The Case for a Gold Sanction

in the fight against apartheid

WGC

World Gold Commission

Its work and its aims

The World Gold Commission

THE WORLD GOLD COMMISSION was launched in June 1988. The initiative to form the organisation was made by representatives of the African National Congress, the South West African Peoples' Organisation (SWAPO), End Loans to Southern Africa (ELTSA) and the British Anti-Apartheid Movement. The United Nations Centre on Apartheid has funded the Commission's research programme.

The initiative was made in the recognition that as the largest single foreign currency earner for South Africa, gold needed to be included in any sanctions policy. New research had shown that a gold sanction was not only feasible but could exploit a fundamental weakness in the apartheid economy.

The organisation has many functions. At an international level, the Commission has presented evidence to such bodies as the Commonwealth, the United Nations and the European Community as well as to the international anti-apartheid movement. The Commission is circulating the results of its research findings to governments, the media, centres of study on the apartheid question and to financial and educational institutions.

Educational work is one of the more important functions of the Commission. The training of a core group of progressive South Africans in all the skills of mining, the economics of mining and the marketing of mined products is an integral part of the Commission's strategy.

The Commission has a support group in every major gold consuming and gold producing country.

The Commission's first major task is to educate and inform the public and decision-making bodies of the links between gold mining and the racist system in South Africa and how these links must be broken in the battle to eradicate apartheid. It will show how this can be done by the application of gold sanctions.

Other important areas of work will be to give the public the choice of buying non-South African gold products. In spite of the control exercised by South African companies over the world's jewellery industry, the Commission believes that such is the abhorance for apartheid, market forces will make the distinction between clean and apartheid gold commercially imperative.

Another important task is the exposure of the South African-dominated gold promotions organisation, the World Gold Council as the main public relations effort made by the South African system to finance apartheid.

Gold Sanctions

The most powerful economic weapon in the battle against apartheid

GOLD AND APARTHEID are inextricably linked - historically, socially and economically.

- ☐ Revenue from the sale of gold represents almost half of South Africa's foreign income.
- ☐ Taxes raised directly and indirectly from the gold mining industry represent a quarter of all taxes raised by the South African government.
- ☐ The value of the gold produced in South Africa is greater by far than the value of all other commodities or manufactured items produced there.
- ☐ Without gold the South African economy would be in ruins.

Yet the rest of the world does not need South African gold

Unlikely as it may seem, there is just too much gold around.

South Africa produces 600 tons of gold a year but there are 100,000 tons available to the gold market.

Unlike most metals, gold doesn't rust or corrode. Gold produced in ancient Egypt or by the Incas of Peru is still being recycled into today's gold products. There are very few industrial uses for gold. A little is used in electronics and there is a small but falling demand in dentistry but 95% of all gold is used in the jewellery trade or is stored in bank vaults. 35,000 tons of gold is held by national and international banks alone, as reserve funds, in spite of the fact that gold was demonetarised almost twenty years ago.

Non-South African gold-producing countries now mine more than enough new gold to satisfy all the world's jewellery industry.

The West could have some difficult problems if it decided to boycott certain other South African products that are used in important industrial processes. *A gold boycott would meet no such difficulties. But a gold sanction needs to be properly conducted.*

The World Gold Commission has designed a method of imposing a gold sanction upon South Africa which benefits those countries that impose it.

It also saves the non-South African gold mining industry from massive potential losses, and delivers a crushing blow to finances of the South African government before even affecting black miners.

Why a Gold Sanction?

THE WORLD GOLD COMMISSION and its supporters are convinced that:

☐ Comprehensive trade sanctions against South Africa are a necessary part of the struggle to get rid of apartheid with the least possible bloodshed.

☐ Those that argue against economic sanctions usually receive their income from the South African state or otherwise have a vested interest in preserving apartheid or a system of government in South Africa which will preserve white domination.

☐ Given the overwhelming argument for trade sanctions, certain other considerations must be taken into account.

– What impact will a particular sanction have on the South African economy?
– What impact will a particular sanction have on the economies of those countries that impose it?
– What impact will a particular sanction have on the economies of the Front Line States?
– What section of the South African population will be most affected by a particular sanction?

A whole library could be filled with the books and papers that have been written on the subject of economic and trade sanctions.

The conclusion that can be drawn from all these studies is that, if such measures are taken properly, sanctions usually and eventually bring the desired effect. This is the reason that so many governments use them.

South Africa is very vulnerable to sanctions, in that a very large proportion, over 25%, of its economic activity is represented by foreign trade. In addition, its industrial sector is already highly sophisticated, which means that it is very dependent on spares, technology, etc. from other countries. It also means that there is only limited scope for import substitution as happened, for instance, in Rhodesia.

Since sanctions are intended to persuade the regime to negotiate and to deny it the resources it needs to repress the black majority of the country, it would be good to think that there was an economic sanction that would only impinge on the white community of South Africa, and particularly the government, without affecting anyone else. The system of gold sanctions proposed by the World Gold Commission will not do that, but it comes very close.

The Gold Sanction proposals of the World Gold Commission: a brief outline

THE WORLD GOLD COMMISSION is active on many fronts in the effort to reduce the income which South Africa derives from the sale of gold. It believes, however, that it has an extremely powerful argument for the imposition of the gold sanction by governments and international banking organisations. For this reason, some of its efforts are directed at explaining the merit of the sanction to these bodies.

It belives that, if carried out by a significant number of major gold buying countries and gold holders, a gold sanction would:

- ☐ Threaten such a massive and swift collapse of the South African economy that the South African government would have little choice but to negotiate the end of apartheid.
- ☐ It would the cost the countries that impose it nothing and may even be beneficial to them.
- ☐ It would give a new, democratic government of South Africa a core of expertise to enable them to better organise continuity of supply, not just of gold, but all the other important metals and minerals produced in South Africa, after the end of apartheid.
- ☐ It would have little damaging effect on the black population of South Africa or the Front Line States until very near the end of the apartheid era.

The three elements that make up the sanction are:

(1) A ban on all imports of newly mined South African gold, including products made from such gold.

(2) The release from national reserves of sanctions-taking countries, on a monthly basis, of the equivalent quantity of gold that would normally be imported from South Africa.

(3) The establishment of a fund to finance a training programme for students chosen by the South African liberation movement to learn the skills of mining and marketing gold.

In addition to the merits claimed for the gold sanction, The World Gold Commission also maintains that the sanction can use the forces of the gold market itself to police and regulate it.

The three main parts of the Gold Sanction strategy

PART 1: A ban on all imports of newly mined South African gold or gold shipped directly from South Africa, including products containing such gold.

The purpose of this part of the sanction is self-evident. If South Africa cannot find a market for its gold it would lose up to half its foreign income. Its government would lose an amount of tax revenue that is even larger than the massive budget needed to finance its armed forces.

There would be no point in banning trade in gold exported by South Africa before the gold sanction comes into force as this would needlessly lower the liquidity of the gold market. On the other hand, gold imports should also be banned from any other country that was found to be importing newly mined South African gold and substituting its own gold reserves for export. There is so much gold in the world that such a ban would have no effect on the availability of the metal for use in, say, jewellery-making or in dentistry.

Such a ban will need to be carried out by governments. It will be important for governments of countries with a large consumption of gold products to adopt the gold sanction but, as with all sanctions already taken, it will be the, principled countries that set the trend.

It is very important that products that contain South African gold should be banned as well as the pure metal. It would be pointless to ban the import of gold ingots but to allow imports of jewellery or gold alloys, which could easily be refined back into pure gold.

Under a gold sanction law, an importer of gold would need to submit a certificate of origin stating that the metal was of non-South African origin. In the case of gold-containing products, importers would have to certify that the product did not contain gold exported from South Africa after the date that the law came into effect. The legislation for this law would be exactly the same as that used by, for example, the USA to ban imports of products containing Cuban raw materials. Penalties for breaking this law should involve prison sentences, as those wealthy enough to finance gold smuggling would not be deterred by fines.

Gold has a very high value-to-bulk ratio. For this reason it is fairly easy to smuggle through customs controls.

In the case of the gold sanction, designed by the World Gold Commission, the control of smuggling would be automatically switched on by the gold market itself.

PART 2: The release of gold from national reserves of sanction-taking countries, on a monthly basis, of equivalent quantities that would otherwise be imported from South Africa.

If action were taken to ban South African gold imports without compensation for the loss of gold to the market the price is very likely to skyrocket. South Africa produces about 40% of the world's gold. International gold dealers and speculators would use such a move to force the market upwards. It would be much easier and considerably more profitable for South Africa and its friends to organise the smuggling of gold in an extremely boyant market. If the market rose to, say, twice today's price, that is to 800 US dollars an ounce, South Africa would only need to smuggle out half its present production to derive exactly the same benefit from gold sales as it does now.

Almost all countries of the world carry gold reserves which are massively larger than their annual gold consumption. (If any country that wished to participate in the gold sanction found itself short of gold, it could arrange gold swaps with another country. Such swaps are already an everyday event in the world of reserve management.)

Calculation of the exact monthly amount of sales that would be equivalent to normal imports from South Africa may not be easy. Fortunately the quantity would not have to be precise. The important reason for the compensatory sales is to avoid a sharp increase in the world gold price and to keep local users supplied with gold. If it were found that sales were too large, so that prices fell, sales could be made smaller, and vice versa. Quantities sold could be co-ordinated by those countries that adopt the gold sanction and, perhaps eventually, by the IMF, itself a large holder of gold stocks.

It would be most important, of course, not to allow prices to drift too much. Many countries opposed to apartheid are major exporters of gold and should not suffer because the sanction lowered the world gold price. The central aim of the gold sanction is to lower the price South Africa alone gets for its gold, and then to cut off its sales altogether.

The sale of gold should be made on a regular monthly basis. This would be necessary to maintain a degree of control over the price and to make sure that the market did not become 'shocked' by large sales that it could not readily absorb.

The revenue derived by these governments from the sale of gold can be converted into interest-earning bonds, thus making their reserves more valuable.

PART 3: The establishment of a fund to finance a training programme for students chosen by the South African Liberation Movement to learn the skills of mining and marketing gold.

Gold has very little industrial use and much of it is hoarded as an investment. For this reason the market price moves on what is known as 'sentiment'. One month it will be the oil glut that is said to influence the price. The next month oil will not be a factor but the fear of inflation will be. Price movements are not rational. The term 'sentiment' simply means personal opinion. The world gold market is influenced by comparatively few people. These people are often employed by gold mining companies or work for stockbrokers who make money out of an active mining sector or they are analysts who work for newspapers and companies that sell their reports to the gold industry or organise conferences for them.

The opinion which most of these people hold in common is that black people will not be able to run the South African gold industry.

Although this opinion is based on wishful thinking and self-interest, the apartheid system has ensured that people who will inherit the problem of running the mines are not yet prepared for the task.

This is one of the major factors that influences 'sentiment' on the gold market. When events occur that bring the possibility of a democratic government in South Africa nearer, the gold price goes up. If the apartheid regime were to look as though it was going to lose power in the next twelve months, the price of gold would go sky high. The irony of this situation would be that the revenue gained by South Africa and its government from this massive price rise would be enough to finance even greater excesses of repression.

In order to counter this factor the World Gold Commission is instigating a campaign to inform the public and governments about the danger of disruption which would be faced not only by the people of a new, democratic South Africa but by the whole world.

South Africa is a unique source for many metals and minerals. The world could do without them for a time at some cost but, in the long term, the world needs a liberated South African mining industry. It is in everybody's interests that a new ministry of mines in South Africa will have the expertise to be able to set down guidelines on investment, exploration, extraction, refining and marketing of minerals. This should be done in the interests of the miners and all the people of South Africa.

The effects of the Gold Sanction

THE SUCCESS OF THIS CAMPAIGN will depend as much on informing individuals of the links between gold mining in South Africa and apartheid as on the action of governments. As the programme develops, however, the impact in South Africa will be felt.

The first effect is psychological. White South Africans are told at an early age that their economy is one of the strongest in the world, based as it is on semi–slave labour and gold. All sanctions undermine this confidence but even the threat of gold sanctions is a massive blow to white morale.

All the important South African financial newspapers and journals have now carried stories of the formation of the World Gold Commission. The very fact that South Africa is vulnerable on gold, of all things, has come as a major shock.

The second effect will be the creation of a *secondary market* for South African gold. As people begin to demand non–South African jewellery and ask why their government finances apartheid by buying a product that they don't need, the international price for South African gold will fall below the price for gold from other countries.

A secondary market is a common feature of the metals markets. The most common reason to discount a particular source of metal is quality. Trace elements in a metal can alter its chemical or physical suitability for some use, which means that less people want to use it. Sanctions produce the same effect. The USA bans the import of Cuban nickel, for instance. This causes the secondary market effect and means that the Cubans can only sell at a discount of about 10% to the world nickel price. In this case only one country has banned the use of Cuban nickel. The effect would, of course, be much greater if several countries operated a ban. As countries take up a gold sanction this secondary market effect will become more pronounced. South Africa will be forced to sell cheaper than the world price of gold to a diminishing number of countries. Gold production in South Africa will almost certainly have to be cut anyway, as the gold price has already fallen, but the low price of the secondary market effect will reduce the country's income further

By South African law, all gold has to be sold by the state controlled Reserve Bank. At this stage of the effect of the gold sanction, the Reserve Bank will have to start resorting to the smuggling of gold into the markets of countries that have banned imports of South African gold. This job will not be easy. South Africa produces more gold than any other country. If large quantities of smuggled gold suddenly appear on the market, it will become very obvious.

Opposition to economic sanctions: The Gold Sanction answer

IT SHOULD BE SAID that those leading the campaign against economic sanctions against South Africa are weak opponents, if not supporters, of apartheid. Some types of sanction that have been proposed, however, have unwelcome side effects. The most serious of these side effects are those that cause unnecessary difficulties to those who are already victims of the apartheid system. These are the black people of South Africa and the peoples of the Front Line States.

It is important to remember that leaders of the black people of South Africa who are not in the pay of the government are calling for comprehensive sanctions. They say that it is better to suffer even greater hardships for a limited period than to suffer apartheid forever. Although they recognise that the main opposition to apartheid will come from inside South Africa, they also know that without support from the outside world there is a great danger of the racist element within the white population launching an attack against them that will leave millions dead and the industrial infrastructure of the country in ruins.

Such leaders are, however, entitled to complain if sanctions are imposed at such a slow pace that any suffering on their peoples' part is needlessly drawn out, or when sanctions are imposed in a manner that has little or no impact on those that benefit from apartheid.

A gold sanction would directly affect half South African exports and cannot be accused of being a petty measure. The first effect of a gold sanction would be a substantial lowering of the tax revenue that the South African government imposes on gold production.

This is because tax is applied on the gold mining companies on a sliding scale basis. The higher the sales price for gold the greater percentage of profit taken in tax.

The effect of the gold sanction will not be to lower the world price for gold, only to lower the price that South Africa can get for it. For this reason it will be the South African Government – not the mining companies – not the mine workers – who will lose tax revenue in the early stages of the imposition of such a sanction. It will, in fact, be in the mining companies' interests to keep production at full capacity at this stage, in order to maximise revenue. The more gold that can be sold the more hard currency they will generate, but as the price of each ounce sold decreases so will the profit earned and so will the tax revenue, which will fall at a much faster rate.

The second effect will be a reduction in the ability of the South African Reserve Bank to sell gold. But by this time the full impact of the sanction will be causing the economy to spiral into chaos if some accommodation with those imposing sanctions is not found.

The impact, then, upon the black community of a gold sanction will not be felt until production has to be curtailed because of the failure of the South African Reserve Bank to find a market for apartheid gold. There are approximately 400,000 gold miners in South Africa out of a population of about 28 million black people. They are the most highly organised and politicised black group of workers in the country. They already accept their role in the vangard of the struggle to overthrow apartheid and have long demanded the imposition of the strongest economic sanctions.

The impact on the Front Line States will be confined to those associated with migrant gold mine workers. A gold sanction does not affect the world gold market price at which gold produced in the Front Line States (mainly Zimbabwe and Zambia) is sold. For this reason they will not suffer a loss of revenue on gold sales.

In the past, many of the workers recruited for the South African gold mines were from other colonial countries in Southern Africa. Now that most of these have achieved independence there is less reliance on this type of migrant work. Some countries, especially Mozambique and Lesotho, still derive important income from the earnings of their migrant labour (although it must be pointed out that South African destabilisation of those countries far outweighs the income they get indirectly from the South African gold mines).

The South African Government still preserves the myth that the whole of Southern Africa benefits from the semi-slavery of work in the gold mines by suggesting that those from the 'homelands' who seek work in the mines rather than starve, are migrant labour. The portrayal of these South Africans as foreigners in their own country is, of course, one of the more disgusting aspects of apartheid. It will only be at the secondary stage of the impact of the gold sanctions strategy that gold production would be reduced and, therefore, mining jobs lost. At this stage, however, the end of apartheid would be very close. The loss of income for those Front Line States affected would depend on the policy towards migrant labour taken by the South African government during the first stage of this sanction and how long this stage lasted.

There has already been some indication of the South African government threatening to ban workers from other countries from working in the mines if more sanctions are applied. In this respect the effect of a gold sanction would be no worse than other sanctions, if this threat were carried out. On the other hand, the gold mining companies need as large a catchment area for labour as possible in order to keep wages down and to reduce the strength of the National Union of Mineworkers. At a time when unity between the government and the mining companies was essential, this option may not be taken.

The length of the first stage of a gold sanction is entirely in the hands of South Africa's main trading partners in gold and in the hands of those countries that consume large quantities of gold jewellery. While only a few countries or individuals are prepared to impose the gold sanction the effect of the measure will only be to create a two tier gold market, with South African metal selling at a discount to the world price for gold compared with other origins.

As more countries join the boycott the secondary market effect gets so serious that only a limited quantity of South African gold can be sold. This is the point at which the second stage of the effects of the sanction are seen.

If the loss of income for the Front Line States due to the loss of mining workers' jobs becomes a problem in the first stage of the sanction's effects, the remedy will be in the hands of the largest industrialised countries, who will need to speed up the boycott.

In any event the impact on the Front Line States will be tiny compared to the sacrifices they are presently being asked to bear by the West. Most Front Line States are dependent on South Africa to a lesser or greater degree. At present, much freight has to be routed through South Africa because rail links through other countries have been smashed by South Africa or its surrogates. Some are surrounded by South Africa. Most others have little choice but to import certain items from South Africa as the cost of getting them from elsewhere would be prohibitive.

Western countries that refuse to impose sanctions themselves often say that they do not see why they should impose a particular sanction while the Front Line States, who are the most vociferous in pleading for sanctions, do not impose it themselves.

A gold sanction would give the Front Line States no such difficulty. They do not import any gold from South Africa and they do not need to import jewellery made from South African gold.

A gold sanction would bring short term benefits as well as difficulties to some front line states but the ending of apartheid would give them the greatest benefit of all.

How a Gold Sanction will affect countries which impose it

MOST OF THE WORLD'S central banks keep part of their reserves in gold. The World Gold Commission has no particular objection to this practice. The central banks themselves, however, are a little uncomfortable about the vast quantities of gold that some governments insist that they hold. In a survey entitled 'How Central Banks Manage their Reserves', conducted by the influential private bankers organisation, the Group of Thirty, it was found that most central banks would prefer to lower the proportion of reserves held in gold, in favour of something called 'the mixed currency reserve system'. This is because gold reserves are extremely inflexible, earn no interest, and cost a great deal to guard and move around.

The survey suggests that governments in many countries impose a policy of high gold content in reserves against the advice of the governors of their central banks. It is true to say, however, that central banks have little choice but to keep most of their gold. This is because, collectively, they have so much of the metal that any attempt to sell even part of it would precipitate a collapse of the gold price, thus reducing the value of the remainder of their gold to almost nothing.

Some governments, like the Swiss insist that their central bank holds a high percentage of its reserves in gold. Others, like the Canadians are making very gradual sales of their gold. Many others are trying to earn some income on their vast store of gold by minting gold coins to sell to the public. The British mint the Britannia, the Australians the Nugget, the Chinese the Panda, the Americans the Eagle. . . and so on and so on. . . . Some of these governments top up their gold stock to make these coins, others do not.

The gold sanction proposed by the World Gold Commission requires the governments who impose the sanction to block imports of South African gold and gold products and to make *compensatory sales* of gold out of their reserves to their own market to avoid the price of gold increasing. This measure will not only ensure a regular supply of gold to jewellers etc., in their home market but will relieve their central bank of at least part of the burden of holding gold. Once sold, the revenue obtained from the compensatory sales can be used to purchase bonds or other interest earning instruments.

A gold sanction therefore benefits the country that imposes it.

South Africa's vulnerability through its gold-based economy

THE APARTHEID REGIME and the mining companies have recognised the vulnerability of the South African economy to international gold sanctions. Ever since the ending of the US dollar's convertibility to gold at a fixed price in 1971, the South African government and mining companies have campaigned for the restoration of the role of gold as a major settlement asset in the international monetary system, i.e. going back to the gold standard.

The South African gold industry has always enjoyed the lion's share of foreign investment and government collaboration. The sheer scale of repression required to keep up its huge profit margins has caused an equally massive backlash.

The black workforce in the gold mines has become the vanguard of a bitter struggle not only to improve wages and working conditions but to bring an end to apartheid. Every conceivable hostile tactic has been used to discourage the organisation of labour, including the use of the brutal private police forces of the mining companies, spies and agents provocateurs, repressive labour laws, smear campaigns and draconian restrictions on political activity. In spite of all such repression, designed to smash union recruitment and industrial action, the National Union of Mineworkers has been gathering the power to squeeze the first concessions from the fabulously wealthy mining companies.

Even the quite limited wage increases won by the Union in the last few years has sent the mining companies into a state of near panic. The idea of losing even a small part of the profit to improve the lot of their miners is quite a new concept for them. If profits are to be maintained as well as the luxurious pay and conditions of the executives and directors of the companies, then something has to give. This something has to be investment.

To add to the companies' problems the value of the Rand has been falling fast. This means that the cost of any sophisticated foreign mining equipment has become prohibitive. Savings cannot be made by increasing efficiency in this way.

The South African gold mining industry is losing badly in a competition battle with other gold mining countries of the world.

Even the most slavishly pro-South African stockbroking companies and financial advisers are telling investors to quit the South African gold fields.

Over the last few years various technical innovations in the gold mining industry have been put into practice. These innovations have best suited the treatment of low grade sources of gold ore left behind in waste dumps from nineteenth century gold mines. Many such dumps have been found suitable for treatment in Australia. Other innovations have greatly improved the efficiency of shallow gold mining in such places as Papua New Guinea. The cost of gold mining is going down everywhere, except South Africa, where costs are climbing steeply.

The South African gold industry has needed apartheid to provide the mass of low paid, disenfranchised, semi-slave labour to work the mines. If a more considered view of the South African economy had been allowed, in the past, to challenge the insatiable greed for gold profits, a less lopsided industrial base might have been created. But an industrial based economy requires well-educated citizens to man the factories and a balanced distribution of wealth to create a healthy home market.

White racism has ruled out this possibility.

In these senses, virtually everything about the South African mining industry is tied to apartheid and black poverty, landlessness, exploitation and unemployment.

The gold mining industry has been the source of untold riches for the mine owners. Some of this wealth has been distributed among the white population of South Africa but those whose sweat has produced this vast profit are despised and made outcasts in their own country.

In 1986, the working profit of the gold mining companies amounted to almost 50% of the working revenue (the proceeds from gold sales). This profit was double the total wage bill of the industry and some 400% higher than the wages (cash and in kind) paid out to the 400,000 black workers. The exploitative wage-setting machinery produces a particularly gross inequallity between black and white workers. The white/black wage ratio is today 7 to 1. This is supported by a de facto industrial colour bar which accords white workers extraordinary privileges, mainly a monopoly of all the supervisory and managerial jobs. Of all the directorships of the hundreds of gold mining industry companies, not one is held by a black person, the overwhelmingly more populous race.

Some 35,000 black workers have died in mine accidents. In 1986 alone there were 702 such deaths. Many times this number have been injured and given little or no compensation.

The reaction to a century of this kind of injustice in the lust for gold; the failure to diversify from a single-industry economy; the blind faith in a gold based economy – all add up to one certain irony:

South Africa is now extremely vulnerable to a gold sanction.

Policing the gold smugglers

INDUSTRIALISTS IN SOUTH AFRICA are already sanctions-busting. They are making some of their export products look as if they originated in nearby states; they are setting up shell companies through which to trade and are using falsified documentation. If gold–using countries ban the import of South Africa's most important foreign currency earning export, then some gold will, almost certainly, be smuggled out.

How easy will this be for them?

The World Gold Commission expects smuggling to occur but the structure of the gold market will ensure that it is in the markets own interests to reduce smuggling to a minimum.

All the individuals and companies involved in the international gold market have a vested interest in seeing gold either as a vehicle for investment or as a vehicle for speculation. Brokers, bankers, market analysts and sales agents expend a vast amount of energy and money to attract clients to include gold in their investment portfolio. It is true that money can be made on a falling market price by selling gold that you do not own before the market falls. This technique is called 'going short'. It is also possible to take advantage of a falling market by buying 'put options'. Both these types of deal are done every day on the gold markets of the world, but both are very risky and neither represent any significant part of the turnover in the gold trade. By and large, the gold market has only one purpose: *it is there to sell gold.*

There is already too much gold available to the market. When the gold sanction is used against South Africa, the countries imposing it will be making releases of gold from national reserves. If, at the same time, the normal quantity of South African production were coming onto the international market, without being reduced to compensate for the lack of sales of South African gold to those countries that had imposed an import ban, the glut of gold would cause a huge fall in market prices. The only way that South Africa could be selling its usual quantities, when several sizeable gold importers had banned imports would, of course, be by smuggling metal into those countries. If the smuggling caused the gold price to fall and it was in the vested interest of those who control the gold markets for it not to fall, the gold market would make it its business to police itself.

The millions of well-off people who bought gold coins in case of a rainy day, the shareholders in other gold mines around the world, the central banks with an average of forty percent of their assets in gold, the societies in the Middle and Far East which measure family wealth in in waste dumps from nineteenth century gold mines. Many such dumps have been found suitable for treatment in Australia. Other innovations have greatly improved the efficiency of shallow gold mining in such places as Papua New Guinea. The cost of gold mining is going down everywhere, except South Africa, where costs are climbing steeply.

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How easy will this be for them?

The World Gold Commission expects smuggling to occur but the structure of the gold market will ensure that it is in the markets own interests to reduce smuggling to a minimum.

All the individuals and companies involved in the international gold market have a vested interest in seeing gold either as a vehicle for investment or as a vehicle for speculation. Brokers, bankers, market analysts and sales agents expend a vast amount of energy and money to attract clients to include gold in their investment portfolio. It is true that money can be made on a falling market price by selling gold that you do not own before the market falls. This technique is called 'going short'. It is also possible to take advantage of a falling market by buying 'put options'. Both these types of deal are done every day on the gold markets of the world, but both are very risky and neither represent any significant part of the turnover in the gold trade. By and large, the gold market has only one purpose: *it is there to sell gold.*

There is already too much gold available to the market. When the gold sanction is used against South Africa, the countries imposing it will be making releases of gold from national reserves. If, at the same time, the normal quantity of South African production were coming onto the international market, without being reduced to compensate for the lack of sales of South African gold to those countries that had imposed an import ban, the glut of gold would cause a huge fall in market prices. The only way that South Africa could be selling its usual quantities, when several sizeable gold importers had banned imports would, of course, be by smuggling metal into those countries. If the smuggling caused the gold price to fall and it was in the vested interest of those who control the gold markets for it not to fall, the gold market would make it its business to police itself.

The millions of well-off people who bought gold coins in case of a rainy day, the shareholders in other gold mines around the world, the central banks with an average of forty percent of their assets in gold, the societies in the Middle and Far East which measure family wealth in ounces of gold and the army of other people who are interested in maintaining the price of gold are a powerful force. The prospect of a massive fall in the gold price is unthinkable. If governments decided to block South African supplies and sell equivalent quantities from reserves, it would be in everyone's interest to stop South African smuggling. And the only buyers of gold are people in the gold market.

Another important aspect of the gold market is the extreme tightness of its regulation. Strangers are not welcome. New faces with stories of large quantities of gold to sell would be shunned. Uncertainty is an enemy of the market. It interferes with expectation and prediction. Any attempt at large-scale smuggling would fail. The market would be forced to collaborate with governments that impose a ban. Smuggling a few ounces of gold out of South Africa into a country that imposed an import ban would be relatively simple. Trying to do the same thing with any significant proportion of the six hundred ton South African production is impossible. The reasons are as follows; Firstly, such quantities would have to be sold to established traders who would not be willing partners, as described above. Secondly, the gold would have to be accompanied by certificates of origin from another gold-producing country so as not to arouse the suspicions of customs officers. Not only would that other country need to be a massive gold producer in order to lose any significant quantity in output statistics, it would not be in such a country's interest to have its certificates of origin used to help a competitor in the gold production business. Such a country would take severe steps to control such documentation.

There are some countries which remain friends with South Africa for political or commercial reasons, but none are significant gold producers. No one would be fooled if Israel, say, started selling large quantities of gold.

In any event, if customs officers had any doubts about the origin of a gold shipment they could submit the gold to isotopic analysis. All gold is not the same. Gold contains a mass of trace elements, each of which is made up of different isotopes of the element concerned. The ratio of one isotope to another gives the gold a 'fingerprint', which distinguishes it from gold mined in any other area. With this technique South African gold can be prevented from posing as gold of any other origin.

Even more obstacles lie in the way of the South African gold smuggler just as they did for people trying to smuggle minerals out of Rhodesia during the time of UDI. At that time the Smith government relied upon an international network of criminals to smuggle out its products. The problem with these people was *they couldn't be trusted.* Many criminals made fortunes out of swindling the Rhodesians. South Africa will be less fortunate. If someone wishes to sell gold illegally he must offer it at a cheap price and must give absolute proof that he has it to sell. If the seller needs money so badly that he was willing to spend a long time in jail in order to get it, he would not have enough money to own the gold. In order to provide proof that he had the gold to sell, he would have to have the gold on credit. If he was a criminal and had the gold on credit, what is to stop him from keeping the gold or the proceeds from its sale.

Exactly this situation was met by the Rhodesian sanctions busters. They were dealing in products worth a few thousands. A single ton of gold is worth 12 million dollars. To make any impact on a gold import ban, hundreds of tons would need to be sold.

An obvious way to get some quantities of gold into a banning country would be to import it in the form of gold products, particularly jewellery.

The gold sanction should apply to all gold products and imports from countries other than South Africa which cannot prove that the gold used in the product was not exported from South Africa after the ban began. Arranging for any false certification would encounter exactly the same difficulties as would be encountered with gold bullion.

No gold jewellery producing country would risk having its products banned from any market when supplies of gold are so plentiful.

Gold smuggling will certainly occur if gold sanctions are widely applied. A gold dealer will perceive that a rival company is 'letting the side down' if he endangers the future for all gold dealers. He will need to expose any illegal dealings if a quiet warning is not heeded.

Prices of gold will be kept at a moderate level by the release of metal from reserves. This means that South Africa will need to maintain its present export levels to achieve the same income. If even a small group of countries use the gold sanction, South African income would be cut at a time when it is desperate for foreign currency.

Smuggling anything at any time is difficult and dangerous. To achieve anything like a normal sales value for gold in the face of a comprehensively-applied gold sanction would be impossible.

South Africa would lose almost 20 million US dollars a year for every dollar an ounce that it would have to give sanctions busters, but the most efficient of sanctions busters could not manage to return the huge earnings necessary to finance apartheid.

From the mine to the customer

THE FIRST PART of the chain of events between the mine and the final buyer is simple and well known. Under South African law, all mines must sell their gold through the state controlled Reserve Bank. We know exactly how much gold each mine produces, all the costs involved, all the geology of the ore body, how many workers are employed and a mass of other statistics. The reason all these facts are made public is because the gold mines would not have been started without massive investment from outside South Africa. No one would invest unless they were given access to this mass of detailed information about individual gold mines.

As soon as the gold is sold by the Reserve Bank the picture becomes much more clouded. One fact is important to remember, however. After the sale is made the gold must leave South Africa. This may sound like an obvious fact but it isn't. Many people buy gold without ever seeing it. British people buy gold that remains stored in Switzerland, for instance. Brazilians might buy gold stored in the USA. So it should be possible for the South Africans to sell their gold without ever moving it out of South Africa. This doesn't happen, however.

Because investors do not expect the apartheid system to last.

These investors would not accept a certificate drawn up by the South African Reserve Bank which only *represented* gold. They would want the gold somewhere safe. When apartheid starts to crumble who knows what the South African government will do with other peoples' gold – if they are foolish enough to leave it in the country.

The gold leaves South Africa by air. This is because the interest lost on the finance used to purchase the gold, if the metal were exported by a slower method, is always much greater than the extra freight and insurance costs of air transport.

The 600 tons of gold that South Africa exports each year could be flown out on just twenty Jumbo Jet flights, however, so while most deliveries are made either to Switzerland or London, the total exports could be accommodated by South African Airways alone.

There is one important obstacle to finding out the route taken by the gold. Switzerland, which now acts as a 'gold wholesaler' by importing over 50% of South Africa's gold, before distributing much of it to other countries, decided in 1981 that it would no longer make public its gold import or export records.

This helps South Africa to hide the bulk of its gold transactions.

Almost all gold exported from South Africa is gold bullion, gold in the form of ingots or market bars. In other words, it is pure gold; it hasn't been alloyed with any other metal and it has not been fabricated into any useful or decorative product.

Once it arrives by air, at its first destination, it is taken to a high security vault sometimes located at or near the airport. If the gold is held at a bonded warehouse or vault, there will be no need for it to be brought through customs controls. The first buyer of the gold is almost invariably a bank or a specialist gold trading company (most of which are owned by banks). The company that owns the vault, if it isn't the bank itself, will issue warrants for the gold. These are documents which give title to the gold they represent. If these warrants are issued by a highly reliable company or bank, they can be bought and sold just as if they were gold itself.

The gold warrants may be traded between hundreds of brokers without the metal being moved once. It will only be necessary for the people who administer the vault to change the label on the stack of gold each time the ownership changes hands.

On the occasions when the gold has not even passed through cutoms, it is very difficult for the outsider to know the location of the gold as it will not appear in import and export statistics. Finding out who owns it is next to impossible.

To add to the difficulties of finding out who it is that helps the South Africans export their single most important foreign currency earner, most movements of gold are not recorded even when they are brought through customs controls.

The reason for this is that many countries do not want other countries to know how they are adjusting their gold reserves. For this reason there is an international convention to divide the recording of world movements of gold bullion into two classes – non-monetary gold, the movement of which is made public, and monetary gold, where statistics of trade are not published. *This convention, which helps South Africa hide its most important trade, applies to no other commodity.*

As a first step to invoke help to uncover this unsatisfactory situation, the World Gold Commission lobbied the Commonwealth Foreign Ministers meeting in Toronto in 1988, who, afterwards, issued a statement advising member countries to include all gold shipments in conventional import and export statistics.

Incomplete statistics on gold movements between national reserves are issued by the International Monetary Fund.

The work of the World Gold Commission

THE ULTIMATE AIM of the World Gold Commission is to deny the present regime in South Africa income from the sale of gold until apartheid is ended. For this to happen, governments will need to introduce the necessary legislation to impose the gold sanction.

Although the World Gold Commission is in direct touch with governments, enactment of legislation will come about in the context of a wider strategy. This strategy will be modified to suit each country according to the judgement of the World Gold Commission support group working there. The strategy also has a vital international dimension.

The first phase of the strategy involves education, research and debate.

Many people, even some strong opponents of apartheid, are not yet aware of the importance of gold in the South African economy, let alone the historical, social and political links that bind gold production to apartheid.

Most white South Africans regard the fact that their economy is gold based as the greatest source of security, when the very opposite is true.

Even some skilled analysts of South African sanctions have never considered a gold sanction as being feasible. This is often because the subject seems so daunting, at first. When they hear names like Rothschild, Oppenheimer and the Swiss banks, with massive vested interests in gold, the problem seems much more impressive than it is.

Parliamentarians and civil servants around the world need to be informed, debated with and educated. To do this, the World Gold Commission uses a variety of methods. These include publicity in both the popular press, radio and T.V., publication of research findings in learned journals and specialist periodicals, direct contact with individuals and institutions concerned with the issue, campaign work amongst supporters and detractors and demonstrations against the South African marketing apparatus.

This work, then, consists of educating people and winning the intellectual debate on the subject.

A great deal of research has already been done on the links between the South African gold mining industry and the apartheid system. Much work has also been done on the gold sanction and its effects on South Africa, the Front Line States, other gold producing countries and those countries that impose the sanction.

The companies that help South Africa to market its gold do not advertise the fact. More work needs to be done to expose them.

Gold bullion and gold jewellery

THE MARKET BARS are used only for trading or for hoarding, privately or by governments or international bodies like the International Monetary Fund.

Most gold is dug out of a hole in the ground at tremendous expence, only to end up stored in another hole in the ground.

Intergovernmental swaps and trades in gold and private trades by banks and rich individuals are all conducted in bullion. These are usually paper transactions where the only thing that changes hands are papers that represent gold bars, not the bars themselves.

A small proportion, about 6%, of gold production is used in industry, mostly electronics and dentistry.

The gold that is used to make coins, medals and jewellery is almost invariably made from a gold alloy, i.e. gold mixed with another metal. Pure gold is so soft that if it were not mixed with a harder metal, it would quickly wear out.

One of the most important activities of the World Gold Commission is to help to provide jewellery buyers with the choice of buying non-South African products.

Before explaining how this is being done it should be noted that South African corporate interests have a massive influence if not control over much of the world's jewellery industry.

Apart from being the largest single source of gold they also dominate the production of platinum. A South African company, though nowhere near dominating the production of diamonds, nevertheless controls the entire world market in diamonds contrary to all conventions of the consumer's interests and fair trade. In addition, South African controlled companies based in every developed nation dominate the refining of scrap gold, provide technical advice to jewellery makers, and supply many of the semi-fabricated products needed by the small manufacturer.

In spite of this influence, South Africa is extremely vulnerable to a *peoples'* sanction on gold products. Given the choice, most people, even now, would prefer to buy non-South African jewellery. The World Gold Commission will inform gold buyers of the connection between gold and apartheid and ask them to insist on jewellery made from clean gold.

Who, for instance, would want their wedding ring, the symbol of partnership, to be made from the symbol of apartheid?

Jewellery and consumer choice

THE WORLD'S JEWELLERY INDUSTRY does not yet offer the consumer the choice of buying gold products made from South African gold or gold from an acceptable country. Given the choice, the overwhelming majority of jewellery buyers would choose non-South African, just as they do with oranges or apples.

In mid 1988 the World Gold Commission received a leaked copy of the three year marketing plan for gold, produced by the South African controlled gold promotion organisation. From this document we can see that South Africa is frightened, to the point of paranoia, by a fall in the gold price. They pin all their hopes on increasing jewellery sales and are directing all their massive advertising campaign at women.

The Commission will demonstrate that non-South African gold jewellery will sell far more easily than gold tainted with apartheid. As soon as this happens, simple market forces will take over. Every jewellery shop will need to stock non-South African jewellery.

This is an example of peoples' sanctions and will be very effective in the overall strategy of forcing South Africa to sell what gold it can only at a discount to the world price.

The World Gold Commission has found no difficulty in finding leading jewellery manufacturers to offer to produce a range of gold products from non-South African gold ingots. It has also found a large proportion of jewellery retail outlets interested in stocking such a range of goods. It is hoped that soon jewellery made from gold from the Front Line States will be made available.

The better off section of the black community in Western countries are, per capita, one of the more important gold jewellery-buying groups.

This group has a special interest in making sure that the jewellery they purchase is not tainted with apartheid.

The Commission is launching a competition amoung jewellery design students which will be used to make a special range of non-South African gold products for sale through sympathetic outlets.

The jewellery retail fraternity will very quickly abandon the habit of using apartheid gold if sales are affected.

It is one of the aims of the World Gold Commission to provide an outlet for non-South African gold jewellery in every main buying centre of the world.

South African Gold Mining Companies

NINETY-FIVE PER CENT of gold produced in South Africa is mined by just five corporations:

Anglo American Corporation of South Africa Ltd.
Gold Fields of South Africa Ltd
General Mining Union Corp Ltd
Barlow Rand Ltd
Anglovaal Ltd

All these groups are locked together in a maze of incestuous cross directorships and shareholdings. These companies provide R3.5 billions a year in tax revenue to the apartheid regime and directly control most of the manufacturing and distribution industries of the country. They are the chief investors in the financial sector. They own almost all the rest of the mining sector, including diamonds, uranium and platinum and the strategically important production of oil from coal.

Any apparent manifestation of healthy competition between these companies is quickly evaporated on any examination of their labour recruiting methods. All recruitment is handled by an organisation jointly controlled by the mining companies whose function is to use its monopoly position to keep wages and conditions of black workers as much below the poverty level as possible.

In addition, all gold is refined in South Africa by the Rand Refinery, owned by the South African Chamber of Mines, which is in turn controlled by the mining companies.

Until 1987 the South African mining houses used a jointly owned and lavishly funded gold promotion organisation called the International Gold Corporation Ltd (Intergold). The one thing this company was not, was international. Although it had many luxurious branch offices in all the leading gold consuming centres of the world, its headquarters were in Johannesburg. This company spent millions of dollars promoting the South African gold coin, the Krugerrand. This massive promotion budget proved to be a poor investment when, after an international public boycott, this particular symbol of apartheid ceased to be minted.

Intergold found itself in even more difficulties in 1986 when the black townships flared into open rebellion against repression. It became clear that if Intergold did not do something very quickly it might itself cause gold to be closely associated (as it truly is) with apartheid.

Intergold found a few mining companies outside South Africa to join it, then changed its name to the World Gold Council.

Apartheid's gold promotions

APART FROM the change in name, the main difference between Intergold and the World Gold Council was the closing of the Johannesburg headquarters. The Geneva office became the new headquarters but all the other offices and staff remained the same.

Although this company spends over fifty million dollars each year on various methods of getting as much gold sold as possible it is strangely bashful about letting anyone know who its members are. The membership was known only to the members. Many people have asked the company who its members are: stockbrokers, specialist metal trade magazines, gold dealers, other mining companies. Some even get as far as being promised that they will get a membership list but in the end, the result is the same –

The World Gold Council will not disclose its list of members.

A membership list of the Council was leaked to The World Gold Commission. The reluctance of the Council to publicise the names of its members is explained by this list.

The Financial Times Mining Year Book lists 269 gold mining companies in fifty-seven western countries alone. It turns out that the World Gold Council membership is just 39 mining companies (five of which are not even mentioned in the Yearbook), from only six countries.

Thirteen members are South African companies or companies controlled by them. Nine other members are owned or controlled by just four corporations. Two other members mine gold only in joint association with another. In short, it is obvious that the reason the list is kept secret is because very few gold mines want to be in an organisation so dominated by South African interests.

In subsequent documents leaked to the World Gold Commission even more evidence has come to light on the nature of the Council.

Contribution to the budget of the council is levied on the members according to the tonnage each member produces. The South African members produce several times more gold than the rest of the membership put together. Control is said to be equally distributed in a way that companies from no single continent can dominate any other. At least two of the directors that are supposed to represent North America on the board of the Council, Mr R Agnew and Mr G Parker, are both directors of South African mining companies.

The Council is quite obviously a front for South African mining interests.

South Africa's fears for gold — another leaked document

AN INTERNAL DOCUMENT from the Council, their 'Strategic Long Range Plan', has also been leaked to the World Gold Commission.

Anyone reading the document would assume that the writer hardly noticed that the organisation was no longer the old South African Intergold but the new, clean, international, World Gold Council. It talks about the need to update previous plans that were Intergold plans. Its introduction by its Chief Executive, E. Hood, gives the impression that the change of name is a trifling formality — which, of course, it has been. Spending budgets for Intergold are mixed up with budgets for the Council.

On page 17 the plan states that 'As a result of the formation of the World Gold Council resources available to the organisation for the three year plan period are relatively static'.

So we see that in spite of these new gold mining companies from all over the world joining the 'new' organisation, they are not going to represent an addition of finance to it. From this evidence, the obvious conclusion is that the South Africans have encouraged these few collaborators to try to rid the organisation of the stench of apartheid by paying their bills for them.

The document gives several interesting insights into South African thinking on gold. The slogan for the plan is incredibly revealing. It appears in the middle of page two of the report which is otherwise blank, and says:

'MISSION:

To drive demand and maximise gold consumption through promotional programmes directed at those market segments that best ensure the PERMANENT REMOVAL of gold from the market place.'

So what is this that they are saying to each other in their private document? Not that gold is the most perfect medium of exchange. Not that gold is the best investment you can find.

It wants the *'permanent removal* of gold from the market place'. What they are saying is — Buy it as an investment by all means, but don't expect to make a profit if you sell it. This does not sound like a very good investment vehicle, does it? It is very clear that they think that there is too much gold in the market, but dare not say so publicly.

This concern is expressed more directly elsewhere in the plan when it says: 'The critical issue facing the World Gold Council is the increasing supply of newly mined gold to the market and the consequent demand shortfall that is anticipated'.

Women will be interested to know that they will be the recipients of the Council's propaganda over the next few years. The council thinks that women, 'as the initiator of the purchase decision', should be the 'prime target'.

The Council has chosen women, it seems, to assist apartheid by removing gold permanently from the market.

Finally, the Council makes the admission that one of its main aims will be to 'recruit new members and *consolidate current membership*' From this we learn of their fears that even the few non-South African accomplices who have become members are but fair-weather friends.

It is the intention of the World Gold Commission to expose the Council as being dominated by South African commercial interests.

As the promotor of the product that finances apartheid more than any other, it must be challenged, but what is more, even on its own terms, *it will not work.*

Much of the newly mined gold, that the Council so fears, is being produced from nineteenth century gold mine waste tips. Although, with the new technology, it is cheap to produce, there is not much of it. While it is being produced, however, it will tend to decrease the price of gold. The best way for gold mines outside South Africa to keep the gold price up is to encourage the isolation of South Africa by joining the World Gold Commission to help block the sale of South African gold.

The goverment of every gold-producing country in the world is a stated enemy of apartheid – it is in their interest and the interests of their gold mining industries to deny apartheid a market for its gold.

Just as the World Gold Commission insists that the jewellery retail industry distinguish between clean gold and apartheid gold, it also insists that the promotion of the interests of the rest of the world's gold mining industry should be separated from the interests of apartheid.

The World Gold Commission has written to all the non-South African members of the World Gold Council and some have replied that they are reconsidering their membership. The interfaith committee of Canadian churches has demanded that the Canadian government take action to ensure the resignation of the Canadian members of the Council.

It is understood that the resulting publicity on this subject, in the metal trade magazines, has been most unwelcome to the Council.

The support groups of the World Gold Commission, in all countries that play host to a Council member, will bring pressure on that member to resign.

Alternative Gold Sanction strategies

THE SUBJECT OF GOLD SANCTIONS had been raised before the formation of the World Gold Commission.

A 1986 issue of the Economist magazine carried a cover story entitled 'South African sanctions – Go for gold'. This story set out one of the two alternative gold sanction strategies which differ from that of the World Gold Commission.

Briefly, the idea is simply that imports of South African gold should be banned. In the view of the World Gold Commission this story was rightly criticized as being naive. The article made no mention of the effect that the *announcement* of such a ban would have on the gold price or what to do about products made with South African gold.

In the Commission's view, a ban on all gold and gold products must be accompanied by a release of gold from national reserves to compensate for the loss of gold to the market. This will prevent the gold price from rising sharply thus making it far easier for the South Africans to achieve the same earnings by smuggling their gold.

The second theory is associated with a professor of economics at the University of Michigan, Stephen W. Salant. This strategy is based on the idea that reserves held by countries in demonetarised gold is an obvious anachronism. Professor Salant suggests that the US Federal Bank will eventually have to face the fact that its 10,000 tons of gold will have to be sold, so why not now and why not all at once.

The World Gold Commission feels that this strategy is not only naive but dangerous. It gives the impression that if this is the best an economics professor can do, then a gold sanction really must be impossible.

Selling the contents of Fort Knox would reduce the price of gold to the price of lead. This would bankrupt the economies of many gold producing countries who play a courageous role in the fight against apartheid and would render 40% of the world's central bank reserves worthless for many years.

It must be assumed that both these theories have been put forward with the best of intentions but both must be dismissed as serious sanctions proposals. Not to do so can only give comfort to the South African regime.

Any gold sanction must take care to prevent the world gold price from either rising or falling too much. The sanction designed by the World Gold Commission puts the control of the gold price in the hands of those that impose the sanction.

For more information, contact:
The World Gold Commission
13 Mandela Street
London NW1 ODW
Tel: **01-387 7966, 01-485 6344**
or **01-708 4702**

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