

Arrangements regarding the marketing of South Africa's gold

In view of the public interest in details of the recently announced arrangements relating to the marketing of South Africa's gold, letters and other information regarding these arrangements are published below.

Ministry of Finance
Pretoria

23rd December, 1969

Dear Mr. Schweitzer,

As you know, for some time the Republic of South Africa has been discussing with the United States, with other members, and with you procedures for the orderly sale of newly-mined gold in the market and the sale of gold to the International Monetary Fund. I wish to inform you that as a result of these discussions, the South African authorities have adopted a policy with respect to gold sales and I would like to request that the Fund confirm that it will be prepared in the light of this statement of policy to buy gold from South Africa in the circumstances and under the conditions set forth below.

The following are the intentions of the South African authorities as to the handling of newly-mined gold and reserves.

1. Without prejudice to the determination of the legal position under the Articles of Agreement of the Fund, the South African authorities may offer to sell gold to the Fund for the currencies of other members at the price of 35 Dollars per ounce, less a handling charge as follows:
 - (a) During periods when the market price of gold falls to 35 Dollars per ounce or below, at which times offers to sell gold to the Fund under this paragraph (a) would be limited to amounts required to meet current foreign exchange needs, and
 - (b) regardless of the price in the private market, up to the extent that South Africa experiences needs for foreign exchange over semi-annual periods beyond those which can be satisfied by the sale of all current new gold production on the private market or by sales to the Fund under paragraph 1 (a) above.
2. (a) The South African authorities intend to sell current production of newly-mined gold in an orderly manner

on the private market to the full extent of current payments needs. It is anticipated that new production in excess of those needs during a semi-annual period may be added to reserves.

(b) When selling gold other than in the private market, the South African authorities intend in practice normally to offer such gold to the Fund.

(c) The South African authorities may use gold in normal Fund transactions, e.g. in repurchase of appropriate drawings from the Fund, and to cover the gold portion of any South African quota increase, and to obtain currency convertible in fact to exchange against special drawing rights for which South Africa is designated by the Fund. Rand drawn from the Fund by other members would generally be converted into gold when Rand are included in drawings under normal Fund procedures. These Fund-related transactions, which may take place without regard to the market price of gold, will be reflected by changes in the composition of South Africa's reserves but will not affect the volume of sales of newly-mined gold in the market.

3. Notwithstanding paragraphs 1 (b) and 2 (a) above, the amount of gold held by South Africa on March 17, 1968, reduced by sales by South Africa to monetary authorities (including Fund-related transactions) after that date and further reduced by such future sales to monetary authorities as may be made to finance deficits or as a result of Fund-related transactions, will be available for such additional monetary sales as the South African authorities may determine, up to 35 million Dollars quarterly beginning January 1, 1970. It is also contemplated that as an implementation of this understanding, the Fund would agree to purchase the amount of gold offered to it by South Africa in May 1968.

In order to determine whether South Africa has balance of payments surpluses or deficits as well as to indicate other operational and procedural points with respect to this policy, I enclose a memorandum which clarifies these particular matters.

It would be appreciated if, in the light of these policy intentions, the Fund were able to decide that it would purchase gold from South Africa in the circumstances outlined above. I would expect that the Fund would review the situation at any time if there were a major change in circumstances and in any event after five years.

The South African authorities will work out with the Managing Director consultation procedures on the currencies to be purchased from the Fund with gold.

I hope that this announced policy, the implementation of which I believe will be a contribution to the stability of the International Monetary System, and my suggestion meet with the concurrence of the Fund. A copy of this letter has been sent to the Secretary of the Treasury of the United States.

Yours sincerely,
/s/ N. Diederichs
Minister of Finance
Republic of South Africa

The Managing Director
International Monetary Fund

Operational and procedural points

A. For the present purposes, balance of payments deficits and surpluses will be equal to the change during the accounting period in the total of South African official gold and foreign exchange reserves, the net IMF position and changes in SDR holdings, and any foreign assets held by other South African banking institutions and public agencies under swap arrangements with the Reserve Bank. It is understood that changes in gold holdings outside the monetary reserves and in monetary banks' positions not covered by Reserve Bank swaps are normally not significant. If they should at any time become significant, further consideration will be given to their inclusion in the calculation. SDR allocations will not be considered as reducing a deficit or increasing a surplus as above defined. South Africa does not envisage unusual or non-traditional foreign borrowings or other special transactions that would affect the elements listed in this paragraph.

B. Addition of newly mined gold to South African reserves under paragraph 2 (a) will take place when there is a surplus for an accounting period. It is envisaged that all new gold production, less domestic consumption, during the accounting period will be treated as a balance of payments credit item and that it will, in fact, be sold currently under paragraph 1 (a) and paragraph 2 (a) to the full extent

necessary to meet payments needs, except for the sales available under paragraph 3, apart from the Fund transaction initiated in May 1968.

C. Sales of gold by South Africa to monetary authorities under paragraph 1 (a) may be made for any day when both London fixing prices are \$35.00 p.f.o. or below, in an amount reasonably commensurate with one-fifth of weekly sales from new production required to be marketed to meet balance of payments needs.

D. Subject to paragraph 2 (a):

1. Should sales to monetary authorities under paragraph 1 (b), plus sales of SDRs and drawings from the IMF by South Africa, exceed the deficit defined under paragraph A of this memorandum, such excess will be deducted from the amount allowable for the first succeeding accounting period wherein a deficit is again encountered.

2. Should sales to monetary authorities under paragraph 1 (b), plus sales of SDRs and drawings from the IMF, fall short of the amount allowable for an accounting period in which South Africa aims to finance its entire deficit by these means, such shortfall will be added to the amount allowable for the next succeeding accounting period.

3. It is expected that any discrepancies under 1 and 2 above will be minimal.

4. Should sales to monetary authorities under paragraph 1 (b), plus sales of SDRs and drawings from the IMF, fall short of the amount allowable for an accounting period in which South Africa does not aim to finance its entire deficit by these means but chooses to sell more on the free market than it undertakes to do in paragraphs 2 (a), no correction will be made for any succeeding accounting period.

E. When the price criterion is operative, sales of gold to the IMF shall be attributed to the total deficit, if any, during the accounting period. The balance of such sales, if any, will be attributed to newly mined gold to the extent of gold production during the accounting period.

F. Sales or payments under paragraph 2 (c) in connection with IMF-related transactions are expected to take place only within the criteria normally envisaged for IMF drawings by members, for use of members' currencies in drawings by other members and for SDR transactions.

G. Fundamentally, it is expected that the composition of South African reserves will not be greatly changed. In particular, it is understood that the ratio of gold to total reserves will remain relatively stable. If South Africa should desire to make additional sales of gold or otherwise exchange assets for the purpose of achieving a basic change in the composition of its reserve holdings, further discussion would be held with a view to clarifying intentions.

The Secretary of the Treasury
Washington

December 24, 1969

Dear Mr. Schweitzer:

I have received a copy of the letter dated December 23, 1969, sent to you by Mr. Diederichs in which he sets forth the intentions which South Africa proposes to follow with respect to the handling of its newly-mined gold and reserves. This matter bears importantly on the continued effective functioning of the two-tier gold market which was initiated at a meeting on March 16-17, 1968, which you attended.

In view of the intentions of South Africa, and in view of discussions we have had with other Fund members, I should like to inform you that I have instructed the U. S. Executive Director to take the following position. The United States is prepared to support decisions of the International Monetary Fund to purchase gold offered for sale by South Africa in the circumstances and under the conditions described in that letter, assuming that there is an understanding among Fund members generally that they do not intend to initiate official gold purchases directly from South Africa. With this understanding, I believe that the policies to be followed will be consistent with the stability and proper functioning of the international monetary system.

Sincerely yours,
/s/ Paul A. Volcker
Acting Secretary

The Managing Director
International Monetary Fund

Reëlings ten opsigte van die bemarking van Suid-Afrika se goud

In die lig van die openbare belangstelling in die besonderhede van die reëlings wat onlangs in verband met die bemarking van Suid-Afrika se goud aangekondig is, word briewe en ander inligting rakende hierdie ooreenkoms hieronder gepubliseer.

Ministerie van Finansies
Pretoria

23 Desember 1969.

Geagte mnr. Schweitzer,

Soos u weet het die Republiek van Suid-Afrika vir 'n geruime tyd met die Verenigde State, met ander ledelande en met u samesprekings gevoer oor die prosedure vir die ordelike verkoop van nuutontginde goud op die mark en die verkoop van goud aan die Internasionale Monetêre Fonds. Ek wens u mee te deel dat die Suid-Afrikaanse owerhede as gevolg van hierdie samesprekings 'n beleid met betrekking tot goudverkope aanvaar het en ek wil graag versoek dat die Fonds bevestig dat hy bereid sal wees om, in die lig van hierdie beleidsverklaring, goud van Suid-Afrika te koop in die omstandighede en onder die voorwaardes wat hieronder uiteengesit word.

Die oogmerke van die Suid-Afrikaanse owerhede met betrekking tot die hantering van nuutontginde goud en reserwes is soos volg:

1. Sonder om aan die bepaling van die wetlike posisie ingevolge die Akte van Ooreenkoms van die Fonds afbreuk te doen kan die Suid-Afrikaanse owerhede aanbied om goud aan die Fonds te verkoop vir die geldeenhede van ander lede teen die prys van 35 dollar per ons, min 'n heffing vir hantering, soos volg:
 - (a) Gedurende periodes waarin die markprys van goud tot 35 dollar per ons of laer daal, in welke geval aanbiedinge om goud kragtens hierdie paragraaf (a) aan die Fonds te verkoop, beperk sal wees tot bedrae wat benodig word om lopende buitelandse valuta-behoefes te dek, en
 - (b) ongeag die prys op die vrye mark in die mate waartoe Suid-Afrika behoefte ondervind aan buitelandse valuta oor halfjaarlikse periodes bo en behalwe dit wat bevredig kan word deur die verkoop van alle lopende nuwe goudproduksie op die vrye mark of deur verkope aan die Fonds kragtens paragraaf 1 (a) hierbo.

2. (a) Die Suid-Afrikaanse owerhede beoog om die lopende produksie van nuutontginde goud op 'n ordelike wyse op die vrye mark te verkoop tot die totale omvang van lopende betalingsbehoefes. Daar word verwag dat nuwe produksie wat daardie behoeftes gedurende 'n halfjaarlikse periode te bowe gaan, by die reserwes gevoeg mag word.
 - (b) Wanneer goud anders as op die vrye mark verkoop word, beoog die Suid-Afrikaanse owerhede om in praktyk sodanige goud normaalweg aan die Fonds aan te bied.
 - (c) Die Suid-Afrikaanse owerhede mag goud in normale Fonds-transaksies gebruik, byvoorbeeld by die terugkoop van toepaslike trekkings op die Fonds, en om die goudgedeelte van enige toename in Suid-Afrika se kwota te dek, en om valuta wat werklik inwisselbaar is te verkry om teen spesiale trekkingsregte, wat die Fonds aan Suid-Afrika mag toewys, in te ruil. Rand deur ander ledelande op die Fonds getrek, sal oor die algemeen in goud omgewissel word wanneer Rand in trekkings ingevolge normale Fondsprosedures ingesluit word. Hierdie Fondsverwante transaksies wat ongeag die markprys van goud mag plaasvind, sal in veranderinge in die samestelling van Suid-Afrika se reserwes weerspieël word, maar sal nie die volume van verkope van nuutontginde goud in die mark beïnvloed nie.
3. Nieteenstaande paragrafe 1 (b) en 2 (a) hierbo, sal die bedrag aan goud wat op 17 Maart 1968 deur Suid-Afrika gehou is, verminder met verkope deur Suid-Afrika aan monetêre owerhede (insluitende Fondsverwante transaksies) ná daardie datum en verder verminder met sodanige toekomstige verkope aan monetêre owerhede as wat gemaak mag word om tekorte te finansier of as gevolg van Fondsverwante transaksies, beskikbaar wees vir sodanige addisionele monetêre verkope as wat die Suid-Afrikaanse owerhede mag bepaal, tot 'n maksimum van 35 miljoen dollar per kwartaal met ingang 1 Januarie 1970. Daar word ook verwag dat die Fonds, in die uitvoering van hierdie ooreenkoms, sal instem om die hoeveelheid goud deur Suid-Afrika aan hom in Mei 1968 aangebied, te koop.

Ten einde te bepaal of Suid-Afrika betalingsbalans-tekorte of -oorskotte het en ook om ander punte ten opsigte van die werking en prosedure van hierdie beleid aan te toon, sluit ek 'n memorandum in wat hierdie besondere sake toelig.

Dit sal op prys gestel word indien die Fonds, in die lig van hierdie beleidsoogmerke, in staat sal wees om te besluit dat hy goud van Suid-Afrika onder die omstandighede hierbo uiteengesit sal koop. Ek sou verwag dat die Fonds die posisie te enige tyd, indien daar 'n wesenlike verandering in omstandighede sou voorkom, en in elk geval na vyf jaar, in heroorweging sou wou neem.

Die Suid-Afrikaanse owerhede sal in samewerking met die Besturende Direkteur konsultasieprosedures met betrekking tot die valuta wat van die Fonds met goud gekoop sal word, uitwerk.

Ek hoop dat die Fonds met hierdie aangekondigde beleid, die uitvoering waarvan na my mening tot die stabiliteit van die internasionale monetêre stelsel sal bydra, en my voorstel sal saamstem. 'n Afskrif van hierdie brief is gestuur aan die Sekretaris van die Tesourie van die Verenigde State.

Die uwe,
get. N. Diederichs
Minister van Finansies
Republiek van Suid-Afrika.

Die Besturende Direkteur,
Internasionale Monetêre Fonds.

Punte aangaande werking en prosedure

A. Vir huidige doeleindes sal betalingsbalansstekorte en -oorskotte gelyk wees aan die verandering gedurende die rekeningkundige periode in die totaal van Suid-Afrika se offisiële goud- en buitelandse valutareserwes, die netto I.M.F.-posisie en veranderinge in die besit aan S.T.R., en enige buitelandse bates wat deur ander Suid-Afrikaanse bankinstellings en amptelike instellings ingevolge ruiloorreënkomste met die Reserwebank gehou word. Daar word aangeneem dat veranderinge in die goudbesit buite die monetêre reserwes en in die monetêre banke se posisies wat nie deur die ruiloorreënkomste met die Reserwebank gedek word nie, normaalweg nie beduidend is nie. Indien dit te enige tyd beduidend sou word, sal verdere oorweging aan die insluiting daarvan in die berekenings geskenk word. S.T.R.-toekennings sal nie beskou word om 'n vermindering van 'n tekort of 'n vermeerdering van 'n oorskot, soos hierbo gedefinieer te bewerkstellig nie. Suid-Afrika voorsien nie buitengewone of nie-tradisionele buitelandse lenings of ander spesiale transaksies wat die komponente in hierdie paragraaf uiteengesit, sal beïnvloed nie.

B. Die toevoeging van nuutontginde goud tot die Suid-Afrikaanse reserwes kragtens paragraaf 2 (a) sal plaasvind wanneer daar 'n oorskot vir 'n rekeningkundige periode is. Dit word in die vooruitsig gestel dat alle nuwe goudproduksie, min binnelandse verbruik, gedurende die rekeningkundige periode as 'n kredietpos in die betalingsbalans behandel sal word en dat dit inderdaad op 'n lopende basis verkoop sal word kragtens paragraaf 1 (a) en paragraaf 2 (a) om die totale omvang van betalingsbehoefte te bevredig, behalwe vir verkope beskikbaar kragtens paragraaf 3, afgesien van die Fondstransaksie wat in Mei 1968 aanhangig gemaak is.

C. Verkope van goud deur Suid-Afrika aan monetêre owerhede kragtens paragraaf 1 (a) mag vir enige dag wanneer beide die Londense vasstellingsprys op 35 dollar per fyn ons of minder te staan kom, plaasvind tot 'n bedrag ongeveer gelyk aan een-vyftede van weeklikse verkope uit nuwe produksie wat vir betalingsbalansbehoefte bemark moet word.

D. Onderhewig aan paragraaf 2 (a):

1. Sou verkope aan die monetêre owerhede kragtens paragraaf 1 (b) plus verkope van S.T.R.'s en trekkings op die I.M.F. deur Suid-Afrika, die tekort gedefinieer in paragraaf A van hierdie memorandum oorskry sal sodanige oorskot afgetrek word van die bedrag wat toelaatbaar is vir die eerste daaropvolgende rekeningkundige periode waarin 'n tekort weer ondervind word.

2. Sou verkope aan die monetêre owerhede kragtens paragraaf 1 (b), plus verkope van S.T.R.'s en trekkings op die I.M.F., minder wees as die bedrag wat toelaatbaar is vir 'n rekeningkundige periode waarin Suid-Afrika beoog om sy hele tekort op hierdie wyse te finansier, sal die tekort by die bedrag wat toelaatbaar is vir die daaropvolgende rekeningkundige periode, getel word.

3. Daar word verwag dat enige verskille ingevolge 1 en 2 hierbo minimaal sal wees.

4. Sou verkope aan die monetêre owerhede kragtens paragraaf 1 (b), plus verkope van S.T.R.'s en trekkings op die I.M.F., minder wees as die bedrag toelaatbaar vir 'n rekeningkundige periode waarin Suid-Afrika nie beoog om sy totale tekort op hierdie wyse te finansier nie maar verkies om meer op die vrye mark te verkoop as wat hy kragtens paragraaf 2 (a) onderneem om te doen sal geen aansuiwering vir enige daaropvolgende rekeningkundige periode gemaak word nie.

E. Wanneer die prysmaatstaf in werking is, sal verkope van goud aan die I.M.F. aan die totale tekort, indien enige, gedurende die rekeningkundige periode toegewys word. Die balans van sodanige verkope, indien enige, sal toegewys word aan nuutontginde goud tot die omvang van die goudproduksie gedurende die rekeningkundige periode.

F. Verkope of betalings kragtens paragraaf 2 (c) in verband met I.M.F.-verwante transaksies sal na verwagting slegs plaasvind ooreenkomstig die maatstawwe wat normaalweg in die vooruitsig gestel word vir I.M.F.-trekkings deur lede, vir gebruik van die valuta van lede in trekkings deur ander lede en vir S.T.R.-transaksies.

G. Basies word daar nie verwag dat die samestelling van die Suid-Afrikaanse reserwes belangrik sal verander nie. In besonder word aangeneem dat die verhouding van goud tot totale reserwes betreklik stabiel sal bly. Indien Suid-Afrika sou begeer om addisionele goudverkope te onderneem of om andersins bates te veruil met die doel om 'n basiese verandering in die samestelling van sy reserwes te weeg te bring, sal verdere samesprekings gevoer word met die doel om sodanige oogmerke op te klaar.

Die Sekretaris van die Tesourie
Washington

24 Desember 1969.

Geagte mnr. Schweitzer,

Ek het 'n afskrif ontvang van die brief, gedateer 23 Desember 1969, wat deur mnr. Diederichs aan u gestuur is en waarin hy die doelstellings wat Suid-Afrika met betrekking tot die hantering van sy nuutontginde goud en reserwes, beoog, uiteensit. Hierdie saak is belangrik vir die voortgesette doeltreffende funksionering van die twee-prys goudmark wat ontstaan het by 'n vergadering op 16-17 Maart 1968, wat u bygewoon het.

In die lig van die doelstellings van Suid-Afrika, en in die lig van samesprekings wat ons met ander lede van die Fonds gevoer het, stel ek u graag in kennis dat ek die Verenigde State se Uitvoerende Direkteur gelas het om die volgende standpunt in te neem. Die Verenigde State is bereid om die Internasionale Monetêre Fonds te steun in sy besluite om goud, wat deur Suid-Afrika te koop aangebied word, te koop in die omstandighede en onder die voorwaardes uiteengesit in daardie brief, met die veronderstelling dat daar oor die algemeen 'n verstandhouding tussen lede van die Fonds is dat hulle nie van voorneme is om offisiële goudaankope regstreeks van Suid-Afrika te onderneem nie. Met hierdie verstandhouding glo ek dat die beleid wat gevolg sal word sal strook met die stabiliteit en behoorlike funksionering van die internasionale monetêre stelsel.

Die uwe,
get. Paul A. Volcker
Waarnemende Sekretaris

Die Besturende Direkteur,
Internasionale Monetêre Fonds.