



LBMA

# Alchemist

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**Just weight** – Weighing gold on electronic scales is faster than traditional beam balances – but can it be as accurate? LBMA consultant Douglas Beadle examines the implications and considerations, which include Weights and Measures Verification, an EC approval certificate and the merits of the Mettler Toledo SG16001/M. In our cover photo is an array of brass beam balance weights – from 500 to 1 troy ounce. Weighing the Pros and Cons starts on page 12.



# A Market in Mint Condition

## India Invests in Gold Coins

By David Gornall, Head of Bullion, Natexis Commodity Markets



Photo courtesy of World Gold Council (www.gold.org)

Kotak Mahindra Bank  
100g 999.9 fine gold bar



exports), compared to 533 metric tonnes in 2003. This substantial increase came about despite a sharp rise in price. It can mainly be traced to the usance letter of credit scheme, which effectively allowed importers to purchase gold at a discount to the London price by

*With the London Bullion Market Association Conference delegates preparing to descend on Mumbai next year, David Gornall discusses a gold market that is undergoing one of the most significant changes in consumption that the country has ever experienced.*

India's seemingly insatiable and unending appetite for gold has long fascinated market participants. Such is the importance of the country's wedding season and its major religious festivals that all physical gold commentators refer to them when analysing the global market. The average Londoner may not have any idea when Diwali occurs, but many gold market participants do.

Statistics alone cannot convey the scale of

the buying: to truly appreciate how massive it is, it must be witnessed firsthand, as delegates of the LBMA Conference will have the opportunity to do in November. In any jewellery emporium in one of the main gold centres (see map) during a time of peak demand, hundreds of customers are crammed onto four or five floors stocked solid with jewellery. On one auspicious day this past September, there were 30,000 weddings in the city of Delhi alone. Before days such as this, it may not be physically possible to even enter one of these large stores.

In order to cater to this unparalleled appetite for gold, India must import considerable volumes of metal, as very little is produced domestically (see sidebar for details about import procedures). According to GFMS data, on a gross basis India imported over 800 metric tonnes in 2005 (excluding some trade-related

giving them an opportunity to arbitrage, one year forward, rupee and US dollar interest rates. However, the opportunity proved short lived: the government became so concerned about the amount of business being transacted that it changed the law to allow only 90 days of credit on gold LCs. This action, together with rising US dollar interest rates, killed off the arbitrage.

Even without interest rate arbitrage, imports for 2006 will likely be strong. Prospects look good for 2007, although a rise in price above \$650 would likely trigger a buyers' strike, causing imports to dry up for as long as three to six months, until either prices fell back or buyers adjusted to the elevated levels.

### A Problem with Purity...

A look at a breakdown of the forms of Indian gold consumption shows that one type of investment has had a stronger rate of growth than the others: while overall imports have



Oval coin depicting Lakshmi, Hindu goddess of wealth and beauty

all the metals-all the angles-all the seasons greetings



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Gold trading centres are located across India

shown 50% yearly growth over the last two years, according to GFMS data, coin has consistently outperformed other forms of gold consumption recently. For example, GFMS data for the third quarter of 2006 shows that demand for coin grew by more than double the rate of hoarding and jewellery (measured on a quarter-on-quarter basis – see chart). Meanwhile, the figures for silver demand as an investment class – traditionally popular among the rural classes – have decreased dramatically over the last two years, as these communities are now turning to the smaller denominations of gold coins.

In order to understand the reasons for this development, it is worth remembering that India has one of the world's youngest populations, coupled with one of the fastest growing economies. Consequently, the standard of education is improving and the new middle class has gained an increasingly international perspective. As a result, Indians are becoming ever more aware of the existence and advantages of alternative asset classes. These increasingly sophisticated investors are still purchasing gold – but with a difference.

Poor and rich alike in India have bought gold for centuries, as a product for both adornment and investment purposes. The tradition of giving gold jewellery at weddings and other ceremonies, combined with a poorly performing national currency, have contributed to elevating gold to this dual role.

Unfortunately, there has been another strong tradition in India – the quality of local jewellery was never guaranteed due to the lack of hallmarking. Indeed, 88% of the jewellers tested in a recent survey are selling gold at poorer quality than they advertise.

This problem has been addressed by the Bureau of Indian Standards (BIS), which sets

### From Smuggling to OGLs: Opening Imports of Gold

Imports of gold into India were not generally permitted in the 1990s. And on the occasions when it was permitted, a customs duty of 5% was levied, leading to a flourishing smuggling industry.

The first step towards liberalising imports was the introduction of the Special Import Licence (SIL) Scheme in 1995/96. Exporters of finished goods were issued with SIL licenses that enabled them to import gold up to the value of the licence. Once the finished product was exported, usually in the form of jewellery, the proceeds had to be placed in an Export Earnings Foreign Currency Account. From this account the holder could remit US dollars, and pay the customs duty of Rs250 per 10 grams. These licences were transferable and became freely traded, thus opening up the import of gold.

The introduction of the Open General License (OGL) agreement in 1998 enabled importers to dispense with the SIL and reduced import duty to Rs100 per 10 g. The government then authorised the Reserve Bank of India (the RBI) to nominate certain agencies that could negotiate consignment stocks with overseas suppliers, such as bullion houses and refineries. These agencies would also be responsible for the pricing and payment of the gold, and charged their customers for the services accordingly.

Having a reduced number of entities was a benefit to the RBI, which only had to monitor a containable amount of agencies – rather than the thousands of separate private entities importing gold and remitting US dollars overseas. At one time, the number of agencies stood at more than 20, but through price competitiveness, the total was reduced to about 14, of which six are particularly active.

quality standards for all products in India. It introduced a hallmarking scheme in 1999 on a voluntary basis, pointing out to the public through advertising that quality cannot be assured unless the gold is hallmarked. However, acceptance of the scheme thus far has not been widespread: although many reputable companies have signed up in an effort to stamp out inferior quality, the majority of the country's estimated 100,000 jewellers are still not using hallmarking. Acceptance of the scheme would be broadened by setting up more hallmarking centres, as the service is not easily accessible to all jewellers across the country, and the government is rumoured to be considering the introduction of mandatory hallmarking of gold by 2008.

Because all Indian jewellery is supposedly 22-carat, consumers have been paying a premium for a product whose quality is not guaranteed. In fact, those buying gold jewellery are well aware that the meltdown purity of their purchases could be as low as 14 to 18 carat. Ironically, for a country that is synonymous with high-carat jewellery, the actual purity of it is very similar to that on offer in Western markets, such as Europe and the United States.

### ...Is Not a Problem with Coins

Given the doubts as to the actual purity of gold jewellery, the shift to coins is entirely rational – savvy investors are increasingly buying gold coins and small bars, whose purity of 23 to 24 carat is guaranteed to be in line with that advertised.

The availability of gold coins in India is not a new phenomenon. The difference now is that coins can be bought in a range of weights, from as little as five grams, ranging up to as much as 100 grams. Small bars are available in similar weights, rising to as much as 1 kg – and ten-tola bars, the old standard of the Indian market, are also still available in a 100gram form, though less popular than they used to be. As with the ETFs in the West, this proliferation of products has served to expand and deepen the market for gold.

The key element in the continuing growth in popularity of coins is distribution. The first two companies to start distributing in 2004 were the Indian bank ICICI and the Swiss refinery PAMP. By 2005 there were four banks offering the new products, and a total of 11 banks are currently producing their own coins – two of which have started up in the last three months. The advantage for the banks is that the coins carry their name, and so can enhance their image as a reliable institution. On the other hand, the banks have to be careful with the quality of the product they buy, as any defect will reflect badly on the bank, rather than the refinery that produced it.

Meanwhile, Indian banks are gaining the trust of the international markets, with double

and triple B ratings now enjoyed by several state-owned banks – and as such they are winning the trust of the burgeoning number of Indian investors. If an Indian aims to accumulate units of gold for investment purposes, the banks are encouraging them to choose coins over jewellery as the cheapest and most efficient way to do this.

Furthermore, because gold is fungible with cash – it is used quite widely as security and can also be used in gold savings accounts for future purchase – and since gold jewellery is more difficult to use in this process because the purity is not validated, gold coins provide an obvious solution. While gold savings accounts are currently not very popular in India, having been run mostly by jewellers from a gimmick perspective, attitudes might change should they be offered by local banks, and be backed by the increasing liquidity of gold coins. (By far the strongest segment of

this market is the ten-gram coin.)

Assuming the final quarter of 2006 continues the pattern seen in the first three, Indian coin demand could easily exceed 40 tonnes in 2006 (based on GFMS estimates for the first three quarters of the year). Remarkably, this would be double the size of the market in 2003.

One of New Delhi's large jewellery stores.  
Photo courtesy PC Jewellers

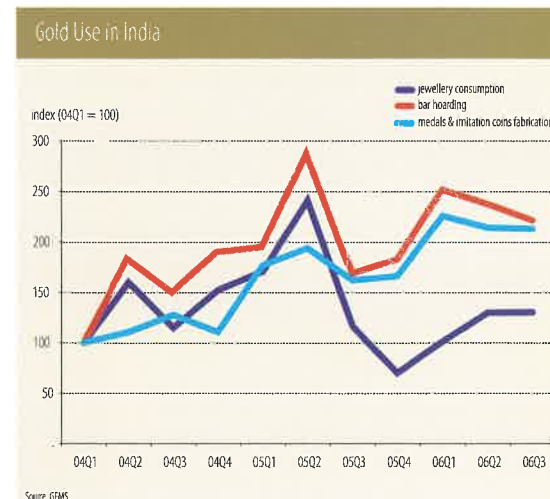


Photo courtesy of World Gold Council  
(www.gold.org)

### Everyone's Happy (Except, Perhaps, Jewellers)

Needless to say, many jewellers aren't happy to see the shift to coins: they are losing business. Although jewellers are also often retailers of coin, the margin on coin is substantially lower than that on jewellery. Nonetheless, their future success may depend on how they adapt to this new trend, and whether an approved certification policy is more widely adopted.

In looking at the recent and forecasted success of gold coins, certain questions arise. Will ETFs succeed when they are introduced into India, or will investors shy away because they distrust paper gold? Although the market has traditionally been based on physical metal, the use of gold as collateral is widely accepted. ETF contracts will eliminate having to ship and store the metal, but investors will probably use a combination of the two, because taking delivery of physical coin has the benefit of anonymity.



Yet another driver of the investment phenomenon will be the issue of VAT uniformity, as states compete to offer the cheapest tax rates for storage. Significant progress has been made recently to impose uniform VAT across India, but there are still examples of tax competition.

The shift in investment towards coin is a permanent one, and one that carries many benefits for the Indian market. It brings gold into the reach of more consumers than ever before, thanks to the diversity of sizes, while giving consumers a form of gold that can be trusted to carry the stated purity. It also allows for more opportunities for gold to be used as collateral.

Over the long term, gold coinage should help to sustain or increase Indian demand for gold. Looking to the future, the Indian gold market will always remain extremely price sensitive, but whatever the ebb and flow of imports, it seems certain that coin's position in the gold market will continue to grow. ■

### David Gornall

started his career in 1979, trading silver at Lonconex Limited, part of the Primary Industries/Golodetz commodity trading group. After a spell

at Morgan Guaranty Trust of New York, he moved to Sogemin, trading in the LME ring and heading the bullion and FX desk. In 1992 he joined NM Rothschild to start their LME base metals operation, before returning to Sogemin – now Natexis Commodity Markets – where he is a main board director responsible for Bullion and FX trading.

David has been a member of the LBMA Management Committee since August 2005.





# A Critique for the Gold Market

## (And Praise for the LBMA)

By Kelvin Williams Former Executive Director, AngloGold Ashanti Limited

The gold market is an exceptional creature, alive in the worlds of either commodities or currencies, in both of which it is a fellow traveller. Gold was a globally traded good – with all the characteristics of a currency market with respect to liquidity and pricing – long before the base metals of this world ever escaped the confines of the London Metals Exchange contracts. And for over a quarter of a century gold has performed the role of complementary trade to the US-dollar market.

Unlike other commodities, gold is practically never consumed or destroyed, and the majority of all gold ever mined still exists in one form or another in the world today. GFMS estimate that there are aboveground stocks of some 156,000 tonnes, equal to almost 40 years of gold offtake in today's market, or 62 years of current annual new-mine production of gold. No other major commodity faces this kind of market, where above-ground stocks annually provide over a third of metal supplies to meet market demands, and where policy decisions by institutional holders of gold, or private investment decisions, can directly affect the market and price of the metal.

Another distinctive feature of the gold market is that the balance of supply and demand for the metal plays only a minor role in its pricing. Price direction is determined largely by investors or speculators in the derivative sector, not by physical consumers or sellers of the metal. Nevertheless, physical demand does play an important role in supporting a floor price for the metal in times of weaker markets, and physical demand certainly saved the price of the metal repeatedly in the 1990s.

The final distinctive feature that I want to mention is the quasi-monetary nature of gold. We should not forget that the regulated and monetary nature of the gold market and the role of central banks as primary buyers of gold for reserve purposes endured until as recently as 25 years ago. The residual characteristics of gold as money take many forms, from the continued strong commitment by central banks – such as the Banque de France and the Swiss National Bank to holding a portion of national reserve assets in metal – to the farmer in Rajasthan who converts the proceeds of his enterprise into a gold bar as soon as the monsoon is over and the harvest is in.



The role of gold as money or as a store of value is reflected in its responsiveness to currency value movements and to other economic indicators. This pricing of gold is captured daily in the headlines of market reports by every leading bullion bank or gold analyst, and I quote, verbatim, from early August headlines:

***"Gold falls sharply on US dollar rally, on oil decline and easing geo-political tensions"***

***"Gold extends decline prompted by US dollar gains"***

***"Higher oil prices reverse gold losses"***  
***"Gold bounces on combination of weaker US dollar and surging oil prices" – followed immediately by...***

***"Gold retreats on US-dollar rally and less-bellucose-than-expected response by Iran to the UN."***

After all that, it was a relief to see John Reade's headline of 24 August 2006 that read "Precious Metals Confused."

A related aspect of this residual monetary characteristic has been and remains the confidential or secretive nature of most stocks and trade in gold, both absolutely and in comparison with other commodities. This secretiveness pervades not only the reporting of selling and buying for investment,

speculation and official-sector activity, but also for parts of the jewellery or consumer sector of the market, where the metal or the product is not infrequently smuggled between different tax regimes, and sales are impossible to record.

### From Mine to Middleman to Consumer

These particular aspects of the gold market have consequences for the behaviour of its participants. I believe that two of the issues raised would benefit from some effort by the industry to manage and address them rather better in the future than has been the case in the past.

The first issue is that the monetary role of gold and the intermediary role of the bullion banks have in effect separated almost all gold producers entirely from any real customers for, or consumers of, the metal they produce.

Although some 80% of annual gold consumption goes into gold jewellery, most gold mining companies have never met a jewellery manufacturer or retailer. Although India is responsible for almost 20% of all gold offtake annually, most gold mining companies have never visited the Indian market.

Gold mining companies must be unique in this world for producing a good for which they never actually go out and find a customer. Bullion banks take gold from the mining companies, finance it as inventory and on-sell it to the fabrication and investment markets. Inevitably, perhaps, this break between the producers and the real market for their metal has led to carelessness amongst most gold producers about the state of the physical market for their product in a way inconceivable in any other commodity market – particularly those of our direct competitors, platinum and diamonds. Since the bullion bank is always there as middleman – in times of weak or strong demand – why have any concern for the health of the market?

Amongst the broader gold market players, the official sector contributes to the health of the market through the orderly selling programme of the Washington Agreement. The gold jewellery manufacturing and retailing sectors, whilst they assist usefully to promote gold in cooperative activities led and managed by the World Gold Council, cannot themselves be relied upon to lead the promotion of gold.

They are fragmented and divided industries, and they have conflicting loyalties to gold – being sellers equally of other precious metal jewellery, diamonds, coloured stones and the like.

Only the gold mining company has the sole and undivided interest in championing the metal and promoting the health of the gold market. Regrettably, this reasoning does not prevail in the gold mining sector.

There are exceptions: the members of the World Gold Council, most particularly Newmont, Barrick, Gold Fields and AngloGold Ashanti, have borne the responsibility over years for funding the promotion of gold, along with some new members of the Council, such as Kinross, IAMGold and Goldcorp.

But well over 50% of gold producers do nothing for their metal except mine it and dump it, and it would be a salutary lesson to all of them if the members of the LBMA were to go on holiday for a month or three and let this sector attempt to produce a form of metal product that end-customers actually want, then find their own buyers, manage their own credit exposures to these buyers, transport and insure their metal to the customer and so on.

Perhaps the closest example that we have of a company in the gold producing/refining sector that straddles the divide between basic metal and end-market consumers is the Pamp refinery and MKS business, where relations with gold customers in important gold-offtake markets are managed as a core activity of the business, and where gold products are constantly evaluated to meet changing customer demand.

### In Diversity, There Are Lawsuits...

The second issue that arises from the monetary nature and unusual confidentiality of the gold business is the diversity of views of the metal and its market.

In no other commodity or foreign currency market does one have the ferment of argument that thrives in gold, nor the vehemence of opposing opinion amongst its participants: between hedgers and non-hedgers, between those who believe in gold as money and those who see it as a commodity, between those who believe that bullion banks are the source of all evil in tempting innocent mining companies to hedge their product and those who see bullion banks as bullion banks.

The polarised nature of this debate is not constructive for the industry, most particularly in respect of the accusations made by gold fundamentalists of massive fraud and manipulation of the gold market. The so-called gold bugs have some valid views about gold, and their great loyalty to the metal is not irrational. Gold has unique characteristics – it is a metal with distinctively useful

metallurgical properties, an object of physical beauty, and a long-standing medium of exchange and arbiter of monetary good health in human society. Gold's most passionate advocates have remained loyal to it through difficult times, and I would share many of their views about gold.

However, it does no one's reputation much good to have an industry in which major producers and banks are sued unsuccessfully for price manipulation, or the governor of the Federal Reserve of the US is accused of lying about US gold reserves, or the official sector generally is treated as misrepresenting the state of its gold reserves on official sector balance sheets.

As a further irrational product of some of the extreme views, the work of the World Gold Council is dismissed by some of these commentators as damaging to the interests of gold because it applies its resources in part to the promotion of gold in jewellery rather than concentrating solely on the investment and monetary gold sectors.

You can imagine how much less effective the marketing activities of our competitors in platinum and diamonds might be if they had to deal with multiple and conflicting loyalties to their products. The gold business would be a stronger and more effective sector for the future if flows and stocks of the business could be more transparently reported, and there were more commonsense consensus or understanding of the business, which in turn might curb the propensity for conspiracy theories in this market. A common understanding of the gold business might also assist all participants to accept positively the multifaceted nature of the market, and to make sure that all aspects of gold's identity in different markets are properly appreciated, supported and maintained.

The World Gold Council has straddled this multifaceted market with Olympic-class effectiveness in combining its core gold jewellery promotion activities with the creation and launch of gold ETFs in the investment sector, creating the single-most-effective and successful investment initiative in gold in the 21 years since the Krugerrand. One would hope that their success might inspire all players in our market to lend more support to gold.

### ...And Eternal Hedging Debates

As a small digression, the same appeal for good sense would apply to the debate on hedging in the gold mining industry. Gold producers over the years have sold production forward for the simple, sensible reason of reducing revenue risk and removing uncertainty in a vital part of the mining business. Over this central reason can be laid such company-specific reasons as protecting a capital expenditure programme or securing

borrowing for projects in high-risk areas of the world.

Believe it or not, there are investors in the gold mining sector who understand the rationale for revenue management and who are keen to see a company run as a company, not simply as an option on the gold price.

However, the debate on hedging has been driven not by such investors, but by a more fundamentalist gold constituency, and along less-than-rational lines – as reflected in a letter by a leading name from the gold fundamentalists, who wrote in 2000 to certain gold mining companies with forward sales, referring to their "cyberspace, non-regulated, non-transparent market devoid and possibly non-existent 'iron pyrite' paper-gold so-called hedges".

The basic view – that gold mining companies ought not to hedge because a certain category of investor wants unmediated exposure to the gold price – contains a major flaw. Such a demand throws up a conflict between the interests of this particular category of shareholder and the broader interests of the gold company, including both its shareholder body and all other stakeholders. An anti-hedging shareholder can quit the shares of a gold company the moment the gold price weakens, and will face none of the downside of weaker market conditions. The gold mining company will continue to exist, however, and must manage its business as best it can in such a market, with or without price certainty or price protection. This sobering reality should place the anti-hedger's demand in some perspective.

Of course, the argument of the gold fundamentalists is that the gold price should always trend upwards, given the fundamental worthlessness of fiat currencies, and therefore gold producers will always be protected by higher prices (the corollary of this view being the conspiracy theory that if the gold price doesn't go up, it must be due to market manipulation). I've never set much store in over-confident forecasts of prices, and I have seen too many price views that have been wrong, and remained wrong, for extended periods of time.

Equally, the argument that hedging by gold mining companies somehow uniquely depressed the gold market in the 1990s is simply nonsense. At its peak, gold-mining-sector hedging and borrowing brought some 4,000 tonnes of gold to the market over the 15 years from the mid-1980s. By comparison, incremental and new project gold mining production over the 20 years from 1980 brought almost 21,000 tonnes of additional gold sales to the market. I leave it to you to decide which of these two weighed more heavily on the market and the price over time.

The most telling argument against hedging for gold miners today is rather the fact that



accounting rule changes flowing from the massive frauds in leading US corporations five years ago have made accounting treatment of hedges for commodity producers a complex and almost unmanageable process. The difficulties faced by gold mining companies in this area are not reduced by an accounting profession that appears unwilling to give constructive advice and leadership. Accounting whimsy alone would justify gold producers forswearing future hedges.

#### To the LBMA!

To conclude, I'd like to return to my earlier observation about the bullion bank as the backbone of the gold trading market and physical distribution: the unsung – not heroes, but certainly colleagues-in-arms – of the global gold business, and their institutional home, the London Bullion Market Association.

We, the gold mining companies, see one face of the bullion banking business, and the attitude of the gold mining sector is too often a dismissive one. I believe that the mining

industry frequently misses the vital role played by the members of this Association, not only in making the market for our metal, but also in their custodianship and professional handling of many of the standardisation and quality issues of central importance to the sustainable and effective conduct of the market for the gold that we mine and produce.

I believe that those who see the bullion banking sector as simply another service industry out to profit from the mining industry do not appreciate the full role that the bullion banks play in the gold business, and fail to enjoy all the benefits that they offer. For you not only sell services and manage many of the processes of the gold market for both sellers and buyers – you provide advice, market commentary and a window on those parts of the market for our metal that we would otherwise never see, from small bar demand in Mongolia to views on the Bundesbank and ECB interest rates.

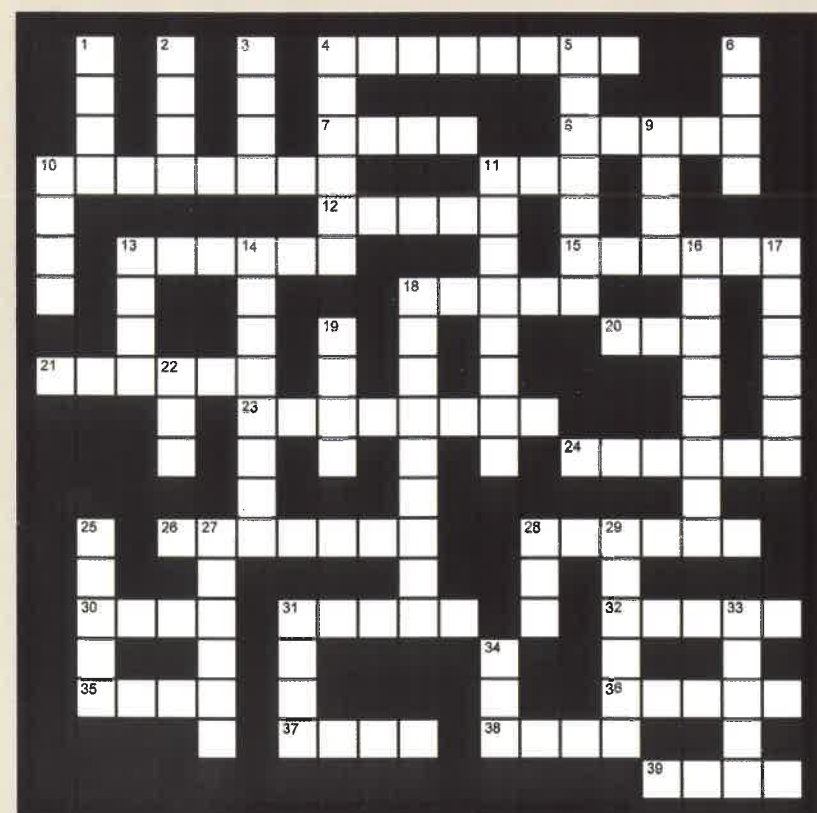
In closing, I would like to record my personal gratitude to all of the remarkable

individuals in the Association who have enriched my understanding of this business, who have explained to me the more arcane parts of what they do, and who have taken risks on the basis of relationships in a pre-Enron world that hardly survives today. You are a remarkable community, and you cover the world of bullion in a manner that no other sector of our business does – servicing central banks in the gold market, looking after mining clients, dealing with bullion traders and middlemen and regional banks from Turkey to China, managing the inventory financing for jewellery manufacturing clients – a sort of London Underground map of the global gold business.

Because you're all part of this same sector, you may not understand quite how unusual your business is compared with other businesses, or quite how interesting a bunch of people you are. I have been enormously fortunate to have spent 20 years of my working life amongst the LBMA's members.

#### LBMA CROSSWORD

All questions or answers relate to LBMA people, places and products. The solution will be posted on the LBMA website on 12 February. A bottle of champagne will be awarded to the first person to send a correct solution to the LBMA (by post, fax or carrier pigeon).



#### Across

- 4 Montreux debater (8)  
7 Ten to the power 5 (4)  
8 Eastern exchange (5)  
10 What they do in Gutter Lane (8)  
11 Sir Callum's employer (3)  
12 A soaring coin (5)  
13 Middle man (6)  
15 What Black-Scholes is used for (6)  
18 Abbreviated silver gold refinery (5)  
20 Option type (3)

- 21 Where Wordsworth saw yellow (6)  
23 This PC man was not responsible for Harry Palmer (8)  
24 Shanghai substitute (6)  
26 Coin derived from Verena (7)  
28 According to Wagner, killed for gold (6)  
30 The monarch of Threadneedle Street (4)  
31 Longest-serving committee chairman (5)  
32 Ligustrum ovalifolium for instance (5)  
35 A knot where gold is found (4)  
36 Previously the Butter and Cheese exchange (5)  
37 An eighth of half a catty (4)  
38 A guilded French engraver and illustrator? (4)  
39 The ridge of white water (4)

#### Down

- 1 1994 template (4)  
2 An optimist in Pamplona (4)  
3 11.6 grammes (4)  
4 Not a PAC runner (6)  
5 Founded in Le Locle in 1852 (7)  
6 Famed for Fortuna (4)  
9 Home town exchange of the Bulls (4)  
10 VAT people (4)  
11 Glaswegian speaker (8)  
13 Russian pessimist (4)  
14 Where Charlie rushed to (8)  
16 Conference two (8)  
17 Not a Saxon committee member (6)  
18 A transmuting magazine (9)  
19 Ernie was Eric's (4)  
22 KAu(CN)<sub>2</sub> (3)  
25 A chairman in the kitchen (5)  
27 Sandton Keynote (6)  
28 What Jim used to do to it (3)  
29 To a German, sounds like a beautiful refinery (6)  
31 Eric Hill's cartoon dog (4)  
33 Not an inexperienced author (5)  
34 Armenian mine (3)

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**PAMP**  
Produits Artistiques Métaux Précieux

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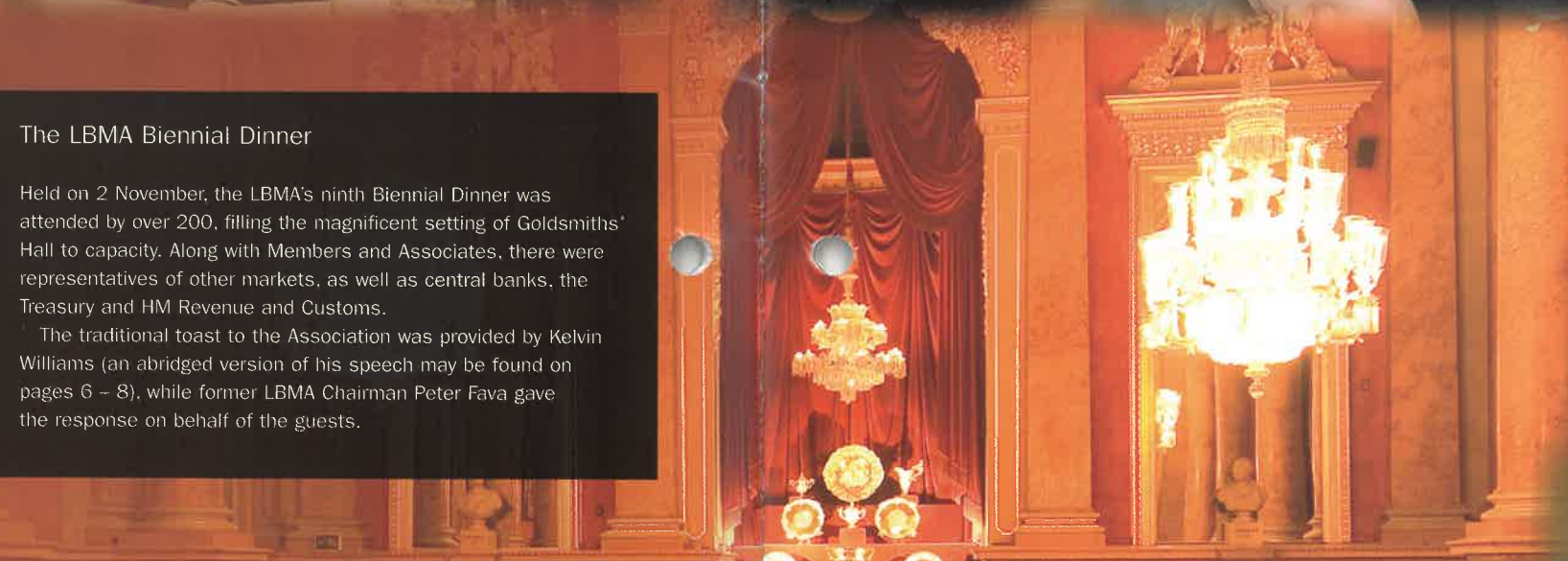




### The LBMA Biennial Dinner

Held on 2 November, the LBMA's ninth Biennial Dinner was attended by over 200, filling the magnificent setting of Goldsmiths' Hall to capacity. Along with Members and Associates, there were representatives of other markets, as well as central banks, the Treasury and HM Revenue and Customs.

The traditional toast to the Association was provided by Kelvin Williams (an abridged version of his speech may be found on pages 6 – 8), while former LBMA Chairman Peter Fava gave the response on behalf of the guests.





# Weighing the Pros and the Cons

By Douglas Beadle, Consultant, LBMA

*An update on the work that is being done by the London gold market regarding the possibility of permitting gold to be weighed on electronic scales, rather than have weighing restricted to traditional beam balances.*

Weights must be calibrated on a regular basis due to wear and tear in normal use. Tweezers are used to handle the smallest weights – as low as .001 ounce – as perspiration from fingers can affect their accuracy.



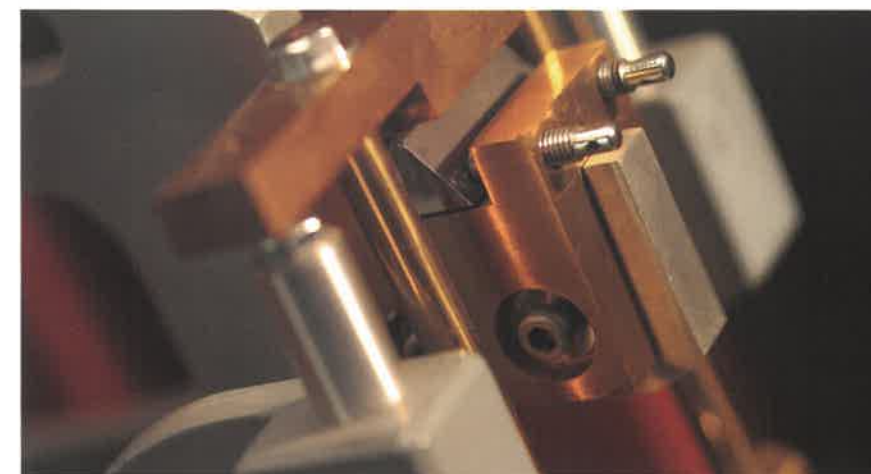
In March 2003, the LBMA Physical Committee decided to undertake an in-depth review of the possibility of permitting the weighing of gold in the London market to take place on electronic scales, rather than insisting that gold be weighed on the traditional beam balances as is the current practice. If it is ultimately decided to permit electronic weighing of gold in the London market, it is anticipated that electronic scales would not replace beam balances, but rather that an individual vault would be permitted to use either or both methods – depending on its preference as dictated by the economics and logistical requirements of its own vaulting operation.

The initiative to look at the possibility of electronic weighing of gold is driven by a number of factors:

- In 1998, when the LBMA approved the electronic weighing of silver, it tentatively looked at extending this facility to gold, but concluded that the electronic scales then available were not suitable to weigh to the exacting limits set by the LBMA. However, the LBMA keeps such matters under review, and the improved technology now available suggests that the electronic weighing of gold may now be a feasible alternative
- Recognition of the fact that there is currently a very limited pool of skilled labour available to service beam balances to the required standard and that the London market therefore needs, if possible, to find an additional acceptable method of weighing gold to ensure that it could continue to function effectively if beam balances could not, for whatever reasons, be regularly and adequately serviced.

- The desire to improve weighing efficiency to better accommodate the very significant quantities of gold that flow through the London market. It is estimated that weighing one tonne of gold on an electronic scale takes approximately 20 minutes – compared with one hour using a beam balance
- Recognition of the fact that the majority of overseas producers already weigh gold on metric electronic scales, and then convert bar weights to troy ounces in order to comply with London Good Delivery requirements – without experiencing any problems.

In undertaking this project, the LBMA has sought the advice and assistance of Jagger & Jagger – Legal Metrology Consultants. From technical information available to the LBMA when the trials commenced, it appeared that the Mettler Toledo SG16001/M electronic scale was the most likely to meet the very



Despite their size, beam balance scales are extremely delicate and sensitive instruments and must be serviced at regular intervals, which entails adjusting and/or sharpening the knives (upper photo).

exacting LBMA weighing criteria. This model has therefore been selected for use by the various London vaults that expressed an interest in participating in the extensive weighing trials that have been undertaken, but the LBMA will continue to keep improvements in weighing technology under review.

## Issues: Weighing Criteria and Verification

In undertaking this review, the LBMA was faced with two main issues.

Firstly, in trying to find a possible alternative to the traditional beam balance, the LBMA felt that it could not in any way consider modifying its existing weighing criteria – as this would have given rise to weight differences, particularly on bars that were “tight” (i.e., only just pulled their declared weight) when such bars came on to the market from the stocks held in long-term deep storage, mostly by central banks and similar institutions, not least because writing off even relatively modest weight differences tends to be a very emotive issue for such gold

holders. Furthermore, to have to re-weigh all the bars in deep storage and then attempt to account for any weight differences arising between the numerous depositors holding such gold would have caused severe logistical problems within the market. New bars coming on to the market that are “tight” would not be a problem because the weights could be agreed between the parties concerned immediately, with no need to trace the supply chain back over many years.

The second issue is that, in order to be compliant with legal requirements for use in the United Kingdom, any electronic scale would have to be capable of Weights and Measures Verification for weighing gold, namely a class I or II scale having a National or EC approval certificate. The Mettler Toledo SG16001/M model is a metric scale that has such approval but, of course, the London market weighs in troy ounces. It has therefore been necessary to develop a piece of software linked in to the electronic scale and a printer that takes the metric weight per the scale and then converts that to a troy ounce weight (rounded down where necessary to the next

0.025 of a troy ounce) in order that the scale continues to fall within the existing Weights and Measures Verification requirements.

The trials so far have involved a number of different comparisons. Vaults in London have weighed bars both on the traditional beam balance and then on an electronic scale – before delivering the bars to another vault, which then did the same, with the results of all four weighings then being compared. In other instances, a vault has weighed bars on a beam balance, and then on one or two electronic scales, with the weights then being compared.

The trials have taken a long time, mainly because the trial work has to be carried out in addition to the vault's own day-to-day operational requirements. Thus, when markets are particularly active, as has been the case for most of the past year, trial work has had to be suspended until the vault has caught up with its normal work.

## Still in the Balance

At the very extremes of accuracy, it is recognised that electronic weighing is unlikely to be as accurate as weighing on a beam balance. There remain some outstanding issues on the repeatability of electronic scales, and although the weight differences reported are minor and infrequent, further technical investigation is required.

In summary, the LBMA recognises that electronic weighing of gold is already widely used overseas, and the Association is keen that the London market should, if feasible, take advantage of improved weighing technology to further enhance the effectiveness of the vaulting operation in London.

The LBMA will therefore continue, with the help of its metrology consultant, electronic scale manufacturers and the London vaults, to try to find solutions to the current outstanding technical issues, with a view to seeing whether electronic scales can be adopted as an acceptable method of weighing gold in the London market. If the technical outcome is positive, it will then, as mentioned above, be necessary to devise an effective way of dealing with weight differences arising on bars coming out of deep storage. ■





# IPA: A Catalyst for the PGMs

## An Interview with Gabriele Randlshofer

Managing Director of the International Platinum Association



*Don't be misled by what it says on the tin: the IPA's broad remit covers all industrial – that is, non-jewellery – applications of all the platinum group metals. In addition to platinum, this includes palladium, rhodium, iridium, ruthenium and osmium. Gabriele Randlshofer, the IPA's head, describes the organisation, its work, and its goals.*

**Let's start at the beginning. How did the IPA – the International Platinum Association – come into being?**

The impetus to form our association came about as the use of pgms in industrial applications began to expand rapidly during the mid to late 1980s, mainly as the use of catalytic converters grew much more widespread in the wake of legislation tightening emissions control. It was felt that the industry could benefit from having an association solely dedicated to the use of pgms in industrial applications, and so, in December 1987, the IPA was founded.

I know that the IPA is sometimes confused with the Platinum Guild International but, although we share some of the same members, they are two completely separate companies with very different remits. The PGI actually came into existence first, about 30 years ago, with the primary aim of marketing the use of platinum in jewellery. That is the only metal and the only application they cover.

**What are the IPA's main activities?**

We are a trade association, not a marketing organisation – we're more of an information provider. Our remit covers all industrial applications – basically any use for pgms except jewellery – and all the platinum group metals: platinum, palladium, rhodium, iridium, ruthenium and osmium. We seek to create an awareness of how pgms are used among legislators, the media, market analysts and the general public. What we don't do is forecast or comment on market prices.

One of our main activities is to monitor tax and trade policies around the world – anything that can have an impact on the industry. As you can imagine, this involves quite a lot of time and effort. When there are legislative developments, we update our members and try to identify opportunities where we can influence the outcome. As we represent different interests – both mining and fabricators – we don't try to issue joint statements. Rather, we try to identify the responsible parties within legislatures for our members to contact.

**What types of companies make up your membership?**

We have 13 members, which come from the mining, production, refining and fabricating sides of the industry. Our membership is worldwide – Europe, Japan, Russia, South Africa and the United States.

**Do you work with other organisations?**

We think it's important to exchange ideas and information with other organisations. We are a member of Eurométaux, and work together with the European Precious Metals Association on the REACH legislation. We also maintain dialogue with the ICM – the International Council for Metals and Mining – which requires that its members adhere to certain standards. Two of our members, Lonmin and Anglo Platinum, are also members of the ICM.

Last spring, we set up an exhibition in the European Parliament. We worked with the Association for Emissions Control by Catalyst, a scientific lobbying organisation based in Brussels. Our goal was to inform legislators of how the industry has been able to contribute to air improvement through catalytic converters and diesel particulate filters.

**You mentioned that emissions control legislation was the catalyst for the creation of the IPA. What are the main industrial applications for pgms today?**

I am sure that most members of the general public don't realise how many applications pgms have in the articles that they use in everyday life, from fountain pens to smoke detectors. While catalytic converters still account for the single largest industrial usage of pgms – 85% of all cars worldwide are fitted with converters – new applications in other areas are being added all the time, meaning that demand for pgms is constantly increasing.

Other examples include pgms used in catalysts for oil refining; in medical applications, where they are found in chemotherapy drugs and in pacemakers and defibrillators; in glass production, in the fabrication of LCD screens; and in electronics, where they are used in components of cell phones and hard disks.

**What methods do you use for educating and informing?**

We issue a newsletter twice a year, which covers recent developments – for example, one article in last November's issue detailed how Europe's new REACH legislation will affect the metals industry – important information for our members located outside of the EU. Each issue also contains a profile of one of our members, which gives them a chance to describe their activities in detail. Furthermore, we inform our membership on a bi-monthly basis of the latest developments in legislation and industry.

We're currently revamping our website, which will give it a new look and greatly expand its content. In addition to information about the Association itself, we'll have more information about our members.

**Do you have any comment on market volatility?**

Although platinum is in our name, we cover all pgms, so we try to stay as objective as possible. Since some of our members are primarily platinum producers, and others produce palladium as well, we don't try to promote the use of one metal over another. If prices are volatile, there is always talk of metal substitution, but we try to remain neutral – it's really a question of what metal is best suited for an application.

Of course, commodity markets have attracted a good deal of interest from the investment community, and that's led to volatile market conditions at times. Since our members are involved on the industrial side, too much volatility scares their customers and damages their business. To the extent possible, they would prefer stable market conditions.

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Looking ahead, with pollution and greenhouse gas emissions becoming one of the top priorities in our world, our objectives are to further increase the awareness of the contributions our industry provides in improving our global environment. ■

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## Market Moves

### Jack Allen to Natexis

Jack Allen has joined Natexis Commodity Markets Ltd, responsible for developing a wholesale gold and silver business. He began his career in 1977, dealing in South African gold mining shares at Samuel Montagu and Co, before trading on the floors of the London Gold Futures Market and LIFFE. He subsequently worked in interbank trading and sales for, among others, Deutsche Bank, AIG International Ltd, and, most recently, Calyon Global Trading.

### Barry Canham to INTL Commodities, Dubai

Barry Canham will join INTL Commodities Inc in Dubai in February 2007 as Deputy CEO of the joint venture between International Assets Holding Corporation and Nilesh Ved, founder and managing director of the Apparel Group.

Barry, a well known figure in the international market, has been involved in precious metals trading for 18 years, most recently with Standard Bank in London and Dubai, and previously with Credit Suisse, where he held various senior management positions, including global head of precious metals trading.

### Commerzbank International, Luxembourg

Effective 1 December 2006, Adrien Biondi took over responsibility for the global precious metals dealing desk of Commerzbank International S.A, Luxembourg, and Peter Kanstein was appointed Deputy Head. Klaus Hoffmann, Head of Foreign Exchange of Commerzbank Capital and Markets, will supervise the trading activities of the precious metals department.

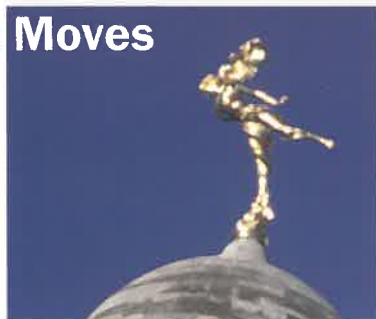
### Greg Fan to Bear Sterns

Greg Fan has been appointed head of precious metal trading for Bear Sterns in Hong Kong. He previously worked for Sun Hung Kai and Deutsche Bank.

### René Hochreiter to James Allan and Associates

René Hochreiter has joined James Allan and Associates, a corporate finance group specialising in the fields of platinum and diamonds.

Before accepting this position, he was an investment banker with Nedbank and, prior to that, spent 17 years as a platinum analyst at various stock broking companies, where he achieved ten world No.1 ratings in the sector. His early career included roles as a mining engineer at Anglo Platinum's Rustenburg Mines and as a geologist on the Potgietersrust Project.



### Bruce Ikemizu to Standard Bank

With effect from 5 December 2006, Bruce Ikemizu has joined Standard Bank Plc to set up and head the bank's Tokyo operation. He will be stationed in Hong Kong until the Tokyo office is complete.

After beginning his precious metals career in 1986 at Sumitomo Corporation, Bruce worked at Credit Suisse and, most recently, spent 14 years at Mitsui Tokyo.

### Edward Jette to Mitsubishi

Edward D. Jette has joined Mitsubishi International Corp. as a division vice president in the Non Ferrous Division, Precious Metals Group. He will be responsible for sales, market development and special projects. He brings the company over 25 years of experience in the global natural resource sector, including roles with precious metals refiners, fabricators and their trading subsidiaries, international banks and his own trading and consulting company. He was an integral part of the largest non-energy corporate merger between Russia and the United States – the Norilsk Nickel-Stillwater Mining Company transaction.

### Andre Lewis to Mitsui Precious Metals, London Branch

Andre Lewis has joined Mitsui & Co. Precious Metals, Inc. as its London Head of Trading. He was previously at Deutsche Bank in London, Endeavour Funds Management in Sydney and Macquarie Bank, also in Sydney.

### Bryan O'Rear to Bear Sterns

Bryan O'Rear has been named managing director at Bear Sterns London, responsible for running options trading and platinum group metals. He recently joined the company from Deutsche Bank in London.

### Christian Pfeifer to Mitsui Precious Metals, London Branch

Christian Pfeifer has joined Mitsui & Co. Precious Metals, Inc. as senior trader. Christian was previously at Heraeus Precious Metals Management in New York, NM Rothschild in London and Heraeus Metallhandelsgesellschaft in Hanau.

### Jeffrey Rhodes to INTL Commodities, Dubai

Jeff Rhodes will join INTL Commodities in Dubai in February 2007 as CEO. He will head their expansion into the Middle East region.

With almost 30 years experience spanning four continents, Jeff has helped his previous employers – Samuel Montagu, Credit Suisse and, most recently, Standard Bank – to develop their precious metals portfolios in the Middle East region. He is a member of the Dubai Gold Advisory Group and has been prominent in the development of the Dubai Multi Commodity Centre.

### Rishi Sawhney to Mitsui Precious Metals, London Branch

Rishi Sawhney has relocated from Mitsui & Co. Precious Metals, Inc. in New York to the company's London branch, where he will be responsible for marketing.

### Laurence Steel to INTL Commodities, London

Laurence Steel will join Glyn Stevens as Manager of Physical Precious Metals. He has spent the previous ten years at Standard Bank, following previous positions at Barclays Precious Metals, Elders Finance and Mitsui.

### Glyn Stevens to INTL Commodities, London

Glyn Stevens has joined the London Branch of the International Assets Holding Corporation subsidiary, INTL Commodities Inc, as Head of Precious Metals. He is responsible for expanding INTL's metals business into the European region.

Glyn has been trading precious metals, particularly the platinum group metals, for over 20 years, beginning at Johnson Matthey, then moving to Ayrton Metals, Samuel Montagu and, most recently, Standard Bank.

### Russell Wheeler to Citibank

Russell Wheeler has joined Citibank's expanding metals trading team. Based in Singapore, he is jointly responsible for risk management in Asia, and reports to Ananth Doraswamy in Singapore and Jeffrey Shiu in London.

Russell has been trading metals for 18 years, gaining experience in London, Hong Kong and Australia, where he has spent the last 11 years.

### David Wong to Bear Sterns

David Wong has joined Bear Sterns in Hong Kong, responsible for their precious metals marketing program. He previously worked at AIG Trading and JP Morgan. ■

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# Good Delivery Rules and Recommendations

## The LBMA's Plans for Changes to the Good Delivery Rules for Gold and Silver in 2007

By Douglas Beadle, Consultant, LBMA

*The LBMA Physical Committee is seeking the views of Good Delivery refiners on a number of proposed changes to its Good Delivery Rules, which govern the process of admitting refiners to the Good Delivery List. The Rules document (which can be downloaded from the LBMA website under the Good Delivery section) includes both actual rules (e.g., requirements about technical and non-technical criteria that have to be satisfied in order for a refiner to be included on the List) and also recommendations about matters such as bar size, marks and packing etc, where the LBMA (or its member vaults) may exercise a degree of latitude in enforcing them.*

The Rules and associated procedures that are followed when processing applications have evolved over a number of years, and there have been no fundamental changes in the basic requirements for testing applicants' abilities to assay accurately and produce well marked bars

of good appearance. The changes that have been made were for a number of reasons, such as clarifying the requirements for listing; ensuring that the LBMA has full information about an applicant refinery; and finally to take account of the vaults' experience in the physical handling of bars.

When changes are made, the LBMA will require any subsequent Good Delivery applicants to abide by the new Rules, but it has not always been thought essential or practicable to impose them retroactively on refiners already on the Good Delivery List. Thus, for instance, some specifications for bars are described in the Rules, as the LBMA's recommendations for best practice rather than being mandatory on all listed refiners.

Changes to the Good Delivery Rules that are mandatory can become an issue for the vaults, particularly in relation to old bars coming out of deep storage and that do not now comply with the current specification for Good Delivery bars – but that did comply when the bars were produced. In some cases, the issue is very clear-cut and decisive action can be taken.

For example, in June 2006 the LBMA announced that bars that did not bear the original refiner's assay mark and fineness, but were accompanied by an assay certificate,

would no longer be considered Good Delivery. Although this kind of change has no impact on current Good Delivery refiners, others may have done – such as the change to the rounding rule in respect of four-nines metal (whereby assays of 999.86 to 999.89 could not be rounded up to 999.9 per the normal LBMA rounding rules). An earlier example of a rule change that affected many refiners was the narrowing of the acceptable range of bar weights for silver Good Delivery bars that was introduced in January 2000.

### Changes Under Consideration

The following specific issues are under consideration.

#### Silver Bar Weight Range

The permitted weight tolerance on silver bars, in percentage terms, has always been significantly greater than with gold bars, which can make the physical handling of silver bars more inconvenient, particularly if bars from different producers with widely different weights are packed on the same pallet. In January 2000, the LBMA recommended that the weight range for Good Delivery silver bars be narrowed from 500 / 1250 to 750 / 1100 troy ounces, but in order to recognise the preference of some markets in the Far East,

#### Tracking Changes: The March Seminar

The LBMA Physical Committee is currently discussing a number of proposed changes in the mandatory rules. Needless to say, any changes that may require refiners to make significant modifications to their operating procedures must be handled with appropriate consideration for the costs and time involved at the refinery.

The changes, which are described in the main text, will therefore be discussed with refiners at the LBMA's Assaying and Refining Seminar – to be held at Armourers' Hall, London, on 20th and 21st March, 2007 – before the Physical Committee makes any final recommendations to the LBMA Management Committee. Details of the seminar are available on the website in the Good Delivery section. Registration is free to all refiners on the Good Delivery List.

In the meantime, refiners are invited to submit any comments on the LBMA's proposals to the LBMA Executive by fax to +44 (0) 20 7796 2112 and/or email to [Stewart.Murray@lbma.org.uk](mailto:Stewart.Murray@lbma.org.uk) or [Douglas.Beadle@lbma.org.uk](mailto:Douglas.Beadle@lbma.org.uk).

continuing production in the 500 / 1250 troy-ounce range remained acceptable as Good Delivery.

The LBMA is now considering amending the specification of a Good Delivery silver bar to make the 750 / 1100 troy-ounce range mandatory with effect from 1 January 2008. After that date, refiners could, of course, continue producing bars in the old 500 / 1250 troy-ounce range to meet particular client demand, but such bars would not be deemed acceptable as Good Delivery. Likewise, old bars in the 500 / 1250 troy-ounce weight range produced prior to 1 January 2008 and coming out of deep storage would continue to be acceptable as Good Delivery bars.

#### Bar Stamping

Consideration is being given to allowing bar marks on silver bars to be put on the end of bars using dot matrix (pneumatic punching) or laser marking. It is not intended to allow this type of marking method on the main face of the bar, as it is felt that such marks would be more prone to becoming indecipherable due to normal handling and stacking.

Conventional stamping on the end of bars would not be allowed, as the undercut of the bar may result in the mark being less clear or the opposite end of the bar being damaged.

The current requirement is that bar marks should generally be placed on the top (the large surface) of the bar rather than the bottom. The undercut of the bar is used to facilitate easier handling, and bottom stamping is considered to make handling more difficult, with greater risk of injury. The LBMA is therefore considering no longer permitting the bottom stamping of Good Delivery bars from some future specified date.

Although the Good Delivery Rules state that the year of manufacture should be stamped as a separate four digit number, some refiners still incorporate the date of production within the bar number, and the LBMA is considering making a separate four-digit number for the year mandatory – again, with effect from some future specified date.

Although the minimum height of individual characters is specified as 12.5mm, no minimum depth of characters is specified, and the LBMA is giving thought to whether a minimum depth should be specified and, if so, what that depth should be.

#### Casting

Casting using closed or gated moulds leaves a residual sprue, which needs to be guillotined off. Over the last year it has come to the LBMA's attention that insufficient care has

been devoted to this, with the result that bars are coming on to the market with a prominent ledge (the residual sprue), which can have razor-sharp and / or jagged edges. This poses a significant risk of injury to handlers, bearing in mind that the undercut of the bar is used to assist lifting. The LBMA is therefore considering insisting that all Good Delivery bars must be produced using individual open moulds from a specified future date.

Thought is also being given as to whether a minimum and maximum undercut should be specified to enhance safe stacking and safer handling. Likewise, the LBMA is considering whether the maximum depth of permitted shrinkage should be specified to make stacking safer and make bar marks easier to read.

Some old bars, particularly those coming out of deep storage, have cracks or holes in them, and the LBMA is considering formally declaring such bars as being non-Good Delivery because impurities can enter the bar and distort the weight, as can water, which poses a very real risk of explosion if such bars are added to a molten bath in a furnace.

As indicated above, any mandatory rule changes would only be introduced after a sufficient period of notice to allow existing Good Delivery refiners to make the requisite changes to their manufacturing processes. ■



**LBMA Annual Party  
for Members and  
Associates**

# Comedy Night

**Thursday, 1 March 2007  
18:30 – Late**

**Jongleurs Comedy Club  
Camden Lock, London**

The annual party is free of charge to all bullion staff at Member and Associate companies. Admission is by ticket only. Registration forms have been sent to the LBMA contact at each company. For further information, please contact Belinda Elliott at [Belinda.elliott@lbma.org.uk](mailto:Belinda.elliott@lbma.org.uk).





# LBMA News

By Stewart Murray, Chief Executive, LBMA

## MEMBERSHIP Members

The address for Sovereign Bank has changed to:  
One Financial Plaza – 3rd Floor,  
Providence, RI, 02903, USA.

## GOOD DELIVERY LIST Silver

The Remondis Argenta precious metals refinery in the Netherlands was added to the Silver Good Delivery List on 10 November 2006.

## Gold and Silver

As of 16 October, Valcambi of Switzerland has changed the bar marks on its Good Delivery gold and silver bars (replacing “VALCAMBI SA BALERNA-SUISSE” with “Valcambi SUISSE”).

## COMMITTEES

### Coming and Goings

As can be seen below, there have been a number of changes in the membership of the LBMA's various committees. We would like to thank the departing members for their contributions and welcome their replacements. It cannot be repeated too often that the strength of the LBMA derives principally from the willingness of the members of the committees to give their time, energy and experience in guiding the affairs of the Association. The LBMA is also grateful to the unsuccessful candidates for putting their names forward.

### Management

The Management Committee met in December, and most of its discussions were based on the

proposals put forward by the sub-committees described below. The Committee voted to co-opt Gerry Schubert of Fortis Bank to fill the vacancy that had been created by Jack Allen's resignation, which he tendered on moving to Natexis (which is already represented on the Committee). Jack continues to be the Chairman of the Membership Committee.

### Physical

The Physical Committee met in November and December. The main topics considered were the electronic weighing of gold (see article on page 12); the progress of proactive monitoring, which is approaching the end of the first three-year cycle; an update of the Good Delivery Rules and Procedures (see article on page 18) and the arrangements for the forthcoming Assaying and Refining Seminar (see below). Martyn Denison of Deutsche Bank resigned from the Committee at its meeting in December.

### Public Affairs

The PAC held one meeting in the fourth quarter, where a single issue was discussed, namely the venue for the LBMA's 2007 Conference (see below). Other issues currently being discussed by the Committee are the possibility of the Biennial Dinner being converted to an annual event and the analysts to be included in the annual precious metals *Forecast*, which will be issued as usual towards the end of January.

## Membership

At its meeting in October, the Committee discussed a possible new arrangement for the sponsorship of applications for membership, whereby it would no longer be necessary for an applicant to have at least one of its sponsors being a Market Making member. Of course, any change in the sponsorship system will have to ensure that there is no dilution of the quality of companies that are admitted as either Full Members or Associates. The Committee bids farewell to Anne Dennison of Mitsui and welcomes Adrien Biondi of Commerzbank in Luxembourg.

## Finance

The budget for 2007 that had been prepared by the Finance Committee was approved at the meeting of the Management Committee in December.

## Biennial Dinner

The Dinner was held in Goldsmiths' Hall on 2 November, with the chief guest being Kelvin Williams, formerly Executive Director of AngloGold Ashanti. An edited version of his speech is given on page 6. The LBMA's guests included representatives of other metal and commodity markets, as well as central banks, the Treasury and HM Revenue and Customs. Given the LBMA's healthy financial position, it was agreed, for the first time, that the initial allocation of tickets to Members and Associates would be free of charge. The dinner was very well attended – in fact the Livery Hall was filled to capacity – and feedback from members and guests was very positive. In the coming months, the PAC and Management Committee will be looking at the possibility of making this an annual event. Any comments from the membership about this idea would be welcomed.

Stewart Murray presents two of the winners of the 2006 Forecast with their prizes, one-ounce gold bars donated by PAMP SA. Far left, Rene Hochreiter, the winner in platinum; left, David Holmes, the winner in gold.

## The LBMA Precious Metals Conference

The LBMA's eighth annual Conference will take place in Mumbai, India, during the period 18-20 November 2007. The venue will be the Taj Mahal hotel. Looking further ahead, the LBMA has agreed to organise its ninth conference as a joint venture with the London Platinum and Palladium Market in the fourth quarter of 2008.

## Seminar on Assaying and Refining

The second seminar in the series will be held in London on 20-21 March 2007. Representatives of Good Delivery refiners can attend free of charge. In addition to covering various questions related to the assaying of gold and silver, the meeting will discuss the LBMA's proposals concerning the specifications for Good Delivery bars and the methods of casting and marking used by refineries. These are summarised in the article on page 18. Another subject to be included on the agenda will be status of “four-nines” gold refiners on the Good Delivery List and, in particular, the procedure used for their proactive monitoring.

## Annual Party

The Annual Party for the bullion market will be held on Thursday, 15 February 2007. It will take the form of a comedy club evening. As with last year's annual party, there will be no charge for the staff of Member and Associate companies who attend. Details of the event and a registration form have been sent to the LBMA contacts at all Members and Associates.

## Members' Dinner

The fourth in a series of dinners hosted by the Chief Executive for representatives of Member and Associate companies was held on 21 November. Following a brief presentation of the work and plans of the LBMA, there was an extended discussion about the future direction of the LBMA. Among the suggestions put forward was one that the LBMA should organise a closing price at the end of the trading day in London. As at previous dinners, an active topic of conversation was how the London OTC market should relate to (or possibly react to) the advent of new precious metal exchanges around the world. The Management Committee has agreed that two similar dinners should be held in the coming year.

## Market Making

A meeting of Option Market Makers was held on 4 December to discuss the

operation of market making in gold and silver options in the London market and the mutual obligations of market makers to each other.

## Strategy Committee

In the second half of last year a number of discussions took place about the future of the LBMA and the London Bullion Market. These provided some of the ideas that were subsequently considered in mid December at a meeting of an ad hoc Strategy Working Party, consisting of members of the Management Committee and representatives of some of the LBMA's sub-committees. The aim of this brainstorming session was to examine the present and future role of the LBMA in the context of the rapid development of the market for precious metals. The Working Party's report will be considered by the Management Committee at its meeting in January. ■

# Obituary

**John Baird: The Great Wise Man of Mocatta**  
By Timothy Green

John Baird, one of the most respected figures in the bullion market in the 1970s and 1980s, died early in January at the age of 77. He leaves his wife Julia, whom he met in Hong Kong, and one son, Simon.

John spent his early career in Hong Kong with Jardine Matheson, before joining Mocatta & Goldsmid, then part of Standard Chartered Bank, in 1975. He established Mocatta's Hong Kong office, pioneering the liaison between European dealers and the Chinese Gold and Silver Exchange. Peter Hambro recalled, 'In Hong Kong he was known as the great wise man of Mocatta.'

He returned to Mocatta in London in the early 80s, leading marketing in the Middle East and Eastern Europe. In 1989 he retired and joined MIT, the London forex and bullion trading company, as a director.

Memories of him are warm and worldwide. 'John was a consummate professional,' said Simon Weeks of ScotiaMocatta. Added Brian Burns, 'He was a gentleman, a true Englishman who was always civil and respectful of people.' And David Wilkinson, who learned the bullion trade in John's wake on the road, reflected, 'He was unique at running meetings. He taught me never to break a silence – always wait for the client to say something.'

For Medhi Barkhordar of MIT (and MKS Finance), 'John was one of the originals, who had seen a lot and kept his integrity. He was street smart and knew exactly what were the risks.' A final word from Brian Burns, 'There was never a dull moment with John, and if there was no business left he would order up a gin and tonic.'

## DIARY OF EVENTS

### February 6 – 8

Investing in African Mining –  
Indaba 2007  
Cape Town, South Africa  
T: +1 314 824 5516  
liconf@liconf.com  
www.liconf.com

### 15 – 16

CIS Precious Metals Summit  
Moscow  
T: +44 (0) 207490 3774  
natalia@adamsmithconferences.com  
www.adamsmithconferences.com

### 20

39th Minesite Mining Forum  
London  
T: +44 (0)20 7395 1935  
F: +44 (0)20 7395 1931

### March 4 – 7

PDAC Mining Investment Conference  
Toronto, Canada  
T: +1 416 362 1969  
F: +1 416 362 0101  
info@pdac.ca  
www.pdac.ca

### 13

40th Minesite Mining Forum  
London  
Details as above

### 20 – 21

LBMA Assaying and Refining Seminar  
London  
T: +44 (0)20 7796 3067  
F: +44 (0)20 7796 2112  
mail@lbma.org.uk

### 27 – 30

Asia Mining Congress 2007  
Singapore  
T: +65 6322 2700  
F: +65 6223 3554  
enquiry.sg@terrapinn.com  
www.terrapinn.com

### April 4

GFMS Gold Survey 2007  
London, Johannesburg, Toronto  
T: +44 (0) 20 7478 1777  
info@gfms.co.uk  
www.gfms.co.uk

### 17

41st Minesite Mining Forum  
London  
Details as above

### 25

GFMS Platinum &  
Palladium Survey 2007  
London, Johannesburg  
T: +44 (0) 20 7478 1777  
info@gfms.co.uk  
www.gfms.co.uk

### May 14 – 15

Hard Assets Investment Conference  
New York  
T: +1 314 824 5516  
liconf@liconf.com  
www.liconf.com

### 15 – 17

World Mining Investment Congress  
London  
T: +44 (0)20 7827 4155  
F: +44 (0)20 7242 4303  
caroline.thoresen@terrapinn.com  
www.worldminingcongress.com

### 21 – 22

Gold and Precious Metals Investment  
World 2007  
Dubai  
T: +44 (0)20 7827 5947  
Oisin.commane@terrapinn.com  
www.terrapinn.com

### 22

42nd Minesite Mining Forum  
London  
Details as above

### 23

World Silver Survey 2007  
New York, Mexico City  
info@silverinstitute.org  
www.silverinstitute.org

### June 9 – 12

IPMI 31st Annual Conference  
Miami, Florida  
T: +850 476 1156  
F: +850 476 1548  
www.ipmi.org

### 19

43rd Minesite Mining Forum  
London  
Details as above





# Advantage – London

Editorial Comment by Jeremy Charles, Chairman, LBMA

Precious metals begin the New Year on a positive note – the price of gold is 16 percent higher than it was a year ago; silver is up 40 percent.

While it is difficult – to say the least – to predict where prices will head over the course of the year, one certainty is that the nature of the market has fundamentally changed during the last few years. Investors are now the driving force, and the introduction of ETFs in gold and silver has enabled a new breed of retail and institutional clients to invest in precious metals.

Unlike the FX market, delivery of bullion can have a multitude of forms. Customers wanting to trade gold and silver have a wider choice of trading locations and platforms than ever before. Gold contracts have recently been introduced on exchanges around the world, from Budapest to Pakistan. Trading volumes have increased dramatically.

In light of this, the challenge facing the London market is deciding how to tap into this expanding global market, whilst still ensuring that London continues to provide the central role for precious metals services.

What does the London OTC market offer its customers today? Without doubt, the overall expertise and flexibility that the members of the LBMA provide is key. There are market conventions, but contracts are not fixed: dealers can tailor a quote to cover a client's precise needs in terms of location, amount and settlement date.

The majority of dealers in the OTC market are able to provide credit lines to their clients, which gives the customers a degree of flexibility, as it means they don't necessarily need to tie up credit to maintain a position which they are likely to require when dealing on an exchange based contract.



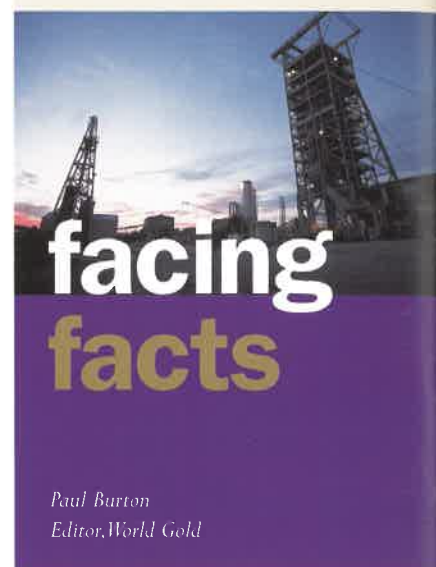
The OTC market has a further advantage in that clients can deal with complete confidentiality: clients choose one institution to transact their business with and, if they so wish, deal and settle only with that counterpart. Transactions can involve collection, transportation, weighing, account credit – through to any final deal and currency settlement. No other party need be involved in the process, thus preserving any sensitivities the client may have.

Another considerable advantage is London's substantial liquidity – which it is essential to maintain going forward. The foundation for this must be the Market Makers, for they ensure that there is always a pool of liquidity that ensures that customers receive a guaranteed and fair price. Having a number of different companies to choose from – all of which are substantial financial institutions – is vital to those who use the London market.

The provision of this liquidity obviously benefits the market as a whole, but it is also a benefit to those Market Makers which are providing it. Each institution provides a relatively small amount of liquidity to other Market Makers in exchange for having an opportunity to access a much larger combined amount of instant liquidity in return.

London's pivotal role in the global bullion market is tied to the city's status as the world's leading financial centre. Customers come to London because they have confidence in the services and systems that have been honed and refined in the City over hundreds of years and because they know that they will be operating under a fair and well established regulatory framework.

How can we in the bullion market ensure that our successors will be able to participate in the same vibrant, efficient and innovative market that has served the industry so well in recent years? We are a successful market because our predecessors cared about the future of the market – that was the driving force behind the creation of the LBMA, and that is what underlies all our activities. If we ourselves invest and plan for the future today, we will in turn ensure a thriving market for tomorrow. ■



## The Real Price – and Real Value – of Gold

In this edition of *Facing Facts*, I focus on two of the so-called 'softer' issues that confront gold miners – but which are often not discussed in industry articles that tend, with some reason, to be more concerned with ounces and dollars.

### A Job to Die For?

The incident at the Beaconsfield mine in Tasmania early this year, when the fate of two miners trapped underground by a rockfall drew the attention of a worldwide audience for many days, highlighted how dangerous the mining business is.

Despite modern rock mechanics, monitoring devices, sympathetic mine planning and technologically advanced rock-support methods, the stress levels on excavations deep underground are immense, and explosive failure can be difficult to predict and prevent. And that's not the only danger underground, as the proximity of large machines and smaller men in confined spaces can make daily operations a hazardous occupation.

As analysts, investors or journalists, we often tend to overlook this aspect of the mining industry, preferring to concentrate instead on production, costs, business performance and bottom-line earnings.

The South African mines, which are still some of the most productive in the world, have an unenviable injury-to-employees record. Nowhere is safety a

greater issue than in the deep gold mines of the Witwatersrand and the Free State. Here 'normal' mining risk is exacerbated by the narrow reefs, which lead to narrow-stope working areas, and the extreme depth, which means extreme pressure, exerted by millions of tonnes of overhanging rock, is coupled with very hard, unremitting hanging wall rocks. The reef geometry also dictates high labour intensity, and often that labour is unskilled and uneducated – a recipe for accidents.

A summary glance at recent June quarterly results shows the scale of the problems there.

AngloGold lost five employees in rockfall incidents, and then another five in a seismic event at Tau Tona in October. Gold Fields reported 15 fatal injuries during the June quarter, all at its South African operations, with nine of these accidents as a result of falls of ground and seismicity. The other large South African producer, Harmony Gold Mining, fared little better, with 10 fatalities, all at domestic mines.

It would be crass and unjust to suggest that the companies concerned are not sensitive to safety issues. In truth, it's such a prominent issue that the South African mines generally highlight safety performance as the first item on the agenda in their quarterly reports.

And they are continually looking at ways to lower accident rates and improve safety, although the emphasis is on the behaviour of individuals rather than technology of roof support and seismic forecasting, which would prevent the major loss of life. Over the years they have improved education levels and are constantly trying to indoctrinate their workers as to the dangers that exist all around them while in the mining environment.

Harmony recently noted that, "Unsafe behaviour by individuals remains our biggest problem". In order to "re-energise" safety awareness, Harmony has introduced the "Sindile Moshia" safety campaign, which is based on the "alertness" of the mongoose.

Harmony and the other South African mines are all currently

stepping up initiatives to improve matters underground – not just because they have a care of duty to their workers and their families, but also because, being pragmatic businessmen, it makes good business sense to have safe operations. Accidents are expensive in terms of manpower and downtime, and cause disruption to operations, which means less gold – and that hits the bottom line.

The new breed of mines, like Target and South Deep, offer some hope, because the reefs are wider and thus can be worked using mechanised mining methods, thereby putting less lives at risk.

Being aware and alert can only help reduce the risk of accidents, but it may never remove the problem as long as men are forced to work with and, at times, against Mother Nature in the bowels of the earth.

Even with blanket rock support, mine plans that distress excavations and sensors that help detect seismic events, as long as large numbers of men have to work in the highly stressed conditions, the deep-level mines in South Africa will always be hazardous.

### Righting Wrongs

The annual get-together of the world's top gold miners at the Denver Gold Group Forum in late September had its fair share of controversy, with certain individuals clashing publicly on the relative merits of proposed company takeovers.

The organisers even invited in two Irish filmmakers and allowed them to screen a documentary that examined the activities of various anti-mining lobby groups involved in opposition to the Rosia Montana gold project in Romania, which Canada's Gabriel Resources has been trying to progress since the late 1990s.

But rather than spark outrage, this controversial film created huge interest and gained widespread support from the many delegates packed into the lunchtime showing.

The reason? For once it highlighted some of the benefits that mining can bring to a poor community – and exposed the

NGOs, and their organisers, as being distant and uninformed as to what the affected local community really wants.

The common mantra of such people is that communities and land need to be spared from the ravages of rampant multinational imperialism: that mining will desecrate the land, destroy the environment and wreck the rural way of life that the people know and love.

As the film exposes, in this case they are misinformed and their inflexibility, and their religious adherence to the rhetoric, is threatening any opportunity the local people have of escaping the poverty trap and any chance that anybody will spend time and money on revitalising the land.

The reality is that unemployment among the 1,000 or so people at Rosia Montana is now over 70%, there is no future for young people and the majority of the local population are supportive of the gold project because they need jobs and want progress.

The activists say, "The people want to retain their traditional, charming way of life". The people say, "We want a car".

Another reality is that the land is far from the beautiful and pristine ideal that the NGOs would have us believe. There has been informal mining there for centuries, and a state-run mine operated until this year with little or no regard for the environment – and without paying any attention to EU standards on pollution. In places, it is a chemical wasteland.

This film represents one step in the mining industry fighting back against the dirt that is dished out about its custodial role during the tenure of its lease on the land for exploitation of resources.

As those of us involved in the modern gold mining industry know, the regulations that companies have to adhere to these days are extremely stringent, and the multinationals regularly transfer these First World standards to Third World locations.

I'm not naive enough to suggest that they have always been angels – in fact there are

many examples of negligence and culpability in the past – but today mining companies have, or are forced to have, high regard for the environment.

In addition, they often bring healthcare, education, infrastructure, power and water to poor communities. They create jobs and bring prosperity, while adding to the economic wealth of the country through taxes and royalties. Of key importance is the fact that their intervention is on a sustainable basis.

And in case you were wondering, the film wasn't made by Gabriel Resources. The producer, Phelim McAleer, was stationed in Romania for three years while writing for London's *Financial Times*. He decided to investigate the situation after writing news articles about the opposition to the Rosia Montana project.

Gabriel co-funded the documentary, but Mr McAleer insisted on, and was given, full editorial control. He cares about people, not mining.

To see extracts from the film and to learn more, visit [www.mineyourownbusiness.org](http://www.mineyourownbusiness.org) ■

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