

The whole subject of gold in its relation to the prosecution of the war is dealt with in this chapter. In spite of many attempts to bring the metal, as money, into discredit between the first and second world wars, gold proved to be the one certain means, when others failed, of obtaining the hard currencies in which a large proportion of the huge war purchases of the British Commonwealth were payable.

The first  $1\frac{1}{2}$  years of war had reduced the E.E. ~~gold~~ <sup>Account's</sup> gold to a mere £30 million when, in March 1941, Lend-Lease began to give four years of relief. Before and after its operation there was an embarrassingly large and increasingly unfavourable balance of payments to be met. It was to this end, of course, that Exchange Control evolved and functioned.

From the outset it was evident that the part played by gold would be all important, and that it would be necessary to bring, directly or indirectly, every available ounce into the Control. And whether by the sale of some other asset, by the utmost economy in its use in industry, by encouragement of its production in the Sterling Area or by avoiding the shipment of reserves and the attendant risk of loss, its conservation or efficient use became an abiding responsibility. The following sections, therefore, describe the essential features (and the Appendices ... give a more detailed account) of arrangements for the purchase of newly mined gold, its most effective distribution according to circumstances, ~~and~~ the collection of existing monetary stocks under the Defence (Finance) Regulations and the restriction of sales to the Trade.

PURCHASES

There was little dispute as to the importance of securing the maximum possible addition to Reserves both from newly mined gold and from a number of monetary stocks, widely distributed and mostly small - in short, wherever gold was available or inducement was likely to be effective. Arrangements to this end with individual countries etc., summarised below, are described more fully in Appendix .

Encouragement of Empire Production

The need to stimulate production in the Dominions and Colonies, where there were early signs of a falling off, was a question always at the back of the minds of the Authorities, from time to time coming forward for review in the light of competing forces for the supply of labour and equipment.

In general, South Africa was left out of the discussions because (cf. memorandum by Prof. D.H. Robertson, July 1941) it was taken for granted that the South African Government's policy was neither to allow South African output to fall below about  $14\frac{1}{4}$  mn. fine ounces a year nor to increase it by concentrating upon high-paying ores or other ultimately wasteful means.

The Colonial Office took the view that it was easy to exaggerate the importance of gold as a dollar earner: other metals or minerals - manganese, tin, bauxite and oil - might, as dollar earners, have an equal claim on the steel, equipment and engineers available. The Bank would go no further than agree "..... with some misgiving, that priorities in favour of gold production, while ranking as high, should not rank higher than priorities in favour of tin, manganese, coal, oil, etc."

(Lr. Bolton to Robertson 27.2.41)

However

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<sup>1</sup>In fact, it fell to a level of about  $12\frac{1}{2}$  mn. in 1944/5 and to under 12 mn. in 1946.

However, in April 1940 priority for steel requirements was recommended for all West African mines in production; while in August 1941 relief to E.P.T. was extended to gold (among other) mining companies under the Finance Act of that year, by allowing additions (up to 30%) to standard profits where output above normal rates was deemed to be in the national interest. Much later (July 1945) the Ministries of Fuel & Power and War Transport were persuaded to improve supplies of fuel oil to West Africa.

Towards the end of 1945 the Bank (Lr.6.4.45 G.L.F.B. to E.R-D.) suggested to the Treasury that "a comprehensive attempt is made to encourage gold production in all areas where the U.K. obtains full benefit in order that the maximum gold production is available to help solve the scarce currency problem". Statistics for 1946 indicated the beginning of a revival of Empire production other than in South Africa and Southern Rhodesia, e.g., the Gold Coast produced 586,000 ounces against 539,000 in 1945; Australia 823,000 as compared with 656,000. While the estimated aggregate for remaining British territories fell from 541,000 to under 500,000, this excludes, in the absence of statistics, the output of New Guinea, which before Japan entered the war produced upwards of 250,000 ounces a year.

#### South Africa

Clearly, a thorough understanding with South Africa was of the utmost importance; and in that direction the Control had the advantage of building on to a series of agreements for the disposal in London of South African production which went back for a long time.

In September 1938 (before Munich) the Bank had taken the precaution to set aside gold in Pretoria, paying the London price less the usual packing, insurance, etc., charges. In about six months they had acquired some £30 million in this way, and decided (cable 27.3.1939) not to go beyond £35 million.

On the 9th September 1939 the Treasury gave the Bank a general authority to buy the current output of South Africa,

Southern

Southern Rhodesia and West Africa for the Exchange Equalisation Account. Two months later the South African Reserve Bank, whose normal shipments of gold to London to cover South African current requirements of sterling had a year earlier been interrupted on account of war risks, were again in difficulties and asked the Bank to resume setting aside in South Africa, to which the Bank agreed.

Early in 1940 the whole question of Empire gold was reviewed. No change in the London price (fixed at 168/- per fine ounce at the outbreak of war) was deemed desirable at the time, and a new Agreement with South Africa came into force on 27th March. The Bank of England now took over (at 168/-) all gold delivered to them at the port of shipment, i.e., all gold South Africa was willing to sell during the war<sup>f</sup>. The price was only to be changed if the U.S. gold price or the official sterling/dollar rate were changed. The Reserve Bank agreed, subject to minor safeguards, e.g., to enable them to sell reasonable amounts to third countries.

This Agreement remained in force for 4½ years. At the end of September 1944 the Reserve Bank cabled to enquire whether any adjustment in the London price of gold was being considered.

On the 5th October the Governor replied to the effect that the Reserve Bank would be aware that the Bank's price of 168/- per fine ounce in South Africa was based on the dollar rate of 4.03 and the U.S. buying price for gold, and that the Bank had been prepared to buy any gold produced in South Africa throughout the war and to accept full responsibility for its shipment to London irrespective of fluctuations in war risk insurance. The Bank believed that the total cost of shipment since 1939 had not been less than 4%.

Nevertheless, in spite of continuing shipping and other difficulties and having regard also to likely post-war costs, the Bank had been reconsidering their gold buying policy, and they felt that some modification would be needed in the near future

<sup>f</sup>cf. 1914/18 arrangement under which South African gold producers bore charges up to 25/- an ounce.

future. Subject to Treasury approval, it was the Bank's intention to fix the new London price in close relation to the dollar/sterling rate (in which they foresaw no likelihood of an early change) and the U.S. price for gold (\$35), taking into account probable post-war shipping and insurance charges. There were a number of political and other problems which had not yet been fully discussed. As soon as the Governor was in a position to inform the Reserve Bank of the arrangements it was hoped to make, he would do so. (Full text of cable in Appendix )

On the 8th June 1945 the Deputy Governor cabled to the Reserve Bank saying that the latter were no doubt already aware that H.M. Government had decided to publish on the 9th June a new buying price of  $172\frac{3}{4}$  per fine ounce ( $40\frac{3}{4}$ d. for sovereigns and  $8\frac{3}{4}$ d. for U.S. dollars). The change in price was simply a technical adjustment occasioned by the end of hostilities in Europe, and one which would accord more closely with a peace-time shipping parity to New York. For gold produced in the Sterling Area and offered to the Bank the new price would act retrospectively from the 1st January 1945. Other Empire central banks and the Federal Reserve Bank of New York were similarly informed.

#### Accommodation and Transport

In December 1940 the Reserve Bank advised the Bank of England that the growing stocks of Exchange Equalisation Account gold were beginning to press on available storage space. The Bank agreed accordingly that when accommodation in Cape Town and Durban became exhausted the gold might be held in Pretoria and Johannesburg and the Bank would meet any additional expenses.

In October 1941 the problem of shipping the E.E.A/c. gold in South Africa to the U.K. and elsewhere came under review by the War Office, the Treasury and the Bank. As a result of these discussions it was arranged that the gold should be transported in His Majesty's ships as and when opportunity

offered

offered. This arrangement continued until the autumn of 1945 when, because of the shortage of naval tonnage available, the Bank entered into an agreement with the Union Castle Line to carry up to £3,000,000 per voyage in mail vessels and up to £500,000 in cargo vessels. Shipments began in February 1946.

#### Rhodesia

(Output: Southern Rhodesia 1938 814,000 fine ounces)

Southern Rhodesian gold reached London via the Cape; the Standard Bank and Barclays (D.C.& O.) acting as agents. In January 1940 it was alleged (unofficially on behalf of the Southern Rhodesian Government) that shipment to New York direct - in practice impossible at the time - would secure a better price. It was this enquiry which raised the wider question of Empire gold referred to above; and Rhodesia was next after South Africa to benefit. An Agreement (24th April 1940) embodied the offer to purchase the entire output of both Northern and Southern Rhodesia, in fine bars boxed at the South African Reserve Bank, Durban or Cape, at the official London price, payment to be made on receipt of advice from the S.A.R.B., and the sellers to pay costs to the sea-board and handling charges at the S.A.R.B.

In June 1941, following information from the Reserve Bank that N.Rhodesian gold was still being sold through the commercial banks, appropriate steps were taken in London and by the two banks concerned in Rhodesia, who gave assurances that thenceforward the terms of the 1940 Agreement would be observed. Some of the N.Rhodesian gold went via the Standard Bank, Bulawayo, a practice approved as being "in essence within the scheme".

<u>West Africa</u>	Output 1938 about 750,000 fine ounces
<u>East Africa</u>	" " 170,000 " "

In June 1940 the new arrangement with South Africa and Rhodesia was extended to include West Africa (through Barclays (D.C.& O.) and the British Bank of West Africa) and East Africa (through Barclays and the Standard Bank).

After

After the entry of Italy into the war Gold Coast gold was no longer shipped to London, but by sea to the Cape. The producers received the London price of 168/- less freight to the Cape, refining, assay and boxing charges. Payment was made in London, advances against assay advices from the Gold Coast being the common procedure. These arrangements were interrupted early in 1941 owing to lack of ships, and the Treasury agreed that advances might be made against deposit of gold at the local banks. In June 1942 shipment to London by naval vessels began.

#### India

The mines output of India found its way into the Bombay market, and the question of buying it direct did not arise. Shortly after Munich, and with some demur at first on the part of the Governor of the Reserve Bank, the Bank of England began to buy gold in Bombay, and had accumulated about £10½ mn. by the end of June 1939. The price paid had to take account of the cost of shipment to New York and was about 6½d. per ounce below the London price. From 5th September 1939 the Bank of England asked the Reserve Bank to buy for their account gold on offer in Bombay at prices lower than the equivalent of 168/- for good delivery bars or 39/3d. for sovereigns in good condition. The intention at the time was to ship such gold regularly to San Francisco. At the same time the dollar proceeds of other sales were to be taken over by the Reserve Bank for the Control.

In June 1940, at the time of the huge general shipments across the Atlantic, an arrangement was made to take over about £4½ million of India's gold in London against the release of its equivalent from our gold in Bombay.

From May 1941 military requirements of sovereigns for secret service purposes were obtained from the Reserve Bank, also against releases from the Bank's bar gold in India.

There were no further developments of importance in connection with purchases: in 1943 the traffic began to move in the other direction and by the end of that year the U.K. had sold nearly a million fine ounces in India, realising some £14 mn.

At

At the end of 1945 the Bank replied to a suggestion by the Treasury that we should ship home our Indian holding (also about £14 millions) that any advantage in doing so was likely to be "vastly outweighed by the dangers of comment and misinterpretation."

### Australia

The entry of Japan into the war posed the question as to which was the best way to dispose of the gold output of Australia, Papua and New Guinea,\* which had hitherto been delivered to the Commonwealth Bank in Sydney and shipped by them to the U.S.A. Would the American authorities, or perhaps the Bank of England buy it and hold it at the Commonwealth Bank? The Bank of England promised to discuss the matter with the U.S. authorities and meanwhile made a proposal, which the Commonwealth Bank accepted, to buy and hold the gold in Sydney, refined and boxed for shipment. On its delivery in Sydney the Commonwealth Bank in London were to be paid (at 168/-). An undertaking was given that Australian dollar requirements would be met in the normal manner.

To the gold in Sydney was added gold from New Zealand and Fiji and also nearly £250,000 Bank of England gold transferred from Singapore after Pearl Harbour.

The Commonwealth Bank discontinued sales to the Bank of England after December 1943, and began to build up their own reserves (with a target of £10 million sterling) paying prices based on London and New York quotations. This figure was reached in June 1945 but the Commonwealth Bank continued to add to their reserves from Australian production.

At the end of 1945 arrangements were made to bring home the E.E. Account gold in Australia by King's ships. A first consignment of £3,000,000 left Melbourne on 2nd January, 1946.

Other producers: Ceylon (small); Singapore; Cyprus; British Guiana.

Details of the arrangements for bringing in these individually not very large contributions will be found in Appendix...

Many

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\*Soon, of course, to be in the fighting area.

Many difficulties were encountered, e.g., with Ceylon, to arrange a fair price in the face of smuggling; with Singapore, again some confusion regarding price, but also lack of transport; with Cyprus (mostly by-product gold), besides price complications special and not altogether satisfactory arrangements for refining, and at one period (in 1944) local dealings regarded by the Bank as black market.

Ultimately all local purchases of gold in Ceylon were offered to the Reserve Bank of India; and the arrangements for refining (in S.Africa) enabled the Bank to acquire the greater part of the Cyprus output down to the end of 1945. Malayan production, of course, passed out of British control after 1941.

#### British Guiana

During the war the Colony produced about 20,000 fine ounces a year. Exports were sold through the local banks (Barclays and Royal of Canada) to the U.S.A. and Canada for dollars which were surrendered to the Control.

#### New Zealand and Fiji (1945-46)

The greater part of New Zealand production (about 150,000 fine oz) was bought by the Commonwealth Bank; the output of Fiji (100,000 oz.) was shipped to the U.S.A. for dollars. The advisability of making other arrangements for the disposal of this gold came under discussion shortly after the end of the war, following reports of attempted sales to Egypt by Australian and New Zealand producers, to take advantage of free market prices. In the course of an exchange of cables between the Bank and the Commonwealth Bank, (during which the Bank's leading principles - prevention of sales at bazaar prices and realisation of maximum benefit to the Sterling Area as a whole - were stressed), it was proposed that the Bank should buy both the New Zealand and Fiji gold at 172/3d. in Australia, refined and ready for shipment. In the event it was agreed that the Commonwealth Bank should continue to acquire the New Zealand gold; and that Fiji should continue to ship to the U.S.A., where a slightly better out-turn was realised.

Russia

Russia

In 1937 the Bank agreed to handle shipments of gold from the U.S.S.R. to London, and opened an account in the name of the State Bank of the U.S.S.R. (Gosbank), the Moscow Narodny Bank acting as the Gosbank's agents. On 21st April the first consignment (£1 million) arrived, and by September some £14 million had been bought for H.M.Treasury. The Gosbank continued to sell through the Bank, sometimes for conversion into dollars, until just before the outbreak of war, when they asked for their balance of just under 64 million ounces to be transferred to the Moscow Narodny Bank.

In September 1941 a request that the Bank should buy about £750,000 gold in Murmansk and make a temporary advance in dollars was not regarded favourably, but diplomatic representation led to an agreement to accept gold delivered in North America (also in Karachi or to the captain of a naval vessel). There was some argument over the price offered in San Francisco —  $173/2\frac{1}{4}d$ , the U.S.Mint price plus handling, melting, etc. charges — but the U.K.Ambassador in Moscow and H.M.G. supported the Bank.

A first shipment by naval vessel arrived at Thurso at the end of October, and early in 1942 further consignments<sup>\*</sup> to meet payments due or to become due on goods delivered to Russia. These were followed by further shipments by similar means, until in November 1945, when the Bank suggested that, now the war was over and naval vessels were no longer available, they should take delivery in London at  $172/3d$ . Revived argument over the price was at length resolved by the Gosbank's acceptance.

About £3½ million gold at Murmansk remained there until brought home in June and July 1947.

Other gold abroad

Apart from the output of the mines there were a number of comparatively small stocks of monetary gold scattered all over the world. Arrangements were made to purchase gold in the Channel Islands (early in 1940), Malta, Palestine, Mauritius, British Honduras, Newfoundland, and from the Middle East and East African commands. (About £100,000 Italian gold from Abyssinia was sent to the S.A.R.B.). As well as sovereigns the receipts included a few U.S.eagles.

Coin

\*For which the Russians claimed, on their own assay, fineness of .9999 for all bars; but double assays in London of 1 bar in 20 yielded lower figures (down to .9994). As time went on the Russian fineness improved.

Coin in the U.K.

The greater part of the gold held by banks had been collected in 1931 when the Bank of England had exercised its power (under the Currency and Bank Notes Act of 1928) to call in amounts in excess of £10,000. There still remained some £200,000, however, which in September 1939 the bankers were asked to surrender and which took about a year to collect\*.

By the end of 1945 the Bank had received about £3½ million (bullion value) in all, i.e. from the bankers and, either directly or through the six authorised bullion dealers (who paid 39/3d. for sovereigns), from the general public. Receipts in the first year of war were £2 million.

A good deal of coin which should have been surrendered through these channels was evidently sold to jewellers (at prices as high as 57/- in 1942). It is thought, however, that the bulk of the coin thus collected eventually found its way into the Bank.

Other stocks in the U.K.: "hoards"

Since the Bank obtained something over a quarter of it (the rest going overseas) it is perhaps appropriate to deal here with changes in the amount of other gold held outside the Bank - that is to say, with that not easily defined stock which for convenience we have been accustomed to call "hoards"<sup>†</sup>. These stocks diminished rapidly throughout the year 1939 and down to the time when the great transatlantic outflow in 1940 came to an end.

In the

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\*£218,000 during the first year of war.

<sup>†</sup>The measure of this (after allowing for a relatively insignificant absorption by industry) is the difference between net imports or exports and the net increase or decrease in gold held at the Bank (Issue Dept., Treasury and set aside).

In the first seven months of 1939 they fell by about 7.7 million fine oz. (£64 million at 168/-) and then, during the first year of war, by a further 10.4 million oz. (£87 million); £150 million from January 1939 to August 1940. Over this same period net exports amounted to just over £1,050 million, of which £900 million came from the Bank's vaults and the remainder from outside.

According to Bullion Office records about £43½ million of the hoarded gold came into the Bank (under D.(F.)R.) during the first year of war, and £45½ million down to the end of 1945. To trace the £150 million by which hoards were diminished either directly to exports, or through the gold held (on one account or another) by the Bank, or into the Bank to be retained there, would be impossible. It must suffice to say that it satisfied the balance of net exports not shipped by the Bank.

#### Safe Deposits

As a side-light on the generally unidentifiable holdings of foreigners the investigation of a particular case seems worth recording. It was known that large amounts of gold were held in safe deposits and safes rented from banks, though no records of these were kept. In July 1940, on information received in September 1939 of a deposit by German interests under a neutral name, the Government took the responsibility of forcing four strong rooms of the City Safe Deposit, which act resulted in £3.1 million gold being handed over to the Custodian of Enemy Property.

After much discussion in 1940 and 1941 of the rights and wrongs of applying this procedure generally, it was decided "against" and the subject dropped.

#### Jewellery, etc.

Early in the war a good deal of thought was given to the possibility (and best method) of collecting gold from a stock of manufactured articles, mainly in private ownership, with a gold content variously estimated at £60/400 million; say £250 million or £5 per head of the population. The best course seemed to be through the medium of gifts, and a few were in fact made; but there is no estimate of the value of the gold so obtained. Requisitioning would have involved difficulties of valuation, payment, exceptions, etc.; and nothing was done in that direction.

DISTRIBUTION : LONDON AND OVERSEAS

An order of Court of 14th January 1932 had permitted the holding of the Issue Department gold abroad; and from February to November 1933, and again from November 1938 to February 1939, about 5 million fine oz. had been so held. Since 1932 the Exchange Equalisation Account gold (in amounts varying up to nearly 24 million oz.) was held overseas. The Bank's overseas holding in November 1938 - February 1939 was the result of a transfer of the Treasury's gold in South Africa, returned to the E.E.Account in March, when the embargo on Czech assets in the U.K. seems to have given rise to feelings that this gold would be safer in the Government's keeping, as being free from any risk of attachment.

In July 1938, all E.E.Account gold in Europe having been brought home. the Treasury agreed to build up stocks in Ottawa, Pretoria. Bombay and Buenos Aires over a period of six to eighteen months. At times during the course of the war gold was held at various other places, among which New York was by far the most important. Gold Set-Aside in London for Central Banks was also sent over the Atlantic for safer custody and returned when the danger of invasion had passed.

London

There were shipments of Federal Reserve Bank (and later Treasury) gold to New York after the Munich crisis, continuing into the spring of 1939.

From 1st March 1939 Issue Department gold was valued at the current market price. Two days after the Declaration of War both the Issue Department and Treasury gold were re-valued at 168/-d.(see "Defence (Finance) Regulations") and remained unaltered until 9th June 1945, when the price was raised to 172/3d. (see "Gold Purchases").

Transfers

Transfers from the Bank to the E.E.Account took place as follows:-

6th Jan.1939	47.1 mn. F.oz.		£200 mn. @ 85/-
6th Sept.1939	22.1 " "	in bars	} £279 mn. @ 168/- (£47 mn. face value)
	11.1 " "	sovereigns	
		(£47 mn. face value)	

leaving about £100,000 only in the Issue Department.

By the end of the first war year the London Reserves had acquired over £44 million in bars and coin paid in under the Defence (Finance) Regulations.

In the last fortnight of May 1940 the Bank packed £400 million of gold for shipment abroad. By 5th July only £17 million Treasury gold and £48 million Set-Aside gold remained in London\*. By the end of the first year of war total shipments had amounted to just on £700 million:-

	<u>o/a H.M.T.</u>	<u>o/a Central Banks, etc.</u>
To Canada	330	232
" New York	82	53

In 1942 and 1943 about £76 million was received from South Africa, £12 million from West Africa and £8 million from Argentina. The feature of 1944 was an inflow from New York of £166 million Treasury gold, the conversion of dollars accumulated since Lend-Lease had begun to operate. In 1945 a further £17 million was received from South Africa and £4 million from Russia.

#### Exports

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\*At the beginning of the war the Central Reserves had amounted to £324 million and Set-Aside gold to £286 million.

Exports in 1941 amounted to £9½ million (£8½ million to Canada) but in 1942 and the first half of 1943 were negligible. In 1943 sales to India and the Middle East began; and from August 1943 to the end of 1945 India took £63 million and Egypt £11 million.

The following are the figures from September 1939 to December 1945, in ounces, valued at the prevailing rate for the period, viz. 168/-d.:-

	<u>Imports</u>		<u>Exports</u>		<u>Net Import + Export -</u>	
	<u>mn. F.oz.</u>	<u>£mn.</u>	<u>mn. F.oz.</u>	<u>£mn.</u>	<u>mn. F.oz.</u>	<u>£mn.</u>
1939 (Sept.- Dec.)	1.6	22	9.2	77	- 7.6	- 55
<u>Year</u>						
1940	6.5	55	81.9	688	- 75.4	- 633
1941	.7	6	1.1	9	- .4	- 3
1942	6.9	58	.1	1	+ 6.8	+ 57
1943	4.7	39	2.3	19	+ 2.4	+ 20
1944	22.0	185	6.3	53	+ 15.7	+ 132
1945	2.8	23	.6	5	+ 2.2	+ 18

The total shipped, inwards and outwards, over this period amounted to nearly 147 million troy ounces (about 4,460 tons

avoir-dupois

dupois) with a value of £1,240 million. £1,120 million were "special" shipments by warship or specially chartered liner. The total of gold set-aside for Central Banks, etc. in London varied as follows:-

	<u>mm. F.oz.</u>	<u>£mn. (@ 168/-d.)</u>
End of 1939	29.9	251
1940	1.3	11
1941	1.2	10
1942	7.3	61
1943	7.7	65
1944	10.1	85
1945	21.0	176

A table showing the disposal of the reserves between London and the various overseas locations forms part of Appendix.....

#### Ottawa

In April 1938 the Bank saw the advisability of building up gold stocks in North America against possible shortages of liquid funds there. They had about £14 million at the Bank of Canada and preferred to add to this rather than hold a reserve in the United States. They arranged to hold up to at least \$250 million with the Bank of Canada,\* beginning with some of their holding of about £33 million at the Bank of France. In August the Bank of Canada suggested that U.K. gold should be despatched to New York and set aside for their account at the Federal Reserve Bank against its equivalent set aside for the Bank of England in Ottawa. The Munich crisis, however, precipitated sales for dollars of the gold shipped to New York. Substantial shipments to Canada began in the Spring of 1939 (about £40 million, of which, however, £30 million was gold owned by the Bank of France). In May further large consignments were carried by cruisers escorting the King and Queen on their visit to Canada; and by the end of June the Treasury held over £80 million with the Bank of Canada.

At the outbreak of war it became desirable to ship as much gold as possible (including £40 million in South Africa) to North America. By Naval vessel, and later by liner, some £200 million had been moved across the Atlantic by the end of May 1940. Then followed the

\*and incidentally to exchange some U.S. gold coin against sovereigns, which Canada had been selling in London at a premium.

the intense activity under the threat of invasion, culminating in the first week of July with nearly £200 million afloat - £41 million in one vessel alone. Shipments to Canada up to the signing of the Lend-Lease Act in March 1941 amounted to over £330 million. 426

In November 1942 it was agreed with the Treasury that customers' gold which had been transferred to Ottawa should be taken over by the E.E.Account against its equivalent set aside in London - an operation aptly described by the Chief Cashier as "repatriation by book entry". This added about £12½ million to reserves in Ottawa, putting them up to nearly £48 million\*.

The greater part of the Ottawa stock was sold against dollars in New York, some to the National Bank of Switzerland for francs and a small proportion elsewhere. At the end of 1945 the E.E.Account held about £60 million at the Bank of Canada.

#### New York

Undesirable for many reasons, the holding of gold in New York was to a large extent obviated by the availability of Ottawa. In the Autumn of 1938 (after Munich) twenty-five shipments to New York raised about \$300 million. There were further sales in the Spring of 1939 and again in August (about £30 million). On the last day before the war the New York holding had fallen to £1 million. Between then and the signing of the Lend-Lease Act, New York received some £91 million from London (of which £10 million o/a Central Banks) and £67½ million from the Cape. The flow back to the U.K. in 1943/44 has been recorded under "London". In 1944 total earmarking in New York amounted to £200 million, but by the end of that year only £9 million Treasury gold remained there. At the end of August 1945, the amount was £ million.

#### South Africa

At the outbreak of war the Treasury held £39 million gold in South Africa. At the end of November 1939 shipments to New York began via Sydney and Vancouver. Using all available lines, however, Sydney

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\*Two large holdings remained earmarked in Ottawa (see Appendix.....).

Sydney was a bottle-neck and by October 1940 the holding in South Africa had risen to £42 million and was increasing by £10 million a month. (At this time gold was being used up in North America at a rate of £50 million a month.) With the presence of a German raider in the Indian Ocean shipments to Sydney ceased. The situation was relieved by three things:-

- (a) an exchange of £18 million customers' gold in Ottawa for gold set-aside for them in South Africa;
- (b) two secret shipments to New York (about £67 million in all) by U.S. Naval vessels; and
- (c) the exchange of £25 million Belgian gold in Ottawa for its equivalent set-aside in Durban.

These, however, gave only temporary relief.

In November 1941 a fairly regular flow of gold by Naval vessels from the Cape to London began, and just on £80 million had reached London by September 1943, after which no Naval vessels were available until January 1945; and by the end of 1944 reserves in South Africa had risen to over £200 million, involving the extension of the Reserve Bank's accommodation to five offices: Cape Town, Pretoria, Johannesburg, Durban and Port Elizabeth. Meanwhile, of course, the pressure to convert into dollars in North America had relaxed.

#### Bombay

By the beginning of the war the Bank had acquired, at prices fixed by them, £12.7 million gold in Bombay, through arrangements made with the Reserve Bank of India in the autumn of 1938. The arrangements continued during the war. Shipments were made via Hong Kong to San Francisco (F.R.Bank).

In November 1939 the Reserve Bank offered to exchange their London holding against the release of Bank of England gold in Bombay. The offer was refused, but was accepted when re-opened in June 1940. Political reasons were against holding Indian gold in London when the U.K. Reserves were being taken to America for safety, and the Treasury took over the £4½ million held by the Reserve Bank, against the release of its equivalent from their Bombay holding.

Buenos Aires

Buenos Aires

In June 1938, to avoid further shipment of gold, the Bank provided the Argentine Central Bank with about £1 million sterling against gold set-aside in Buenos Aires, to which some subsequent additions were made. The holding, never large, was diminished by shipment to New York after Munich. £1.8 million remained, against which in October 1943 the Argentines offered gold in New York where, but for political reasons, we should have preferred to have it. It remained in Buenos Aires until June 1946 when it was released against bars (despatched on Argentine order) received from the Bank of France.

Australasia

The gold held in Sydney, Melbourne and Broken Hill was partly of Australian production, partly gold transferred from Singapore, and also to a large extent gold on its way from South Africa to the U.S.A., held up through lack of Pacific shipping facilities. The total increased steadily from the autumn of 1941, reaching £33 million at the end of 1943 and then remaining unchanged until the end of 1945, when shipments by naval vessel to London began (see "Gold Purchases").

New Zealand held the gold salvaged from the "Niagara":  
for account of which salvage see Appendices . . . . .

SALES

SALES

Gold was sold for three main purposes, and a fourth which by comparison was insignificant:

- (i) To obtain U.S. and Canadian dollars and other hard currencies;
- (ii) To settle with other (mainly non-sterling area) countries their sterling balances in excess of amounts fixed by various payments agreements;
- (iii) To combat inflation, and later to meet military expenditure, in the Middle East and India;
- (iv) To supply the needs of the industrial arts in the U.K.

In the first two years sales under (i) were by far the most important. From September 1939 to September 1941 (Lend-Lease began in March 1941) purchases of U.S. and Canadian dollars against gold amounted to over £640 million (at 168s.). £17 million were also sold for florins and belgas; and in 1942/45 £44 million for Swiss francs.

Under (ii) sales continued throughout the war, but did not exceed £40 million in any one year.

It was at first thought that industrial needs could be met from scrap metal, but in 1941 it was found necessary to release a small amount (through bullion dealers) and about £200,000 was sold in that year. Repeated representations from the trade, however, always at first resisted, led to a steady increase in the amount sold, which rose to £1½ million in 1945 and amounted to £4 million for the whole period of the war. Negotiations with the market firms etc. are described in Appendix ..... From September 1939 to December 1945 total sales under (ii) and (iv) were £151 million, viz:-

To Sweden	52
Persia	27
Bolivia	22
Argentina	10½
Turkey (of which 11 loan)	15½
Spain	4
Other countries (none over 3)	16
London market	4
	<hr/>
	151
	<hr/> <hr/>

Further details of these purchases are shewn in Table .... at the end of this chapter and also under "Use of Reserves".

Sales under (iii) involved important issues, an adequate account of which requires a long section to itself and forms part of Appendix .....

It should at once be said that the Bank never favoured anti-inflationary sales, and lost few opportunities of re-affirming their anxiety lest valuable reserves should be found to have been dissipated without achieving the ends for which the sales were designed.

Market sales of gold in the Middle East, where all countries had suffered some degree of inflation (least in Egypt, greatest in Syria and Persia), were undertaken at the suggestion of two highly placed U.K. representatives abroad - the Minister of State in the Middle East (Mr. Casey) and H.M. Ambassador in Washington (Lord Halifax).

Mr. Casey feared that rapid inflation might cause one or other of the Middle Eastern currencies to collapse and that the evil would quickly spread; he advocated sales of gold, as a more attractive hoarding medium than commodities, to steady prices. Lord Halifax had different motives: to reduce Indian sterling balances and to forestall the likely objection of the U.S. Administration to a further increase in U.K. reserves, then (April 1943) running at about \$1,000 million.

The course of negotiations and discussions - a long and intricate story, recorded in Appendix .... - at length led to the first sales being made, in Persia on 26 June 1943. Sales in Syria, Palestine, Transjordan and Iraq followed early in August, and in Egypt on 22nd November. Sales in India - an independent undertaking - began on 18th August. In Middle Eastern countries the Minister of State appointed various banks as selling agencies; in India sales were in the hands of the Reserve Bank.

On Mr. Casey's suggestion in the first instance, it was arranged that the U.S. Treasury should participate in the sales. They began quite early to do so, and there ensued many changes in the amount of their allocation both of sales and share of proceeds. Later (from mid-April 1944) South Africa, who had been informed of progress all along, with no objection in principle on their part, took a share in the Indian sales.

The American and South African participations are dealt with in separate sections of Appendix ...

Except in Persia\*, sales in the Middle East ended on 19th June 1944, and in India, <sup>more than</sup> a year later (14th August 1945). At times it was claimed that they were achieving their primary (anti-inflationary) object, though the ever-changing course of prices - as often as not more sensitive to war news than to amounts offered - and the irregularity (and temporary suspensions) of the sales render any definite conclusions impossible. As to their secondary function the following account of the proceeds in local currencies will provide the best answer.

Sales in the Middle East amounted in all to 1,234,600 fine ounces, realising the equivalent in local currencies of £22,147,000, at an average price of just over £18 per ounce. As profits, it is not easy to allocate exactly the American share. Out of 875 million Rials raised in Persia (by the sale of 387,500 ounces) the Americans took 364 million (42%); of Egyptian sales (about 230,000 ounces, realising £E3,988,000) they took £E1,578,000, or 39½%. Of total proceeds, therefore, their share was about 40%.

In India the total sold was just under 5½ million fine ounces on U.K. account (including 179,000 for South Africa) and 2,215,000 ounces on U.S. account. Realisations in rupees were 1,025 million and 410 million, respectively, and the sterling equivalent of the U.K. sales about £74.2 million for U.K. and ~~£2.7~~ <sup>£2.7</sup> million for South Africa. The corresponding value of the sales on U.K. account at 172/3d. per ounce is £43.7 million; so that the E.E. Account made a profit on about 5,070,000 ounces of £30.5 million.

SOVEREIGNS

\*Where they continued until 16 January 1945.

SOVEREIGNS

At the outbreak of war the E.S.A/c took over 47 million sovereigns which formed part of the Issue Department gold; but as we have seen, the entire E.S.A/c gold holding had been reduced to about £30 million by March 1941 (including only about ~~110,000~~ 110,000 sovereigns). A demand for comparatively small quantities of gold at a time - a demand by no means insignificant in the aggregate, particularly in the Middle East - was most conveniently met by sovereigns. With the development of the war this demand rapidly increased and orders were placed for small bars; but pending their delivery, and to supplement them, the need for sovereigns became acute. During the last three years of war there was a continual drain on the gold held at the National Bank of Egypt for account of the Minister of State resident in Cairo (Mr. Casey), to meet military and other needs connected with the war\*.

Early in 1942 the Bank of England began to be faced with a serious shortage of sovereigns; and the building up of a reserve was a matter of considerable difficulty. Technical obstacles and a very heavy demand for silver coinage ruled out the Mint; the Ottawa Mint would have required fresh legislation; a large stock in Venezuela was inaccessible on the grounds of necessary secrecy; shortage of shipping prevented Australia from helping; the Treasury, accepting the Bank's advice, did not vest about 675,000 sovereigns held by the Custodian of Enemy Property on account of residents in occupied countries.

A beginning was made by repatriating 500,000 sovereigns from Ottawa, and by April a total of 1,100,000 was held (800,000 in London and 300,000 in India).

Egypt (National Bank and Government) held over 4,000,000 in their note issue cover. After unsuccessful attempts

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\* A large proportion of the ~~to meet demands in the Middle East~~ Cairo stock, replenished as required, was held ~~at the National Bank~~ at Mr. Casey's disposal.

to persuade Egyptians either to move them (under threat of invasion) or to exchange them for bars, the Egyptian Government ultimately agreed (Nov. 1942) to provide 1,000,000 sovereigns against bars, but recovered charges for alloy and minting by deducting their equivalent in fine gold, by means of which they secured an overall premium (on the whole eventual programme) of about 3.6% in fine gold.

India had a stock of about 10 <sup>million</sup> ~~million~~ sovereigns. They <sup>Indians</sup> would not, on political grounds, accept earmarked gold abroad in exchange, and early in 1943 bars were shipped from South Africa to Bombay; but our total Indian holdings were never much higher than  $\frac{1}{2}$  million.

The Greeks, after their liberation in October 1944, asked the Treasury for 450,000 sovereigns, <sup>which were</sup> shipped from London in exchange for Greek gold held in South Africa, and further shipments followed (250,000 in Nov. 1946 and 300,000 in December 1947).

In early 1945 the Middle Eastern demand abated and sovereigns began to be deposited in Cairo, partly the return of unused military withdrawals. The Bank now authorised the National Bank to hold all sovereigns, and further deposits of them, for their account, and by the end of the year held  $1\frac{1}{2}$  million in Cairo, besides 430,000 in London, 540,000 in India and 320,000 in South Africa; over 3 million in all.

In 1946 the Bank were asked (by India in April, and by Egypt in October) whether they would prefer to exchange their sovereigns back into bars. The offers <sup>were</sup> ~~were~~ declined and the sovereigns continued to be held at the end of 1946.

For fuller detail on purchases, sales, locations, sales in the Middle East and India, Treasury shipments, Sovereigns and Gold for Industry, etc., see Appendices.....

U.K. IMPORTS AND EXPORTS OF GOLD: AUGUST 1938 - DECEMBER 1946

Million fine ounces.

Period	I M P O R T S from							E X P O R T S to							NET IMPORTS or EXPORTS
	S. Africa and Rhodesia	British West Africa	Other British countries	Europe (b)	U.S.S.R.	Other countries	Total	U.S.A.	Canada	India	Egypt	Europe	Other countries	Total	
Aug. - Dec. 1938	1.54	.32	.97 <sup>(a)</sup>	9.01 <sup>(c)</sup>	.33	.19	12.36	30.06	.46	-	.01	4.03 <sup>(g)</sup>	.21	34.83	22.47
Jan. - Aug. 1939	5.56	.60	.95	14.45	.98	.29	22.83	49.05	13.10	.01	.01	2.23 <sup>(h)</sup>	.88	65.28	42.45
Sept. - Dec. 1939	.90	.24	.21	.20	-	.06	1.61	3.65	4.94	-	-	-	.59	9.18	7.57
Jan. - Apl. 1940	.28	.28	.13	.97	-	-	1.66	3.77	8.36	-	-	-	.41	12.54	10.88
May "	.07	.09	.02	4.41 <sup>(d)</sup>	-	.05	4.64	2.56	9.56	-	-	-	.01	12.13	7.49
June "	-	.05	.01	-	-	-	.06	8.12	16.64	-	-	-	-	24.76	24.70
July "	-	.07	-	-	-	.01	.08	3.56	26.21	-	-	-	-	29.77	29.69
Aug. "	-	-	-	-	-	-	-	.26	2.38	-	-	-	-	2.64	2.64
Sept. 1940 - Dec. 1941	.36	.05	-	-	.32	-	.73	.18	1.02	-	-	-	-	1.20	.47
Year 1942	4.99	.85	-	-	.87	.16	6.87	.06	-	-	-	-	.07	.13	6.74
" 1943	4.05	.61	-	-	.11	-	4.77	.01	-	1.25	1.02	-	.06	2.34	2.43
" 1944	-	.62	-	-	.82	20.55 <sup>(e)</sup>	21.99	-	-	5.75	.30	-	.25 <sup>(k)</sup>	6.30	15.69
" 1945	2.00	.34	-	-	.47	-	2.81	-	-	.50	-	-	.07	.57	2.24
" 1946	8.25	.65	3.95 <sup>(f)</sup>	.22	1.08	.30	14.45	-	-	-	-	.72 <sup>(l)</sup>	.62 <sup>(m)</sup>	1.34	3.11

(a) Excluding Canada.	(b)	(c)	(d)	U.S.A. (e)	(f)	(g)	(h)	(k)	(l)	(m)		
Belgium	4.69	5.98	-	19.80	Australia	3.70	Sweden	1.11	.41	-	Argentina	.52
France	2.16	.25	-	French	N. Zealand	.22	Holland	1.15	.64	-	Other	.10
Holland	.81	3.24	2.80	W. Africa	Other	.03	Switzerland	1.17	.58	-		
Switzerland	.39	3.42	-				Belgium	.31	.34	-		
Germany	.95	-	-				France	.25	.25	-		
Jugoslavia	-	1.35	1.61				Spain	-	-	.14		
Norway	-	-	-				Greece	-	-	.11	.06	
Other	.01	.21	-				Jugoslavia	-	-	-	.36	
							Other	.10	.01	-	.02	

U.K. GOLD MOVEMENTS AND STOCKS: SEPTEMBER 1931 - DECEMBER 1946

Imports, net imports or increase in stocks: BLACK  
 Exports, net exports or decrease in stocks: RED

(million fine ounces)

Period	Number of months	External Movements			Held at Bank of England				Other Gold		
		Imports	Exports	Net	Issue Department*	H.M. Treasury*	Other set aside	Total	Home Trade	"Hoarding" (incl. coin in circulation)	Total
Sept. 1931 - Mar. 1932	8	13.99	18.32	4.33	2.72	-	2.77	.05	.95	5.43	4.38
Apr. 1932 - Jly. 1938	75	241.77	120.99	120.78	48.37	27.69	19.93	95.99	1.64	26.43	24.79
August - December 1938	5	12.36	34.83	22.47	5.45	25.74	7.70	23.49	.02	1.04	1.02
January - August 1939	8	22.83	65.28	42.45	38.06	3.78	.46	34.74	.05	7.66	7.71
Sept. - December 1939	4	1.61	9.18	7.57	33.26	36.25	4.93	1.94	.03	5.60	5.63
January - April 1940	4	1.66	12.54	10.88	-	7.19	1.60	8.79	.02	2.11	2.09
May 1940	1	4.64	12.13	7.49	-	11.02	3.89	7.13	-	.36	.36
June 1940	1	.06	24.76	24.70	-	23.55	.04	23.51	-	1.19	1.19
July 1940	1	.08	29.77	29.69	-	.02	28.69	28.67	.01	1.01	1.02
August 1940	1	-	2.64	2.64	-	.07	2.41	2.48	-	.16	.16
Sept. 1940 - Dec. 1941	16	.73	1.20	.47	-	.40	.04	.44	.03	.94	.91
Year 1942	12	6.87	.13	6.74	-	.64	6.24	6.88	.07	.21	.14
" 1943	12	4.77	2.34	2.44	-	1.88	.50	2.38	.09	.03	.06
" 1944	12	21.99	6.30	15.70	-	13.46	2.17	15.63	.10	.03	.07
" 1945	12	2.81	.57	2.24	-	8.84	10.93	2.09	.15	-	.15
" 1946	12	14.45	1.34	13.11	-	12.73	.23	12.50	.47	.14	.61

\*In London only.

MILLION FINE OUNCES

# GOLD IN THE U.K. CUMULATIVE SINCE SEPT. 1931.

