julian Robertson, decide to risk new yen borrowings in order to speculate in U.S. and European markets using the ultra-cheap yen loans. By May 19, the Japanese estimate the "yen carry trade" is up to $8 billion. These loans make sense only if the yen does not rise against the dollar. The bleak Japan economic outlook make a weak yen seem "certain."

June 10: The Japanese government's Economic Planning Agency releases astonishingly good GDP data for the