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IMF's gold-for-debt plan irks industry

By Emad Mekay

WASHINGTON - Anti-poverty groups are accusing the US gold industry of seeking to block a sale of the precious metal from International Monetary Fund (IMF) reserves as part of an effort to write off wealthy nations' claims against the world's poorest and most heavily indebted countries. But an industry group counters that the plan could harm poor nations rather than help them.

The face-off between anti-debt campaigners and gold miners and market players comes in the run-up to next month's Group of Eight (G8) summit to be held in Scotland. Third World debt forgiveness is expected to feature prominently at the talks.

Officials attending the spring meetings in April of the IMF and its sister lending agency, the World Bank, said they expected a major G8 announcement on a gold sale during the summit, scheduled for July 6-8 in the remote resort of Gleneagles. But the idea of using the IMF's huge gold reserves to fund the debt forgiveness plan has met stiff opposition from some US lawmakers, whose approval is essential for the deal. Any sale would require the approval of 85% of the IMF members' votes. The US holds 17% of the votes, which makes Washington's consent key to the plan.

The US is the second-largest gold producing nation in the world after South Africa. Most of its gold is produced in western states such as Nevada. In February, a dozen US senators wrote to US Treasury Secretary John Snow urging him to turn his back on the deal. There is no consensus, so far, in favor of gold sales within the industrialized nations either.

Anti-debt campaigners said lobbying by US and international gold companies seriously threatened to take the plan off the table. The groups singled out Denver-based Newmont Mining Co, the world's largest gold producing corporation, of leading the opposition from fear that IMF gold sales will lower world market prices for the metal. When contacted, Newmont declined to comment.

The groups, which include Africa Action, Essential Action, the Global AIDS Alliance, Global Exchange, and Jubilee USA, say the company and the industry are ignoring a proposal from the IMF itself that said limited sales from IMF reserves would ensure that the deal would have no net impact on the world gold market.

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"Newmont's misguided opposition is on the brink of sabotaging IMF debt cancellation - thus ensuring millions of poor people will be deprived of the benefit of IMF debt cancellation," the groups said in a statement last week. "This is a life-and-death matter."

But a gold industry association said the proposal would prove ineffective: it was too limited and would not bring relief to poor nations. "We have recommended against the sales of IMF gold to fund debt relief for poor nations. We think it's a counterproductive proposal," said Carol Raulston, a spokesperson for the Washington-based National Mining Association (NMA). The NMA said many of the nations that the IMF program is supposed to help are in fact large gold producers themselves and could be hurt by the news of the sale when prices fall.

The organization said it had not engaged in intensive lobbying against the IMF proposal, however, adding that US legislators opposed to the deal understood on their own that the IMF gold sales would have a negative impact on their own gold producing states as well as on poor countries. "You really do not have to try to exert much influence," Raulston said. "They understand the issue and the consequences that this proposal could have."

The debt issue has energized activists, industry, and experts alike for many years. Debt servicing has sapped money from poor countries' treasuries and transferred it to the coffers of public and private lenders in wealthy nations. In the process, activists and academics say, poor governments have been left with less cash for domestic priorities, including health, education, and social services.

Countries like Ghana, Kenya and Bolivia, among others, are heavily indebted to rich nations and to multinational players like the IMF and the World Bank. The IMF had originally opposed the gold sale proposal first floated by the anti-debt campaigners but eventually came out in favor of it. The fund's technical researchers have said that it is in fact possible to sell its vastly undervalued and idle gold reserves to finance further debt relief for some of the world's poorest countries.

The IMF's board discussed the fund's finance department paper, requested by major creditor nations last year, at a meeting on April 30. Research by two Washington-based think tanks, the Center for Global Development and the Institute for International Economics, also shows that by selling just 15% of its gold reserves, the IMF could raise as much as US\$7 billion. This would be enough to write off 100% of the IMF's outstanding claims against poor countries that have qualified for debt relief.

The IMF values the gold on its balance sheet at roughly \$9 billion, on the basis of historical cost - well below its current market price of \$45 billion, according to the two economic think tanks. In addition, activist groups and think tanks alike have said that new market changes have further lowered the risks of a large sell-off. The price of gold has risen by about 50% since 1999, easing concerns of gold-producing countries and making it easier for the IMF to generate sufficient revenues from a sale involving a fairly small portion of its reserves.

Even so, according to the NMA's Raulston, "Historically, when such proposals have even been made, the rumors of sales have depressed the sale of gold, hurting those economies and causing job losses. Similar effects have been felt in the United States. I

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