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10 DOWNING STREET

From the Private Secretary

7 October 1985

GOLD, JMB AND SOUTH AFRICA

Thank you for your letter of 4 October.

The Prime Minister agrees that JMB should be allowed to take part in a new swop if they can but that the Bank of England should be discouraged from bringing pressure to bear on other members of the gold market to agree to JMB's participation.

I am copying this letter to Len Appleyard (Foreign and Commonwealth Office).

(Charles Powell)

Mrs. Rachel Lomax,
H.M. Treasury.

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Prime Minister 26



Yes

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

Agree
- to let JMB take part in a new swap if they can; but

- to discouraging the Bank of England from bringing pressure to bear on other members of the gold market to allow this.

Yes
not

4 October 1985

CDP
kex.

Charles Powell Esq
10 Downing Street
London SW1

Dear Charles,

GOLD, JMB AND SOUTH AFRICA

There is a long-standing agreement between the members of the London gold market (including Johnson Matthey Bankers) and the South African Reserve Bank to swap South African bullion for US dollars, the members of the gold market in effect providing a dollar loan against the security of gold held in London. The agreement was last renewed in 1981 and is due to come up for re-negotiation this month. At the time of JMB's rescue last October JMB's commitment was effectively taken over by another gold market member, but on a private and temporary basis.

This is potentially awkward. On the one hand there is the Prime Minister's assurance of 3 September to Mr Kinnock that "there is no question of the Bank of England giving financial support, directly or indirectly, to the South African Government in present circumstances", and JMB's status as a wholly-owned Bank subsidiary. On the other hand, it is not our policy to impose economic sanctions on South Africa.

JMB's management feel they are in a financial position to take part in a new swap. Moreover the Bank are clear that, from a commercial point of view, JMB's status as a full gold market member in good standing makes participation in any re-negotiated swap desirable. JMB's market standing, and therefore sale value, could be slightly diminished by exclusion. No doubt for very similar reasons, other gold market members have now expressed some resistance to JMB's participation in a new swap.

The Foreign Secretary has been consulted. I understand he agrees that it would be wrong for the Bank in any way to seek to prevent JMB from participating in a swap, on the basis that this is



a commercial decision, and that the new swap would be a continuation of an existing arrangement. This is the same approach that we took to the newly signed contract between BNFL and the South African Nuclear Fuel Corporation. The Chancellor fully agrees.

However the Bank have now proposed that, for the reasons given in paragraph 3 above, they should actively seek to persuade the other gold market members to agree to JMB's participation in a new swap. The Chancellor thinks this would certainly become public knowledge and that it would be bound to be misinterpreted as the Bank giving active help to the South Africans (and inconsistent with the letter to Mr Kinnoek).

Subject to the Prime Minister's views, therefore, the Chancellor thinks that the Bank should be asked not to seek to bring its formidable pressure to bear on the other members of the gold market; but that if JMB manage to persuade the other members of the market to let them participate in a new swap, then they should of course be allowed to do so.

Whatever the outcome, the right presentation would seem to be to treat this as a purely commercial matter between the parties concerned, and (if JMB's participation is agreed) as a continuation of an existing arrangement.

I am copying this letter to Len Appleyard (FCO).

*Yours ever
Rachel*

RACHEL LOMAX
Principal Private Secretary



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PRIME MINISTER

GOLD - JMB AND SOUTH AFRICA

As the Treasury letter below implies, it is arguable that the course of action proposed

- JMB taking part in a new swap; but
- discouraging the Bank of England from bringing pressure to bear on other members of the gold market,

is inconsistent with your assurance in your letter to Mr Kinnock that

"there is no question of the Bank of England giving financial support, directly or indirectly, to the South African Government under present circumstances".

After all, JMB is wholly owned by the Bank, its Chairman (David Walker) is a Director of the Bank, and its Board are appointed by the Bank.

None of this is to argue against Treasury and FCO advice, which I support. If the transaction became public knowledge (Treasury tell me that Dr Owen has good sources within the gold market) we can argue that:

- JMB is undertaking a commercial transaction.
- which is exactly the same as other members of the bullion market.

Therefore agree

- to let JMB take part in a new swap if they can,
- to discourage the Bank of England from bringing pressure to bear on other members of the gold market to allow this?

N.L.W

NIGEL WICKS

Yes not

4 October 1985