Business Briefs

Commodities

Confirmed: Engelhard rigged silver collapse

A recent *London Times* feature has confirmed the hypothesis, advanced this spring by *EIR* columnist Alice Roth, that the March silver market collapse was rigged by Engelhard Minerals so as to put the squeeze on the Hunt brothers and grab their oil assets.

Engelhard, whose late founder, Charles Engelhard is thought to have been the model for British spook Ian Fleming's Goldfinger, contracted in January to sell 19 million ounces of silver to the Hunts for April delivery at $35 an ounce. When silver fell to under $11 in late March, Engelhard forced the Hunts to hand over 20 percent of their holdings in the Beaufort Sea oilfields.

According to the *Times*, "Engelhard's price was . . . extracted with a ruthlessness which would have satisfied Goldfinger. . . . One of Engelhard's employees exulted later: 'We had those anti-Semitic bastards by the goulies, and we squezed them dry.' "

International credit

Eurolending to LDCs plummets

Euromarket lending to the non-oil-producing LDCs (less-developed countries) plunged by more than 40 percent in the first half of this year, according to Morgan Guaranty's *World Financial Markets*'s newsletter. The first half of 1980 was a particularly sluggish period for the Euromarkets because of record-high interest rates in the dollar sector. Overall Eurocurrency lending was down by nearly 14 percent. The LDCs have taken the brunt of the market decline because of the reluctance of international banks, particularly the major U.S. ones, to increase their exposure in these countries.

According to Morgan's analysis, many LDCs will be hard pressed to locate the funds they need to cover debt service and increased oil import costs during the second half of this year. The top twelve LDC borrowers have so far raised only $5.4 billion of an expected 1980 requirement of over $20 billion. Brazil will need to tap the markets for another $6 billion in the next six months, Chile $1.1 billion, the Philippines $1.6 billion, Korea $1.6 billion, and Taiwan $1.9 billion.

Meanwhile, the OECD, in its quarterly report on international lending trends, predicts a resurgence of Euromarket activity in the second half of 1980.

Conferences

EIR Texas seminars present survival chances

Sixty among *EIR*'s 300 subscribers in Texas attended seminars in Houston and Dallas during the week of July 30 on the topic, "Can the American Economy Recover?" The seminars were addressed by *EIR* contributing editor Criton Zoakos and Economics Editor David Goldman.

Texas businessmen perceive the dangers to the American economy possibly in a stronger way than their East Coast and Midwest counterparts, precisely because that state has had a much higher growth rate than the national average during the past two decades. Despite the fact that the current depression has hit the Southwest much less severely than other parts of the country, Texans insist that a reduction of the growth rate below the level required would produce a disaster which the American economy might not recover from.

Both larger corporations in the electronics and resource fields and small businessmen who grew up with the Houston NASA Space Center in their backyards are looking across the Gulf to Mexico and other technology-hungry developing countries as the new growth area for the application of Texas-style methods. Of principal interest to seminar participants was the field of technology-transfer possibilities open to Americans provided America joins the Europeans in bringing a new international credit system into operation.

Through the port of Houston, a great deal of technology transfer, especially in the energy field, is presently underway, somewhat at variance with the miserable export performance of the U.S. economy as a whole. The Mexican oil giant Pemex, for example, places an average of $1 million in capital-goods orders *per day* through its Houston purchasing office. *EIR*'s role in locating viable developing-sector markets and identifying international business trends for the expansion of international trade has made the publication a unique presence in the Texas business scene.

Petrodollar flows

Triangular strategy for recycling

According to public announcements by West German Finance Undersecretary Manfred Lahnstein and Economics Undersecretary Otto Schlecht, West Germany will create an industrial investment fund for Arab petrodollars to be recycled into industrial shares in the Federal Republic.

Frankfurt banking sources commented to *EIR* July 4 that the resulting capital formation and productivity expansion in West Germany will enable Europe to expand direct loans to the developing sector in order to finance capital-goods exports there.

Banking sources also stated that the strategy includes a European commitment to refinance the problem debtor countries of the Third World. The investment fund plan itself will enable Arab oil producers to make secure investments in a wide range of West German companies, while laving administration of the fund in German hands to avoid the political problem of large-scale Arab takeovers of German firms. Oil revenues have been flowing heavily into Western European investments already, but the new arrangements will permit far more extensive placement.

According to a West German think-tank economist, the documents resulting from the two Venice summits in June—

the European Community and OECD leaders—indicate that the key topic was combined North-South and East-West trade expansion.

Gold

Supply not sole factor in price jump

The world gold price has risen by $75 since the July 22 Venice summit, reaching a new four-month high of $475 an ounce in early London trading on July 2. Heavy European and Middle Eastern buying in the cash markets has been the major power in gold's latest rise. American investors were much slower in returning to the gold markets, but the week ending July 4 saw a sudden flurry of activity in New York gold futures. On June 30, the number of contracts outstanding on New York's Commodity Exchange jumped by 16,661 contracts—the largest daily increase on record.

The underlying reason for gold's revival is the emergence of Western Europe as a new superpower, whose Franco-German leadership is committed to a gradual restoration of gold's central role in the monetary system. This reality was alluded to almost matter-of-factly by the chairman of the Union Bank of Switzerland, Dr. Robert Holzach, in a June 30 commentary in the *Journal of Commerce*: "It is quite possible that the ECU [European Currency Unit] created within the Common Market will assume more importance as a reserve currency in the next few years, especially since it is partly covered by gold. Despite its removal from the reserve system of the IMF, gold, in my opinion, will remain an important component of the world's monetary reserves and will probably be of some significance as a reserve medium for the OPEC countries."

A secondary reason for the runup in gold is the world supply shortage. Last week, the British mining company, Consolidated Goldfields, issued its annual gold report predicting that total supplies available from mining production and official sources may fall 40 percent below last year's level. This is due to the termination of public auctions by the U.S. Treasury and the International Monetary Fund as well as to reduced sales by the Soviet Union, which is earning the same amount of foreign exchange on lower volumes. Consolidated Goldfields estimates that Soviet bloc sales of gold to the West fell to only 229 tons in 1979 compared to 410 in 1978, and expects that Soviet sales will continue on this reduced level.

Legislation

Congress sounds out "industrial policy" moves

The Joint Economic Committee of the U.S. Congress recently concluded a series of hearings and a "Special Study on Economic Change," which look toward a set of tax proposals and fiscal measures to speed up capital formation. One bill considered at the JEC hearings is the "Accelerated Depreciation Recovery Act," sponsored by Rep. Constable (R-N.Y.) and Sen. Bengsten (D-Tex.). The bill contains the "10-5-3" formula which would lower the depreciation schedule for a plant structure from 10 to 20 years, and cut the lifetime of equipment depreciation from 10 to five years. It is rumored that $12 to $15 billion of the Reagan-proposed tax cut, totaling $30 billion, would come in the form of a 10-5-3 business tax cut.

Other bills now in Congress concerned with industrial innovation include legislation to allow tax credits for R&D contracts awarded universities by industry; sponsors are Sen. Tsongas (D-Mass.) and Rep. Vanick (D-Ohio). Sen. Danforth (R-Mo.) is sponsoring a bill to increase industrial research funding devoted to improving basic productivity.

Playing a coordinating role with these proposals is a special House task force on innovation, with members from every relevant House committee includint the Science and Technology Committee. The task force is working jointly on these limited but positive bills with high-technology lobbyists and advisers.

Briefly

● **COMMERCE** Department officials are telling inquirers that the Carter administration has no interest in participating in several important international business conferences scheduled for the near future, according to one irate manufacturer. According to our reader, the Commerce Department told him that he is "on his own" if he wants to participate at either the International Welding Conference to be held in Essen, West Germany, or the International Offshore Technology Conference to be held in England this fall. The administration "has no interest" in either of these conferences. Once again, he noted, foreign governments will back their producers in competition for exports.

● **JAPAN** expects to spend over $13 billion to develop new energy sources in the coming decade. The energy study group formed by the Ministry of International Trade and Industry announced this week that Japan will concentrate on nuclear power, coal, and liquefied natural gas. *Le Monde* reports that by 1985, Japan will have brought on line 14 new nuclear power plants, putting the total at 23, which doubles total output to 30,000 megawatts. By 1990, nuclear is to provide 11 percent of energy needs, coal 17.6 percent, and natural gas 9 percent.

● **FORD MOTORS** has announced that all but one of its auto plants will be closed the week of July 7. All major U.S. car manufacturers plan longer than usual summer shutdowns in hope of working off large 1980-model inventories. The top five U.S. companies plan to produce only about 1.37 million cars in July, August and September, the lowest third-quarter output since 1970. Meanwhile, Ford, for lack of funds, will terminate supplemental unemployment benefits for 54,000 of its 64,000 indefinitely idled workers.