The Central Banks' Gold: A Story of Silent Expropriation

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In recent times, gold has become a key topic in the world's media. Interest in this yellow metal is warming up reports about the plans of Germany and other countries to repatriate their gold reserves from the USA and Great Britain, to where they were moved at various times.

Heated debates have begun regarding how responsibly central banks and finance ministries are storing the gold reserves that have been entrusted to them. There are also suspicions that there is less gold there than is being officially reported. This article is going to put forward the theory that there is virtually no gold left in the vaults of central banks in leading economically developed countries…

1. Gold auctions, or the tip of the iceberg

Over a period of four decades, central banks have disposed of their gold reserves. Two types of «disposal» have been used: a) metal auctions; b) covert operations.

Stronghold of Swiss National Bank

The simplest and most obvious is gold auctions, which in 1975 amounted to 36,700 tonnes of all the official reserves of all the countries and international organisations in the world. This represents the visible tip of the iceberg. Auctions began immediately after the gold-dollar standard was abolished, de facto initially and then de jure (in the 1970s). All the gold auctions from official reserves can be divided into three categories:

1. the early auctions in the second half of the 1970s to the beginning of the 1980s. These were auctions organised by the US Treasury and the International Monetary Fund;

2. auctions by central banks as part of the so-called «Washington Gold Agreement», which came into operation in the autumn of 1999; and

3. isolated auctions by individual central banks and international organisations in different years.

In the 1970s, the USA sold 530 tonnes and the IMF sold 732 tonnes – a total of 1,262 tonnes. In the 1980s, the world's monetary authorities made almost no sales or purchases of gold, its reserves were in a «frozen» state. In the 1990s, net sales of gold from the official reserves of economically developed countries amounted to the already considerable sum of 2,900 tonnes. At the end of 2000, the world's official gold reserves contained 3,600 tonnes less gold than in 1975.

At the beginning of the new century, sales were predominantly executed under the Washington Agreements. In September 1999, an agreement was signed in Washington between 17 central banks, including the European Central Bank, regarding sales of gold over a five-year period. It was subsequently called the «First Washington Gold Agreement» (WGA-1). Officially, it was declared that this agreement aimed to control the sale of gold by central banks in order not to bring down the gold market. In reality, its aim was the reverse – to oblige the central banks to sell the metal from their reserves in order to keep gold prices low. «Quotas» were determined for individual countries and over a period of five years, it was planned that a total of 2,000 tonnes of metal would be put onto the market. In September 2004, the agreement was reissued with the establishment of new sales rules for individual participants; this was called the «Second Washington Gold Agreement» (WGA-2).

Finally, in September 2009, the «Third Washington Gold Agreement» (WGA-3) appeared. Switzerland has sold the most gold as part of the Washington agreements (1,300 tonnes). After Switzerland are France, Great Britain and the Netherlands. Among other countries are Spain and Portugal. The average annual volume of central banks' net sales from 2001-2009 equalled 385 tonnes. In 2009, however, at the height of the financial crisis, there was a U-turn in the policies of central banks: they turned from net sellers of gold into net buyers. This U-turn was an attempt to offset the International Monetary Fund, which had sold 403 tonnes of gold from its reserves between September 2009 and December 2010.

Altogether, in the four years following the collapse of the gold standard, a total of nearly 6,500 tonnes of gold were sold from official reserves (net sales), which has reduced official reserves by approximately 18 percent. According to official data, these reserves are now only slightly above 30,000 tonnes.

2. Gold auctions are also theft

A detailed analysis of many of the gold sales operations by central banks shows that transactions are executed when they will be most profitable for the seller, not the buyer. Here are just two examples.

Between 1999 and 2002, when the world gold market was at its lowest point compared with the previous twenty years, the Bank of England sold more than half of the country's official gold reserves at 17 auctions, or nearly 400 tonnes of gold. The decision to sell was made by the then Finance Minister, Gordon Brown. At the beginning of the auctions, there were 715 tonnes of gold in the country's reserves and, by the end, a little more than 300 tonnes. The proceeds from the gold sales were converted into US dollars, euros and yen. An investigation into this affair began in 2010. At the time of the investigation (the spring of 2010), the price of gold was more than four times higher than the price when the gold auctions took place (1,250 dollars for a troy ounce as opposed to 256-296 dollars). It turned out that by then, losses from the sale of gold had reached approximately GBP 7 billion. It is interesting that between 1999 and 2001, the US Secretary of the Treasury was Larry Summers, who was in close contact with Gordon Brown and pressured him into deciding to sell the gold.

The other example is Switzerland. In 1999, Switzerland's official gold reserves equalled 2,590 tonnes, putting the country in second place after the US in terms of gold reserves. Between 2000 and 2005, the National Bank of Switzerland sold a total of 1,300 tonnes of gold. The average price of gold at that time was 350 dollars for a troy ounce (it ranged from 250 to 450 dollars). In the autumn of 2012, the price of gold on the world markets was approaching the 1,800 dollars mark, more than five times higher than the average price for the period 2000-2005. It is not difficult to calculate that the losses from this operation at the end of last year amounted to 60 billion dollars. This is several times more than the losses from the sale of England's gold reserves by Gordon Brown.

These examples conclusively demonstrate that the gold auctions were not sought after by the monetary authorities or the people of Great Britain and Switzerland but by the buyers, who prefer not to advertise themselves.

3. The 1990s: covert operations to remove gold from the vaults of central banks

In the 1990s, according to a number of experts, central banks began actively using their gold reserves to provide gold on lease (a type of credit operation).These gold operations were kept hidden from the public, including legislators and governments. One of the primary objectives of these covert operations was to suppress the price of gold, which indirectly continued to rival the US dollar. At that time, the financial oligarchy (the owners of the Federal Reserve System's printing presses) needed a strong dollar to actively buy-up assets around the world (this is the whole essence of financial and economic «globalisation»). Many experts set about uncovering the secret plans of the global financial oligarchy, which had subordinated most of the world's central banks to their own interests. The GATA (Gold Anti-Trust Action) organisation was even set up with the aim of uncovering the covert operations of the «gold cartel». The latter, according to GATA experts, was intended to raise the price of gold using the reserves of central banks and treasuries.

The cartel is made up of the Federal Reserve Bank of New York, the Bank of England, Wall Street banks (primarily the Goldman Sachs investment bank), and a number of other banks and financial companies, including European ones. To carry out certain operations, the central banks of other countries were also involved (the Bundesbank and the National Bank of Switzerland, for example) along with gold mining companies. Even such a reputable organisation as the Gold Fields Mineral Services (GFMS), which is closely tied to gold mining, has acknowledged that at the beginning of the 21st century, nearly 5,000 tonnes of gold listed on the balance sheets of central banks lies beyond their walls. A well-known gold expert in the West, James Turk, using both the monetary and customs statistics of Great Britain and the USA, concludes that in these two countries alone, the secret leakage of gold from official reserves between 1991 and 2002 totals 7,287 tonnes.

The estimations of well-known gold expert Frank Veneroso, who published an outstanding report on the gold market in 1998 entitled «The 1998 Gold Book Annual», are even more dramatic. In his report, Veneroso comes to the conclusion that the sale of gold by central banks has artificially suppressed the total volume of demand for gold by approximately 1,600 tonnes per year (with an annual supply to the market of 4,000 tonnes). According to Veneroso's calculations, of the 33,000 tonnes the central banks officially had at that time, only 18,000 tonnes was accounted for by physical gold. Outside of the central banks, nearly 15,000 tonnes of gold was being circulated which had been handed over to external organisations by way of leasing and credit transactions as well as «swap» operations (the exchange of gold for other assets subject to the conditions of the reverse exchange of gold). In principle, Veneroso's estimations do not contradict those of James Turk. They are greater, since they not only take into account the removal of official gold from Great Britain and the USA, but also the majority of leading central banks.

4. The accounting tricks of central banks

If central banks in the West really are leasing out their physical reserves, they would not have to disclose information about the specific amounts of gold leaving their vaults. According to a document on the European Central Bank's (ECB) website regarding the statistical treatment of the Eurosystem's international reserves, current reporting guidelines do not require central banks to differentiate between gold in their safes and gold leased out or swapped with another party. The document states that, "reversible transactions in gold do not have any effect on the level of monetary gold regardless of the type of transaction (i.e. gold swaps, repos, deposits or loans), in line with the recommendations contained in the IMF guidelines». In accordance with current reporting guidelines, therefore, central banks are permitted to continue carrying the entry of physical gold on their balance sheet even if they have swapped it or leased it out entirely. This can be seen in the way that central banks in the West refer to their gold reserves.

The British government, for example, calls their gold reserve «Gold (including gold swapped and on loan)». This is the exact wording used in official statements. This is also what happens in the US Treasury and the ECB, which call their gold reserves «Gold, including gold deposits», «Gold, including gold swapped» and «Gold, including deposits and gold swapped». Very few central banks clarify in their reports exactly what percentage of their official gold reserves are stored as physical metal, and what percentage has been loaned out or swapped and so on. It would hardly strengthen the reputation of a central bank if they admitted they were leasing their gold reserves to «bullion bank» intermediaries who were then taking the gold and selling it to China, for example. However, the figures definitely give reason to suppose that this is exactly what has been happening. It is more than likely that the central banks' gold has disappeared and the bullion banks that sold it have no real chance of getting it back.

(To be concluded…)

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