

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 5, 1948

To Chairman Eccles

Subject: Canadian subsidies on gold

From Mr. Knapp

production

You will recall that under pressure from the United States and the International Monetary Fund Canada abandoned its original gold subsidy proposal announced on November 17 and substituted an alternative proposal on December 11. The second proposal avoids an outright premium price for gold and therefore is more acceptable to the International Monetary Fund. However, analysis of the two proposals indicates that the second one involves a substantially greater subsidy to gold producers than the first.

The first proposal was simply to pay \$42 an ounce instead of the standard price of \$35 on each mine's yearly gold production over and above the amount produced in the fiscal year 1946-47 (year ending June 30). This subsidy would have been applicable to gold produced as a by-product in base metal mines as well as to straight gold mines. At the same time that the United States and the International Monetary Fund filed protests against this proposal, the gold mining industry in Canada also objected to the plan on the ground that it was inadequate to restore profitability to the industry.

The December 11 proposal, which applies only to straight gold mines, provides for the payment of an annual subsidy to each gold mine amounting to half of its average production cost above \$18 per fine ounce and applying to all gold output in excess of two-thirds of the amount produced in the fiscal year 1946-47.

The \$18 figure is about the average cost of production in the Canadian gold mining industry in 1941, the year of peak output (5,345,000 ounces) before war controls began to restrict supplies and manpower. Production costs are believed to average around \$30 an ounce at the present time. On this basis, the December 11 proposal would require an average subsidy of only \$6 per ounce as compared with the straight \$7 per ounce in the November 17 proposal. However, the December 11 proposal makes this subsidy applicable not only to the increase in production over 1946-47 but also to about one million ounces of each year's production corresponding to one-third of production in the base year. Hence the new subsidy is substantially more favorable to straight gold mining producers than the previous version, especially since it also gives them partial protection against a further rise in gold mining costs.

Canadian gold production amounted to only 2,914,000 ounces in 1946-47. It should certainly be stimulated if the new proposed subsidy is adopted, but no estimate is available as to just how much of an increase may be expected.