Phibro, Citibank, and the Anglo-Dutch gameplan

by David Goldman, Economics Editor

Size overshadowed substance in the recent U.S. corporate reporting, which emphasized the spectacular Du Pont merger with Conoco at the expense of a much smaller, and much more important, acquisition: Phibro (Philipp Brothers) and Salomon Brothers. A set of extraordinary events centering on Salomon and its most prestigious client, Citibank, indicates that a basic change in the business strategy of some of America's largest financial institutions is under way. Set in the proper context, the actions of the Phibro, Salomon, and Citibank management betray preparations for financial shock waves of the type the best-informed market participants have been expecting since the Bank for International Settlements warned June 14 that present monetary policies are leading toward a 1930s-level depression.

Phibro, the commodities-trading offshoot of the Anglo-American financial empire, has apparently acquired not only the most important force in the American government securities market, but also policy control of New York's Citibank, as of this year the largest commercial bank in the United States. Despite the overwhelming disproportion of capitalization in favor of the banking Goliath, Phibro and its parent companies, Engelhard Minerals and Anglo-American, have something Citibank desperately needs: the means of collateralizing short-term paper of developing countries now piling up in default on several continents.

When Citibank Executive Vice-President George Vojta, deputy to the soon-retiring international department chief, G. A. Costanzo, left Citibank for Phibro a month ago, Citibank officials quietly let word out that Vojta was disgruntled over his poor chances of replacing Citibank Chairman Walter W. Wriston. Vojta's shift to Phibro, where he is now chief financial officer, did not rate mention in press accounts of the Aug. 3 announcement that Phibro had bought out the $330 million in capital and 62 partners of privately held Salomon Brothers. But industry experts believe that Vojta's job change cemented a transatlantic relationship between the biggest American bank and the biggest Anglo-South African raw-materials empire that began with Anglo-American Chairman Sir Harry Oppenheimer's March statement, "We mean to expand into North America."

Oppenheimer's vehicle to acquisitions in the American market, backed up with a $3 billion cash reserve, was the Minerals and Resources Corporation (Minorco). Citibank chief Wriston and Robert Clare, managing partner of the Citibank law firm Shearman and Sterling, joined the Minorco board when the Bermuda-based holding company was created early in 1981. The previous year, Anglo-American had consolidated control over South African gold production in a "lightning raid" for 28 percent of Consolidated Gold Fields of South Africa, the second largest producer, giving Oppenheimer about four-fifths of the gold output of the world's dominant producer. With firm control of the De Beers diamond monopoly, which handles about 80 percent of the world diamond trade, Oppenheimer is in an unchallengeable position in world precious metals and gem markets, and a major force in other mining as well.

Oppenheimer's principal American outlet (with 28 percent control) is Engelhard Minerals, which acquired

Philipp Brothers eight years ago and transformed it into a spectacular force on world commodities markets. Earlier this year, Englehard "spun off" Phibro Corporation, the new incarnation of its Philipp Brothers division, while remaining firmly in control.

The key to Phibro

Phibro is probably the most remarkable single corporation in the world, trading in 150 different commodities, and dominating the Rotterdam oil spot market, the Colombian coffee market, and a few lesser commodities. In the grain business, it is challenging Continental and Cargill. Last year its sales reached $23 billion, which would put it in the top six in the American corporate pantheon—although still at one-third the size of the biggest Japanese trading companies.

What is important about Phibro is the *interface between money and hard commodities,* which the Anglo-American spinoff embodies in corporate form. About $50 billion will disappear off the world's national payments accounts during the period 1980-1981, by Chase Manhattan estimates, a sum referred to by the euphemism "statistical asymmetry." This refers to movement of goods and services, not mere movements of capital; the monetary authorities have never even attempted to give a convincing explanation of exactly how capital flows operate. Phibro operates at its best in those areas of the world where the traceability of commodity transactions is at a minimum—the Latin coffee, copper, and sugar markets, the Rotterdam oil spot market, the world grain markets.

How closely the webworks of flight capital and commodity trade overlap is evident in the case history of Phibro's former chief of Andean Pact operations, Alvaro Meneses. Based in Lima, Meneses was tapped for the presidency of Peru's state-owned Banco de la Nación in 1977, when a Lazard Frères team reorganized Peru's finances at the depth of that country's financial crisis. In 1979, he arranged Banco de la Nación participation in what subsequently hit the headlines as the biggest flight capital operation in the Andes, the Peruvian branch of the Banco Ambrosiano. Fortunately for him, Meneses left the helm at Banco de la Nación when the Belaunde government came in last year. He was reportedly sought for questioning after Italian police arrested Ambrosiano board chairman Roberto Calvi for illegal flight capital operations, with a special emphasis on Latin America. Ambrosiano was the central bank for a massive capital-transfer operation run by "Propaganda Two" Freemasonic lodge Grand Master Licio Gelli and Italian Ambassador to Uruguay Umberto Ortolani.

Not generally known about Anglo-American is its key role in the most powerful consortium in the "offshore" markets, the vehicle for world flight capital. About $100 billion in banking assets in the Bahamas alone, as well as substantial operations in the British Virgin Islands, Netherlands Antilles, Cayman Islands, and other Caribbean banking centers move the money that disappears from the world's balance sheet. Chief investment banker to the region is the International Trust Corporation, or Itco, created by Anglo-American in consortium with Barclay's Bank of the U.K., the Royal Bank of Canada, and N. M. Rothschilds of London. Itco creates banks, investment companies, commodities firms, tax shelters, trust funds, and insurance and reinsurance outlets throughout the Caribbean, smoothing contacts with local bank regulators and backstopping the legal position of the offshore market operators with which it deals. Itco is, in effect, the offshore banking sister subsidiary of Phibro.

Third World debt implications

Strictly speaking, the international lending markets are not anticipating a crisis of Third World defaults, but are *in the middle of one.* Since the beginning of the year, as *EIR* has reported, commercial banks have concentrated their efforts on ensuring that new short-term loans to developing countries are attached to sufficient collateral, in the form of goods in international trade or commodities in warehouses. The banks are now financing perhaps two-thirds of the developing nations' $96 billion debt-service requirement for 1981 by kiting trade credits, that is, by letting countries "roll over" existing trade loans indefinitely, rather than repaying them on maturity. The banks are attempting to compensate, to the extent possible, by gaining title to increasing amounts of commodity production.

Except for Brazil and a handful of other countries that have managed to shift their export mix toward manufactures in the last decade, the debt-to-raw-materials equation prevails in calculating the serviceability of developing nations' private obligations. A rise in raw materials prices (associated with a drastic fall in the dollar's credibility) during the fourth quarter of this year, bankers hope, may permit at least the best collateralized trade paper to continue to pass in the markets.

With as little fanfare as possible, the Eurodollar market's liquidation is proceeding. Phibro's peculiar role in this extends beyond that of commodity trader. During the past two years, through its Swiss banking arm Phibrobank, Phibro has taken a leading innovative role as investment banker to the raw-materials-producing nations. Its major activity is arranging the collateralization of trade credits with commercial bankers.

Citibank needs a *hard-asset position* to survive the next year as an institution, and Sir Harry Oppenheimer is the bank's connection. Depending on the extent to which Citibank has already been able to attach hard commodities to what would otherwise be a great deal of bad paper, and depending on the price relation between commodities and the U.S. dollar, the strategy may or may not be viable.

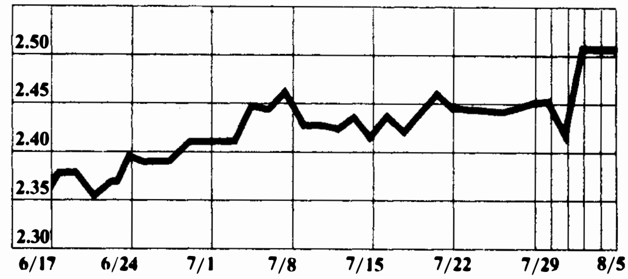
Prospects for success in the scramble for collateral are not easy to predict. What is clear is that the surfacing of the existing financial crisis dominates the maneuvering of America's largest bank. On July 30 Wriston let reporters know that Citicorp was considering selling off the core of its domestic assets in a $20 billion package to a foreign bidder, and reorganizing itself into an international banking and domestic "financial services" operation without the burden of a brick-and-mortar branch network. This incredible suggestion might have been motivated by the bungling of Senior Executive Vice-President John Reed's push into retail banking, which led to staggering loan losses in the consumer sector.

What is obvious about Wriston's proposal, however, is also true. Citibank wants to liquidate areas of previous expansion for cash, rather than borrowing to expand aggressively, as in the past. The same motivation is at work in last week's "deep discount" Eurodollor bond issue, in which Citicorp gave investors a 66¾ percent price on a bond bearing no coupon, but payable at 100 in three years. At maturity the bond yield works out to 14.42 percent, giving investors a competitive interest rate, and allowing the bank to get hold of $66.75 million interest-free for three years. Who is leading the dance is self-evident. Phibro bought up Citibank's international department chief as well as its investment banker, in the midst of a major international reorganization. Anglo-American, along with the British Petroleum-Selection Trust combination, is a pillar of a British-centered raw-materials empire that controls what hard assets are available as a crisis "insurance policy."

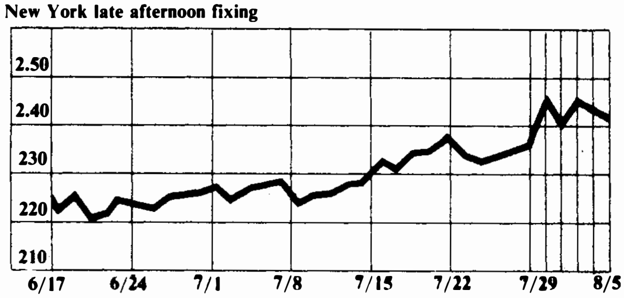
As *EIR* reported in our July 21, 1981 issue, a much larger percentage of U.S. corporate equity, in the range of 20 percent of the total, is held by foreigners than Treasury figures indicate. Who actually controls Citicorp stock is not clear. But what has happened, as of the Salomon Brothers merger with Phibro, is that the myth of aggressive, independent American commercial and investment banking is dissolving like mist. From the vantage point of the long run, the British, Swiss, Italian, and other financial powers whom Anglo-American recognizes never considered the international reserve status of the American dollar as more than a temporary nuisance following the Second World War. Real power, in their view, lay in maximum control over the only acceptable international reserve asset were the dollar to fail, namely gold, and in raw materials in the ground. Apparently, financial policy-making at the big U.S. institutions has reverted to these criteria.

Currency Rates

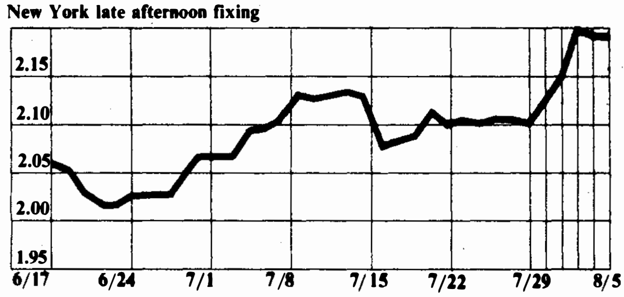
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing