

Gold by David Goldman

Irregular Soviet operations

Sources offer details on extralegal channels by way of Italy for KGB financing.

Market sources have offered sharply differing estimates of the extent of Soviet gold sales during the past year, an element in the gold supply situation which has clouded gold's price prospects. However, according to some Italian banking sources, irregular channels of Soviet gold distribution further complicate estimates of Soviet gold sales.

Most Soviet gold sales take place through Switzerland under the auspices of the Gosbank, the Soviet central bank, and under the close direction of Soviet central bank Governor Alkhimov. However, well-informed Italian banking sources allege, a small but significant trickle of Soviet gold exports occurs in the form of an extralegal flow through Soviet black market channels. The sources infer that the extralegal gold export is conducted with the approval of the Soviet KGB, which is otherwise responsible for the suppression of the black market inside the Soviet Union.

Allegedly, the KGB employs black market gold to finance special operations without obtaining funds through the usual strict accounting procedures. Most intelligence agencies employ irregular financing in order to circumvent accounting by their own masters, as in the over-publicized case of the Central Intelligence Agency's infrequent use of narcotics funds in Southeast Asia.

The Italian sources estimate the total black market in the Soviet Union at an annual turnover of

more than 20 billion rubles (about \$26 billion), of which between one-quarter and one-third is conducted in the form of gold. The turnover includes revenues from black market distribution of goods, prostitution, embezzlement, and other illegal activities (narcotics traffic inside the Soviet Union itself is believed to be small).

Soviet citizens obtain gold through a number of means. A popular one in Moscow works the following way: Soviet citizens exchange rubles for foreign currency on the illegal currency market, or directly (as in the case of prostitution). The Soviet citizen with foreign currency then employs a Western front man to purchase gold in the form of small-denomination bars from the special office of Gosbank in Moscow which distributes gold bars to Westerners. Western front men may additionally export this gold from the Soviet Union on behalf of Soviet citizens and deposit it, e.g. on behalf of prospective emigrés, in Western bank accounts, usually in Italy.

Employees of a number of Western banks operating in Moscow run a frequent shuttle for small-denomination gold bar exports, according to *EIR's* sources. Most prominent of these banks is the Siena-based Monte dei Paschi bank, the oldest Italian bank in continuous operation, which was founded four centuries ago. Monte dei Paschi enjoys excellent East bloc connections, including a close

relationship with National Bank of Hungary director Janos Fekete.

Monte dei Paschi has a little-known but important role in the international gold trade. It is the principal gold buyer for the huge Florence jewelry manufacturing center. Florence produces most of the gold jewelry sold throughout the Mideast, the favorite form of gold purchase in those areas, and also part of the gold jewelry distributed in points east of the Persian Gulf.

By and large, according to Consolidated Gold Fields' economist Timothy Green, this jewelry traffic takes place through extralegal channels, part of the 50 percent of total world gold circulation that Green estimates evades legal scrutiny. Once the shipments reach Lebanon (less important as a gold center after the 1975 civil war), Dubai, or other ports, it is virtually untraceable. It is believed to be a principal medium of exchange in the Mediterranean narcotics route.

In this capacity, Monte dei Paschi is a prominent buyer of gold from the Soviet Union, and maintains direct representation in Moscow for this purpose. The venerable bank is believed to "launder" a large volume of gold exports on behalf of the Soviet KGB, filtered into the untraceable Near East gold market for distribution. A significant portion of the gold flow, Italian banking sources believe, is designated for special operations financing in Libya.

Monte dei Paschi's annual July conference, one of academia's all-star affairs, also includes most of the senior staff for the Bank for International Settlements, which also handles official Soviet exchange transactions.