



Chavez Decision to Recall Overseas Gold Reserves Could Reflect Sanctions Fear

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Hugo Chavez' decision to recall Venezuela's gold reserves and nationalize the industry could reflect his paranoia about being hit with financial sanctions, analysts said.

Chavez and other officials in his administration claimed on Wednesday that the move to recall about \$11 billion in reserves stored in U.S. and European banks was being done to protect the country from economic troubles in the developed world.

Central Bank of Venezuela President Nelson Merentes said the government wants that gold in its vaults during "the time of these disturbances."

But George Gero, a financial adviser with RBC Wealth Management, said Chavez is effectively moving the assets out of countries "that he considers could freeze his gold."

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The United States and its allies have their sanctions arsenal trained almost exclusively on the Middle East and North Africa at present -- the latest set of U.S. financial sanctions was announced Thursday and aimed at Syria.

But Venezuelan state oil company PDVSA was hit with U.S. sanctions in May over its ties to Iran, drawing outcry from Chavez's government. Caracas is also facing legal challenges over its gold operations. By taking gold reserves out of overseas banks and bringing them back to Venezuela, Chavez could be reducing the leverage that other governments and court systems have against his government.

"That's basically what that's all about," Gero said, calling the announcement somewhat of a "political statement."

Chavez suggested as much Wednesday, accusing western governments of "practically a confiscation" of international reserves in the Arab world. According to Reuters, Chavez said Venezuela must avoid that outcome and link its economy to those of Russia, China and other developing nations.

Venezuela has 366 tons of gold, which is worth about \$18 billion though gold prices hit a new high on Thursday on news of Chavez's decision.

But the move to take gold reserves out of the U.S. and Europe may not have much impact on those countries. Their banks charge storage fees for holding Venezuelan gold, so the primary impact from losing it would be a loss in those fees.

"None of the things he's doing is big," said Gerald O'Driscoll, a Cato Institute fellow and former economic adviser at the Federal Reserve Bank of Dallas. Rather, he said "it's interesting that he's motivated to do it."

He speculated that past disputes with private oil companies and other businesses, and concerns about tensions with the U.S., could be making him "paranoid."

"He wants to be judgment-proof, so that means you better not have assets outside your country," O'Driscoll said. "Perhaps he feels there's reverberations coming."

Chavez is also preparing to seek reelection next year, teeing up a potentially tumultuous period.

"I think it gives him personally more power," Gero said. "I think he's realized that gold has become another currency so this is one way of shoring up his currency."

Asked about the possibility of the U.S. wielding the threat of sanctions against Venezuela in the future, a State Department spokesman had no comment.

As for Chavez's move to nationalize the industry, both O'Driscoll and Gero said it's a way to raise money, consolidate power and diversify the state economy beyond oil. With oil prices dropping, that hurts Venezuela's ability to repay loans to lenders like Russia and China.

"He's got falling revenue from the oil industry, and he's just grabbing what he can," O'Driscoll said..

Chavez has raised the idea of withdrawing Venezuela's reserves from U.S. banks repeatedly in the past. At a summit in 2008, he urged his Latin American allies to begin pulling their reserves out of U.S. banks, warning of a looming economic crisis in the United States.



Chavez said he would soon issue the decree for the nationalization of the gold mining industry so that the government can increase control over the gold produced.

"We're going to nationalize gold and we're going to convert it, among other things, into international reserves," he said.

It's unclear how Chavez's new decree differs from a 1965 law that nationalized gold mining in Venezuela. In 1977, the government granted itself exclusive rights for extracting gold.

Chavez said the decree will allow the government to "begin to take over the gold zone," where authorities have periodically carried out operations to evict wildcat miners from illegal mines.

The Associated Press contributed to this report.

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