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France links bullion and petrodollars

Pending new institutional channels, gold trade multiplies—including Mideast-Soviet deals.

French President Valéry Giscard d'Estaing intends to link the issue of gold remonetization to the broader problem of how to recycle OPEC's burgeoning petrodollar surplus to cash-strapped Third World countries, a French government source told the New York *Journal of Commerce* this week. Giscard will present his program for international monetary reform at the summit of Western heads of state in Venice on June 22.

The original French idea, the official stated, was that there should be "greater cooperation among the central banks for the stabilization of exchange rates, perhaps with a progressive reintroduction of gold." However, in the context of the present Eurodollar recycling crisis, it is necessary that monetary reform take a "double direction," the second being recycling. France doubts that "the present recycling mechanisms, which are essentially based on the international banking system, will be able to recycle this new wave of petrodollars."

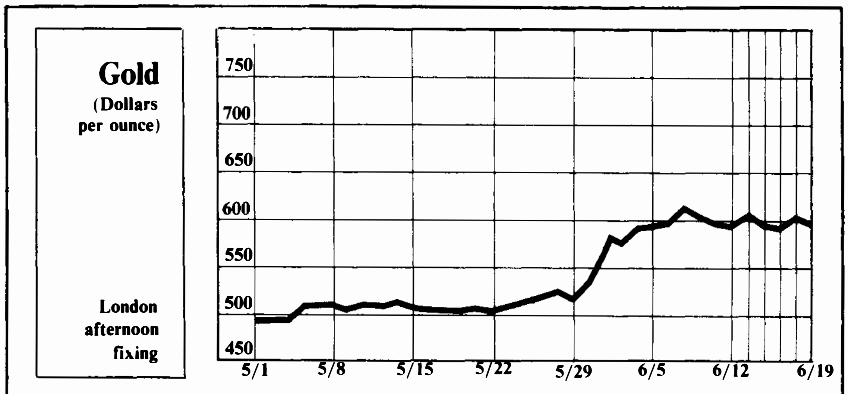
The *Journal of Commerce* interview confirms what I first reported several months ago; namely, that Giscard would attempt to use gold to establish a new "triangular" financial network among the advanced sector, OPEC, and the non-oil producing developing countries. Under this plan, the European Monetary Fund or some other newly founded international institution would issue gold-backed (and perhaps ECU-denominated) bonds to OPEC governments, absorb the petrodollar surplus, and relend it long-term for Third World industrial development.

Unfortunately, there are also indications that the French President may decide not to wage a public de Gaulle-style fight over the recycling issue because of the reluctance of France's Western European partners, most notably the Federal Republic of Germany, to make such a radical break with present U.S. policy. "We've had to face up to the fact that our partners are divided on this problem," continued the French source quoted by the *Journal*.

As a result, Giscard is likely to opt for a series of fallback options, including an amelioration of the most objectionable features of IMF "conditionality." The French will also seek to develop existing European Community institutions, such as the European Investment Bank, as alternative recycling vehicles to the IMF/World Bank.

Meanwhile, the French perspective is that gold will play an increasingly important role as a result of a growing number of secret quasi-official trade agreements involving wealthy Arabs, the Soviets, and Western European banks. Recently, it was rumored in the gold market that Saudi Arabia had contracted to purchase 200 tons of gold from the Soviet Union, about two-thirds of that country's annual output. According to a source at the New York office of a major West German bank, there have been major gold deals between the Soviets and Mideast governments, although the figure cited above may be a bit exaggerated.

Middle Eastern buyers, who came into the market at around $500 to $530 an ounce, have not been selling during the recent wave of profit-taking but are in for the long haul, the German source added. Although he expects no dramatic action during the next one to three months, this banker believes that gold will surpass $700 by year-end.



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