

LET HER REST IN PEACE: HMS *EDINBURGH* AND HER CARGO OF GOLD

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Introduction

Sunk by a German U-boat in 1942, HMS *Edinburgh* together with 58 of her crew and five and a half tons of gold bars intended payment for arms, lay undetected for nearly 40 years 200 miles off Murmansk, 800 feet on the bottom of the Barents Sea. Convoy PQ11 was made up of 13 ships; seven British, five American and one Russian astern came their destroyer escort and HMS *Edinburgh*. Stowed in her bomb room the cargo of gold was estimated to be worth £1.5 million (approximate values: 1981 £45 million; 2014 £140.8 million).¹ Under the 1942 War Risks Insurance contract the wartime Soviet Trade Delegation covered the cargo for £500,000 and a further £500,000 if the vessel was lost, the British Department of Trade's exposure on the cargo being £500,000. The bullion was part of a deal between the Russian Government and the United States Treasury, a down payment on thousands of tons of war equipment.² This article discusses how and why a salvage operation was launched and examines the role of the British government in overseeing the recovery.

The story begins on 28 April 1942 as convoy PQ11 left Murmansk travelling westwards along the 2,000 mile convoy route through the Arctic Ocean, known as 'The Gateway to Hell'.³ At the helm of *Edinburgh* was Captain Faulkner flying the flag of Admiral Bonham-Carter. The convoy's departure did not go unnoticed and was reported back to German Naval Command. After only one day at sea enemy reconnaissance plane's detected it and German U-boats and destroyers were dispatched to launch an attack. *Edinburgh* was, as Frank Pearce pointed out:

Certainly expected to match any destroyer attack, which might be mounted. Bristling with guns, her radar searching the sea and sky and the asdic pinging the depths for intruding U boats, the heavy cruiser, protective, watchful, steamed patiently along astern of the six-knot convoy.⁴

On the 30 April 1942 *Edinburgh* received two torpedoes from U456, the first hit her starboard, the second to her stern wrecking steering equipment and crippling her. With only two small minesweepers for

protection, an attempt was made to return to port. A Russian tug, sent to help, located her on the 1 May and having secured a wire, started to tow *Edinburgh* back to Murmansk. Slow progress was made but the next day she came under attack again from three German destroyers and had no option but to drop her tow. It soon became clear as damage control reports reached the bridge, that the ship was open from side to side with sea washing straight through. The signal to 'Abandon Ship' was given and minesweepers went along side to take off the wounded, passengers and the crew. Captain Faulkner later said 'I shall never understand why [the Germans] didn't come in and finish us off. I think they had acknowledged defeat after being so heavily shot at.'⁵ Lines were let down and the minesweepers stood off to let *Edinburgh* go down. Contrary to all expectations she didn't sink immediately but was sent on her way by minesweepers that fired off 20 rounds of semi-armor piercing shells and depth charges dropped close alongside finally she was torpedoed.⁶ The stern sank first the bows raised high as she disappeared below the surface.

'Gold fever'

In 1954, Lord Jellicoe of Jutland fame, during his time at the Foreign Office's Northern department was in charge of the Soviet Desk. Despite the added complication of post-1945 international relations he approached the Soviet Union via its Ambassador to London, Mr Ippolitov, with a view to initiating a joint salvage operation for the *Edinburgh* cargo of gold.⁷ Despite several written attempts to make contact Jellicoe finally spoke directly to Ippolitov, his notes reveal some of the frustrations he had at the apparent lack of Soviet interest in launching a recovery, recalling that:

It was now high time that we dealt with this purely practical sort of question in a normal businesslike manner. Ippolitov looked a little shamefaced and said that he thought we would very shortly be receiving a definite reply from the Soviet Government.⁸

In fact it was over a year before the matter was to be formally discussed during a visit to London in December 1955 by the Soviet delegates from the Ministry of Foreign Affairs.⁹ Ownership of the gold was never disputed; two-thirds belonged to the Soviet Union and the remainder to Britain and eventually both governments would collaborate over the mutually beneficial project.

In the interim period the British Government had already considered its own position in launching a salvage attempt. Feedback from various governmental departments recorded that the Admiralty, for its part, had

no objection to the conclusion of a contract for a salvor to operate on the wreck, provided that steps were taken to ensure that any safes, Admiralty documents or other valuables recovered were handed over to the Admiralty¹⁰. The Treasury expressed some concern and noted that 'it should naturally prefer that the gold be landed in the United Kingdom (UK), with only a cash remuneration being offered to the Russians, but if they insist on the other alternatives we are not in a position to object.'¹¹ While the Ministry of Trade stood to gain most from the recovery of the gold, receiving as a windfall a third-share in any recovery, it was keen that a contract be issued and the salvage go ahead.

In 1954 the first contract was awarded to Risdén Breazley, a British salvage firm, on a 'no cure, no pay' basis. Strained political relations, inadequate salvage capabilities and a strong suspicion by the British government that the gold may already have been recovered by the Soviet Union, led to the project being placed on hold. In 1957, in an attempt to protect the sunken cargo from being plundered, the wreck was designated a British war grave.

In the late 1970s interest in the project returned triggered by a sharp rise in the price of gold, raising fears that the gold could be looted.¹² In addition to the rise in the gold price advances in diving techniques, a legacy of North Sea Oil exploration, led to talks being resumed between Britain and the Soviet Union. The previous contract issued in the 1950s having expired, salvage rights were put out to tender also on a 'no cure, no gain' basis. Once again the contract was awarded to a British firm, Jessop Marine, a small operation whose best chance to win the contract had been to put together a consortium of specialist firms from the salvage and diving industry. Keith Jessop, the director, headed the consortium and was joined by a successful British diving company, Wharton & Williams, known as 2W for short. With no diving vessels of their own 2W approached a German company, Offshore Services Association (OSA), with a fleet of around 100 vessels, who came on board as subcontractors. The final member was Racal-Decca, an experienced marine survey company. Jessop Marine, 2W, OSA and Racal-Decca were all leaders in their fields. Rather than the traditional 'blast and grab' method of recovery used by its competitors, which involved the use of explosives, Jessop opted to use the newer underwater precision cutting technique. Jessop had undertaken years of meticulous research looking at the Admiralty records at The National Archives (TNA), speaking to survivors and eye-witnesses who had seen

the *Edinburgh* sink and collecting reports of local fishing vessels who had reported underwater obstructions and from this evidence selected a search area. The *Edinburgh*'s sister ship, HMS *Belfast*, located on the Thames as a permanent exhibition of the Imperial War Museum was visited ahead of the salvage operation. The project manager engaged by the consortium, John Clarke, ex-Royal Navy, gained special access to the bomb room and was able to view plans of the layout of the ship together with detailed drawings of the bomb room and racks where the gold was said to be stored. A scale model of the bomb room area was constructed to help familiarise the divers with the lay-out of the wreck.¹³

Reports in the media that a salvage attempt would be made were met with opposition from many of the survivors of the *Edinburgh* appalled that the war grave might be disturbed. A report in the Navy News raised the temperature regarding the war-grave issue. It claimed that:

Many members of the *Edinburgh* Survivors' and North Russia Association remain firmly opposed to any salvage attempt... The association's Honorary Secretary Bill Daly said, 'I would say that 90 per cent of our association remain strongly against a salvage attempt. A motion that pressure be brought to bear to prevent 'deliberate desecration of HMS *Edinburgh* by Salvaging her cargo' was being tabled by Kendal branch of the Royal Navy Association at the RNA's annual conference.¹⁴

A statement was released by the Ministry of Defence (MOD) as it attempted to address concerns:

We want to ensure that the sanctity of the ship as a war grave is properly considered in any salvage operations [...] we are usually against diving operations in circumstances of this kind. But in the case of any wreck containing a valuable cargo, it is better to allow an operation while imposing strict safeguards.¹⁵

The consortium thought that the best way to head off any further opposition from that quarter was to begin the salvage operation as soon as possible.¹⁶

In April 1981 a survey expedition set sail and on the 14 May, with the help of echo sounders and powerful sonar equipment, contact with a wreck was made. A remotely operated vehicle (ROV) was sent down for closer inspection and after a full survey of the structure there was no doubt the wreck was the *Edinburgh*¹⁷. She lay 800 feet down on the seabed lying on her port side looking in remarkably good condition.

Pictures sent back from the ROV showed the hole caused by the first torpedo.¹⁸ State-of-the-art navigation and position fixing equipment was engaged and an exact fix on the location of the wreck was made by Racal-Decca, 72 degrees North 35 degrees East, following the installation of two Hi-Fix masts on the northern coast of Norway, combined with a Global Positioning System.

At the end of August 1981 the *Stephantium*, a specialist diving vessel, set sail for the wreck site. Onboard was Jessop, a crew of 25 saturation divers and support personnel, a reporter and photographer from the *Sunday Times*, which had the exclusive rights to cover the operation, together with two Russian officials and one MOD representative. The *Stephantium* was held in position over the wreck by means of a computer controlled dynamic positioning system. By taking reference points from a global positioning satellite, a computer calculates which thruster to fire to keep the ship on station, as should the vessel move any divers on the sea floor could be dragged and killed. The depth of the wreck, at 800 feet, required decompression facilities. For the duration of the operation, divers worked from a two-man bell, kept under constant compression spending all their time on the surface in a confined steel chamber, with no physical contact with the outside world. For working on the seabed, where the temperature was 1°C, suits had to be specially designed and were heated by hot water from the surface, resulting in some of the divers being badly scalded.¹⁹ A revolutionary gas-reclaim system designed by an American called Don Rodocker who claimed that his system could save up to 90 per cent of the gas used, was instituted and the gas on board then cost £75,000.²⁰ Apart from the saving, it also meant that the vessel could stay on location longer without having to do long runs to shore for more diving gas.²¹ An umbilical cable supplied breathing gases and hot water to the divers as they worked. As divers were unable to enter the wreck through the torpedo hole since this was found to be blocked by wreckage and ammunition it was decided to cut an access hole through the four-inch armour plate forming the outer hull. It took a week of arduous work to clear a way through the fuel tank area to the bomb room.²²

On the 16 September 1981 cries went up of a find. Divers located and lifted the first bar of gold KPO620, later re-numbered P90014. Working tirelessly they were able to recover 431, out of the original 465 bars known to be on board. As the weather closed in at the start of October operations were suspended. Just prior to departing, a service of

remembrance was held in honour of the officers and men who were killed aboard HMS *Edinburgh*. The haul of gold was divided between the British and Soviet Governments to the nearest bar, it was agreed not to cut a bar in half and therefore a cash adjustment later followed. Each then allocated 45 per cent of their share to the consortium. The Soviet share, 158 bars worth £14.6 million, was sailed aboard the *Stephantium* to Murmansk where it was offloaded into a waiting railway carriage. The salvor's share was subdivided in accordance with their shares: 2W, 37.12 per cent; Jessop Marine, 10 per cent; OSA, 50.4 per cent; and Racal-Decca, 2.48 per cent.²³ This was again split to the nearest bar and was also subsequently adjusted in cash without argument. At this point the individual holdings of gold were transferred to NM Rothschild & Sons, a registered London bullion dealer, which ensured that the postponed accounting treatment would apply and 15 per cent value added tax (VAT) would not be immediately due as the gold was landed.²⁴ The operation had made history. The divers had established new depth records for free diving. The gold was transported back to the UK and arrived in Peterhead surrounded by much media attention, described as 'the most successful diving operation ever carried out', before it was taken by road and deposited in the vaults at the Bank of England.

'The salvage of the century'

Of the 272 gold bars taken to the Bank of England, 111 bars belonged to the Department of Trade and 161 to the consortium. At the vault they were recorded, weighed and their condition inspected. The gold owned by the consortium was transferred to their bullion agents, NM Rothschild & Sons, who arranged safe storage prior to sale. Questions were raised over the brand marks on each bar. The bars had been produced at various Moscow State Refineries between 1937 and 1942.²⁵ All bore marks and stamps, though the bars had never been acceptable as conveying 'good delivery'²⁶ status in London. In the absence of an assay certificate, which acted as an independent guarantee of quality, weight and authenticity for a bar, a sale in the London gold market may have proved difficult if not costly. A charge of 60 pence per ounce of gold was quoted to bring the bars up to 'good delivery' status.²⁷ In any event the Bullion Department at the Bank of England recorded that it was keen to keep all salvaged bars off the market and had asked Rothschild to explore with the salvor's the possibility of exchanging

Edinburgh bars for London good delivery bars. The salvor's appeared conscious of their obligations not to make unseemly commercial gain out of the operation and besides keeping a few bars as 'family heirlooms' at £95,000 a time, were happy to agree.²⁸ Two bars passed into the special interest collection at the Bank of England.²⁹

Even before the gold was landed men from the Inland Revenue had arrived at the offices of 2W and had demanded that the income tax on the diver's earnings be paid immediately. Wharton was forced to hand over a cheque for £150,000.³⁰ The consortium also faced a large bill for tax on profits from the salvage plus VAT duty on the imported gold. The VAT was an unexpected expense. During initial contract negotiations the Soviet Union's share to the consortium was to be paid in currency and the Russians would keep all the gold. Had the consortium been paid in cash no VAT problem existed. However, the Russians were so short of hard currency that they wanted the consortium to take their share in gold. So as not to delay the operation further the consortium agreed to the change. While they were aware that they would have to pay tax on any money earned, no mention was made by any British government representative of the fact that by importing gold bullion rather than currency into Britain, they would make themselves liable for VAT. Had they known they would have sold their share of gold abroad and just brought cash back to the UK³¹ but were never given that opportunity.³² It later rankled that an outstanding payment for the adjustment of their share of gold and accrued interest remained outstanding. The consortium was forced to seek legal advice over the clear breach of contract. Upon consulting with solicitors at the Bank of England the Government was informed it was responsible for the payment and the consortium was right in adding interest to the amount owed. The full amount was never forthcoming and later when a second dive to retrieve the remaining 34 bars aboard the *Edinburgh* was negotiated the consortium had no choice but to sign away any rights to the outstanding monies owed to them. Wharton reflected on the treatment received and observed that 'the behavior of the British Government, the Inland Revenue, the Customs and Excise and of the Civil Service were petty and dishonest.'³³ Unfortunately the British Government failed to adhere to the code of conduct over excessive commercial gain, which proved costly for the consortium and ate into the group's profits. At this point it would be good to reiterate that the basis of the salvage contract, 'no cure, no pay' meant that the consortium took all the risks and bore all

costs for the operation.³⁴ Had it proved unsuccessful the consortium would have been out of pocket by around £2 million. As it was the gold was found, though the final costs increased with the addition of tax and 15 per cent VAT duty.

To add to the consortiums' dismay, Barry Penrose, the journalist aboard *Stephantium*, wrote a damning article on the salvage operation published in the *Sunday Times*. Penrose accused divers of unseemly treatment of human remains and also blamed the Salvage Association for impropriety in awarding the contract to Jessop. He said that Jessop had bribed John Jackson of the Salvage Association to get the *Edinburgh* contract. Penrose quickly produced a book covering the operation, *Stalin's Gold, The Story of HMS Edinburgh and its Treasure*, the content of which was extremely libelous, and Jessop was forced to take out a court injunction against Penrose to remove the book from sale. The matter went to court and Jessop won the case. Over the treatment of human remains the MOD prepared a report in which it was found that there was 'absolutely no evidence' to suggest that any inappropriate incidents had occurred. Shortly after the operation had been successfully completed the Imperial War Museum hosted an exhibition of the salvage operation aboard HMS *Belfast*. The first bar KP0620 was put on display. The exhibition was well received by visitors, including survivors from the *Edinburgh* many of whom wrote to say how much they admired it.³⁵

A police investigation was launched over allegations of fraud made against Jessop and Jackson. Despite concluding that there was no case to answer the Department of Public Prosecutions overruled these findings. Jessop and Jackson stood trial in 1984 charged with conspiring to contravene Section Two of the Official Secrets Act and with conspiracy to defraud unsuccessful bidders for the salvage contract. Both were acquitted on all charges when the prosecution case collapsed.³⁶ Nevertheless the whole affair had tarnished the reputation of Jessop Marine and its ability to function until Keith cleared his name. Until his dying day he believed that he was the victim of a conspiracy.³⁷

In conclusion, the choice before the MOD was whether to leave the war grave unprotected to the depredations of would-be salvors, or to forestall them by permitting recovery of the gold under controlled conditions. In the interest of the war grave there could only be one answer, a controlled salvage. Keith Jessop was the driving force in the hunt for *Edinburgh's* gold and the consortium that he put together won

the contract because of their approach to the recovery of the gold which moved away from the traditional ‘blast and grab’ methods practiced by the competition. Operating at the limits of technology at the time the consortium took advantage of new diving techniques and equipment. This enabled them to successfully recover the gold. In the planning, preparation and execution of the operation considerable care was given by all concerned to the war grave status of the wreck, though there were lessons to be learnt. When the consortium revisited the site of the wreck in 1984 to recover the remaining gold bars some of the original clauses in the contract had been revised. Perhaps the greatest lesson learnt from the salvage of the *Edinburgh’s* cargo was that advances in diving technology had put a great many other wrecks within the reach of the modern diver.³⁸ As for *Edinburgh*, the second dive by the consortium, again under controlled conditions, recovered 29 of the remaining 34 bars, thus insuring the war grave may forevermore rest in peace.

A note on sources

Interest in writing this paper was sparked during research for my recently completed thesis that looked into the gold operations of NM Rothschild & Sons. A retired bullion dealer who had acted on behalf of the consortium first mentioned the salvage operation of HMS *Edinburgh* to me. Following this interview I learnt that Rothschild had purchased the first salvaged bar, KP0620, which remains in the bank’s possession.

Records consulted for the construction of this paper include those located at TNA, Kew, for the Department of Trade and the Foreign Office, which proved insightful. Unfortunately I was unable to view records generated by the MOD, currently these remain with the department and are closed to researchers. I had hoped these papers might shed more detail on the categorisation and process involved in designating the *Edinburgh* a war grave.

Special thanks are extended to archivists at the Bank of England Archive and The Rothschild Archive for granting access to restricted documents, which due to the nature of the contents would normally warrant a longer closure period. This extended access added an extra dimension to this paper that provided me with a third-party view of the operation and a greater understanding of events surrounding the disposal of the cargo of gold. An unexpected source that bought with it a wealth of information was found in records at the Imperial War

Museum. The file created for Trustees on the exhibition of the salvage that took place aboard HMS *Belfast* included a copy of the MOD statement regarding the unwarranted claims against divers involving human remains. Another source currently unavailable are the records generated by the Salvage Association. After consulting their representative in London, who was most helpful, it was discovered that the Prosecution Service, following the court case against its employee, Jackson, had retained these records. While writing this paper it was learnt that these have recently been released and are available for inspection at TNA and will be consulted at the earliest opportunity. Media sources always offer assistance in piecing together a chronology of events. Certainly coverage of the salvage operation and subsequent court cases was readily available. ‘Gold from the Deep’, the television documentary that contained footage of the salvage operation, provided a detailed insight into the use of new technologies which aided the recovery of the gold. Finally, written accounts of the operation provided by Jessop, Wharton and Penrose, despite each offering their own take on events, proved illuminating.

Notes

- ¹ See, for example of gold shipments between Britain the US and Canada ranging from £0.5 to £40 million between May 1939-April 1941, A. Draper, *Operation Fish, the race to save Europe's wealth 1939-1945* (London, 1979), appendix I, II, III, IV.
- ² F. Pearce, *Last call for HMS Edinburgh, a story of the Russian convoys* (London, 1982), p.54-5.
- ³ *Ibid.*, p.53.
- ⁴ *Ibid.*, p.57-8.
- ⁵ *Ibid.*, p.105.
- ⁶ *Ibid.*, p.107.
- ⁷ The National Archives, Kew (henceforth TNA), FO371/111740, Ministry of Trade to Foreign Office, Northern Desk, 12 March 1954.
- ⁸ TNA, FO371/116756, Jellicoe to Chancery, Moscow, 10 June 1955.
- ⁹ TNA, FO371/116756, Jellicoe to Ministry of Transport & Civil Aviation, 29 December 1955.
- ¹⁰ TNA, FO 371/111740, Ministry of Transport to Foreign Office, 12 March 1954.
- ¹¹ TNA, FO 371/111740, Treasury Chambers to Foreign Office, 29 March 1954.
- ¹² The US fixed price of gold between 1934 and 1971 remained at \$35 an ounce. In 1979 the price of gold opened in January at \$226 and closed in December at \$512. In January 1980 gold hit a record high of \$850 an ounce; causes of price increases included rising inflation, OPEC-led spikes in oil prices and strained political conditions; US Embassy in Tehran overtaken; Soviet Union increasing strength near the Afghanistan's border with Iran.
- ¹³ K. Jessop, *Goldfinder, the true story of one man's discovery of the ocean's richest secrets* (London, 1998), p.333.

- ¹⁴ Jessop, *Goldfinder*, p.332.
- ¹⁵ Imperial War Museum (IWM), EN4/15/999, file relating to HMS *Edinburgh* exhibition aboard HMS *Belfast*, 7 April - 31 Aug 1982. Naval Law and Conditions Division, Ministry of Defence to IWM Trustees, 24 December 1981.
- ¹⁶ Jessop, *Goldfinder*, p.332.
- ¹⁷ Marine salvage and diving are inextricably linked. Still in the early stages of development the ROV, which cost 2W a million dollars from the US manufacturer, contained TV cameras, sonar, floodlights, and mechanical arms, mounted on a pair of support skis controlled through a 400 yard umbilical and driven by hydraulic thrusters. It could explore the ocean bottom, locate a wreck with its sonar, and film every angle. A television documentary, 'Gold from the deep' recorded the progress of the salvage operation. A copy of the documentary was located on YouTube.
- ¹⁸ Jessop, *Goldfinder*, p326-9.
- ¹⁹ IWM, EN4/15/999, Trustee notes on HMS *Edinburgh* salvage operation.
- ²⁰ Jessop, *Goldfinder*, p.339.
- ²¹ Ibid.
- ²² IWM, EN4/15/999, Trustee notes on HMS *Edinburgh* salvage operation.
- ²³ R. Wharton, *The salvage of the century*, (Florida, United States, 2000), p.110.
- ²⁴ Ibid.
- ²⁵ The Bank of England Archive (BoE), FE 6.6.2 vol.1, Bullion Dept. to Dept. of Trade, 21 October 1981.
- ²⁶ Historically, members of the London bullion market compiled lists of accredited melters and assayers whose gold and silver bars they would accept without question in settlement against transactions conducted between each other and with other acceptable counterparts. Such bars earned the distinction of London Good Delivery status. Source: www.lbma.org.uk
- ²⁷ BoE, FE 6.6.2 vol.1, Bullion Dept. note on conversation with NM Rothschild & Sons, 21 October 1981.
- ²⁸ Ibid.
- ²⁹ On a recent tour of the Bank of England gold vault (December 2012), Her Majesty Queen Elizabeth II and the Duke of Edinburgh, saw gold bars from the *Edinburgh*, which the Bank had purchased in 1981 on behalf of the Exchange Equalisation Account.
- ³⁰ Wharton, *Salvage of the century*, p.112.
- ³¹ Jessop, *Goldfinder*, p.320.
- ³² See for full text Wharton, *Salvage of the century*: During negotiations for the second salvage operation to recover the remaining bars Wharton hinted that he might wish to sell the gold bars abroad, thus avoiding payment of VAT. He was gently reminded that he would have to get past the Royal Navy vessel first.
- ³³ Wharton, *Salvage of the century*, p.163.
- ³⁴ The consortium purchased insurance from Lloyds at a cost of £70,000 to protect them against the risk of the gold being confiscated by the Soviets while they were in their hands in Murmansk.
- ³⁵ IWM, EN4/15/999, Trustee notes on HMS *Edinburgh* salvage operation.
- ³⁶ *Daily Express*, 'How £43 million gold diver Keith salvaged his tarnished name', 29 July 1985.
- ³⁷ *The Times*, Obituary Keith Jessop (1933-2010), 29 May 2010.
- ³⁸ In 1986 new legislation, The Protection of Military Remains Act was enacted. The bill had proposed to ban any British national from diving on any naval wreck anywhere in the world; merchant vessels lost whilst on military duty are not protected as war graves, even though their crews were fighting the same war and dying in the same way. Wharton challenged the bill's sponsor, Lord Trefgame, the then Minister of State for Defence Procurement. It was

pointed out to Lord Trefgarne that if the Act became law it would prevent a British company from diving on any British naval wrecks, but that it didn't prevent other nationalities for doing so. This was because the British government could not enforce legislation against other nationalities. Wharton gained support and the Association of Diving Contractors represented the interest of the industry. The Government was forced to back down and to so water down the act which as a result became ineffective. Source: Wharton, *Salvage of the century*, pp.164-5.