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From the Private Secretary

1 March 1990

See Richard.

BALTIC GOLD

The Prime Minister has asked to be reminded exactly what arrangements were made for transferring the gold which originally belonged to the Baltic States to the Soviet Union. I should be grateful if you could let me have a note about this, which the Prime Minister also raised in Cabinet this morning.

I am copying this letter to Sonia Phippard (Cabinet Office).

Yours sincerely,

Charles Powell

Richard Gozney Esq
Foreign and Commonwealth Office

R. Atkinson

From: D J Gowan
Soviet Department
Date: 1 March 1990

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BALTIC GOLD: PQ BY MR ATKINSON

1. I submit a draft reply to Mr Atkinson's PQ about the Baltic gold reserves which were used (in accordance with the Foreign Compensation Act of 1969) to meet in part the claims of British creditors who had lost assets in the former Baltic States.

2. We understand that the Prime Minister has expressed an interest in the disposal of the Baltic gold reserves, and has asked that the FCO should prepare a report on this question. This exercise does not however affect the draft answer to the PQ, which is confined to a factual statement of what happened, and does not go into the more difficult issue of whether the disposal of Baltic assets was morally justifiable.

3. Claims Department and the Legal Advisers concur.

David Gowan

D J Gowan
Soviet Department

DRAFT ANSWER

When the Baltic States were incorporated into the Soviet Union in 1940, the property of a number of British nationals was seized without compensation. The Soviet authorities also did not accept responsibility for the external debts of the Baltic States, including three external loans which had been placed in London. To safeguard British interests, the British Government responded by freezing the gold reserves of the three Baltic central banks which were deposited in London, and which were claimed by the Soviet authorities.

Negotiations between the British and Soviet Governments culminated in an Agreement which was signed on 5 January 1968. This provided that the British and Soviet Governments would not pursue their respective claims. *It thus enabled*
The British Government ^{then} to use ~~most~~ ^{the} money realised *No*
from the sale in 1967 of the Baltic gold reserves (in addition to certain other assets of the Baltic States and ~~ceded~~ territories) to meet in part the claims of British creditors who had lost assets in the former Baltic States and in certain other territories incorporated into the Soviet Union. The judicial determination of these claims was carried out by the Foreign Compensation Commission in accordance with the Foreign Compensation (Union of Soviet Socialist Republics) Order 1969; claimants eventually receiving 42.6% of the assessed value of their claims.

The Baltic gold (weighing 460,220 fine ounces) realised £5.8 million when sold in 1967. Its value would be approximately £112.17 million at current prices.

BACKGROUND

Mr Atkinson takes a close interest in nationalities questions in the Soviet Union, in particular the issue of the former Baltic States.

The draft reply to Mr Atkinson's PQ gives a summary of the very complex issue of the gold reserves of the central banks of the Baltic States, which were frozen by the British Government under wartime powers in 1940. The Joint Statement made during Mr Kosygin's visit to London in 1967 opened the way to the 1968 Agreement between HMG and the Soviet Union under which each side waived their reciprocal claims. This enabled HMG to use the money realised from the sale of the Baltic gold reserves to pay compensation to British claimants.

During the passage of the Foreign Compensation Bill in 1968 and 1969 the Government of the day was criticised by the Conservative opposition over the propriety of disposing of the Baltic assets in this way. In reply the Government argued that it had an overriding responsibility to the British creditors, and that the use of Baltic assets was justifiable in the circumstances. The Government also acknowledged that nothing contained in or done under the Bill would preclude any independent Baltic government at some time in the future from submitting a claim to the British Government of the day in respect of the property in question, if it considered that it had such a claim. But any such government in the Baltic States would also be in a position to accept obligations to creditors.

There is likely to be increasing Parliamentary interest in this issue as the former Baltic States move towards independence from the Soviet Union. One area where we may be open to pressure from the Baltic lobby is that a part of

the proceeds from the gold sales were used to compensate British individuals and companies who had lost assets in territories ceded to the Soviet Union from Finland, Poland, Czechoslovakia and Romania. (In other words the proceeds of the gold sales were not used exclusively to meet debts relating to the former Baltic States.) There could also be a renewal of earlier criticism that £½ million of the £5.8 million realised from the gold sales was under the terms of the 1968 UK/Soviet Claims Agreement in effect given to the Soviet Union.