Business Briefs

Foreign Exchange

East bloc banks shut out of currency markets

A number of leading U.S. banks have put a halt to foreign-exchange dealings with banks representing the U.S.S.R. and its allies. The London *Financial Times* reported April 14 that growing East bloc financial difficulties, as well as the worsening international strategic climate, are the cause.

Until recently, banks such as the Moscow-based Soviet Foreign Trade Bank and Poland's Bank Handlowy were active foreign-exchange traders, known for their efforts to make high profits on short-term currency deals.

At the end of 1981, the *Financial Times* claims, the Romanian Foreign Trade Bank failed to settle a foreign exchange transaction on schedule, raising doubts among Western bankers as to whether growing East bloc financial problems were starting to dip into foreign exchange set aside for currency deals.

The *Financial Times* notes further that "in the event of a major confrontation with the U.S.," East bloc banks fear, U.S. authorities might freeze their dollar assets. As a result, more business is now pouring into Switzerland, which is considered a safe haven from East-West confrontation.

U.S. Industry

Harvester stock analyst says: 'gone by fall'

A noted stock analyst who watches International Harvester claimed April 12 that the company "will be gone by fall," because its sales have plummeted and its debt-to-working-capital ratio has risen dramatically.

The analyst foresees three possible futures for the company: 1) a takeover by Caterpillar Corporation which will strip Harvester down to a much smaller company and feeze many loan repayments; 2) a buy-out by someone "with a fat wallet"; and 3) division of the company into parts for sell-off to other companies.

Based on sales, which were 32 percent lower in January 1982 than a year earlier, the company's ratio of assets to short-term liabilities has fallen from \$.26/\$1.00 to \$.16/\$1.00 over the same year. The company's operating capital is now only 12 percent of sales, unusually low for a manufacturing company, and according to the analyst, many of the 330 small banks who have lent Harvester nearly \$4 billion have lent more than their legal 15 percent of equity; so they now face being wiped out.

Transportation

IC Industries cuts rail grain freight rates in half

IC Industries, the Morgan-controlled holding company that owns the Illinois Gulf Central railroad, announced April 14 that it had cut in half its rates for hauling grain from Chicago to New Orleans.

The old rates of \$19.66 per ton of grain were cut to \$10 a ton with no tonnage minimum. The railroad, which reported a surplus of 700 grain cars, now says it will be 300-400 cars short, when the rates go into effect.

According to IC Industries, the purpose of the move was increased rail competition with barge haulage on the Mississippi River. Barges currently charge \$9.50 a ton for grain traffic to New Orleans, the world's largest grain port.

According to Edward S. Reed, the executive director of the Port of New Orleans, there is now legislation pending in Congress to triple taxes on diesel oil used on river barges, impose segment tolls on all waterways, impose maintenance charges for all ports, and strip tax-exempt status of industrial revenue bonds which are used to improve ports.

Besides the multi-level attacks on waterway traffic by railroads and Congress, it is also believed that the Cargill Grain Company of Minneapolis, Minnesota, possibly in conjunction with other grain companies, is seeking to corner the world grain markets in the event of a British blockade of Argentina.

Trade War

European Community: 'Let them eat cake'

Of Argentina's 430,000 tons of beef and veal exports last year, half went to the European Community (EC). The EC nations have embargoed all imports from Argentina as of April 17. The embargo, the first ever imposed by the EC, came in response to Argentina's repossession of the Malvinas Islands from the British.

Of the 189,999 tons of beef Argentina exported to the EC last year, nearly half of that, or 72,000 tons, went to the United Kingdom.

U.S. Department of Agriculture officials do not expect the United States to receive significantly increased orders for beef to replace the Argentine meat. Europeans, whose average diet rarely includes good beef, are expected to have their consumption reduced for the duration of the embargo against Argentina.

Beef prices in the United States remain depressed, with live cattle selling in Chicago for \$67.15 a hundredweight and choice carcasses selling for \$107 a hundredweight.

Monetary Policy

EMS treads water in face of crisis

As increasing instability threatens to tear apart the three-year old European Monetary System (EMS), the nations of Europe seem unable to carry out the proposed changes and extensions in the system, largely in the direction of setting up the European Monetary Fund, which might alleviate the crisis. Since April of last year, the volume of central-bank

ECUs has declined from a high of 50 billion to about 38 billion, leading the European Commission to take steps to stabilize the level at 40 billion, but so far this step has not been agreed to.

Other ideas on the table include settlements between EC central banks to be wholly in ECUs, rather than 50 percent, as at present, and introducing a market rate of interest on ECUs, rather than the low rate now prevailing. But aspects of these proposals are not acceptable to Germany and the Netherlands until ECUs become more nearly a true currency, so expectations are that no major changes will be adopted at the next meeting of EC finance ministers in mid-May.

The ECU was set up as a unit of account when the EMS was initiated three years ago, and was seen as a step toward closer financial and monetary integration of Europe, and as a tool to help stabilize European currencies.

International Credit

Third World losers as 'political risk' fears grow

In the course of a single year—one filled with crises in various parts of the world—the volume of Federally-guaranteed insurance for "political risk" for companies investing in Third World countries is up 500 percent in the six months ending March 31, for a year earlier, to over $1.7 billion. The insuring agency, the Overseas Private Investment Corporation (OPIC), received more applications for insurance in the last quarter of 1981 than in the full year of 1979.

The concern is not prompted by any increase in the number of claims in the recent period—the $25.5 million paid out in 1981 is about average for OPIC—but by fears for the future. The 15 claims in 1981 were confined to four countries, Iran, Zaire, Nicaragua and Ghana.

According to OPIC head Craig A. Nolan, the fall off in company interest coincides with increased desire of Third World countries to bring in investment. Nolan also said, however, that he is actively seeking to privatize his operations by having private insurance companies play a more active role, though the response has been minimal so far.

International Investment

Administration repeats demand that Japan sell out

Commerce Department Undersecretary Lionel Olmer and Assistant Trade Representative Harvey Bale are insisting that the Japanese government aid multinational buyups of Japanese corporations as a prerequisite for "opening Japanese markets."

Olmer and Bale spoke April 12 and 13, respectively, to 250 attendees of the U.S.-Japan Conference in New York sponsored by American businessmen, the Japan Hour Association, and the Japan External Trade Organization (JETRO). The purpose of the conference was to encourage Japanese businesses to set up manufacturing and distribution facilities in the customs-free "foreign trade zones" that have sprung up throughout the United States in the last two years. Conference attendees said that Japanese businessmen took in the information available but did not appear particularly eager for this type of investment.

Bale declared, "increasing Japanese investment in the U.S. foreign-trade zones, while positively expanding production and employment in the zone, will not tend to improve the U.S.-Japan trade imbalance. Indeed, in the short run, it may worsen it." He argued that increased exports follow increased foreign investment.

Joining a demand previously enunciated by the Commerce Department, Bale endorsed a recent *Wall Street Journal* headline, "Japanese Aversion to Selling Companies May Be the Ultimate Barrier to U.S. Trade." He said the Japanese government should help U.S. companies purchase Japanese companies. Unlike in the United States where mergers and takeovers are common, they are rare even among Japanese companies.

Briefly

● **MARINE MIDLAND** Bank, the U.S. subsidiary of Britain's Hongkong & Shanghai Bank, is one of the few U.S. banks turning a profit this year, despite Fed Chairman Volcker's high interest rates. Marine reported first-quarter 1982 earnings up 5.4 percent, to $21.6 million, and net interest income up 14 percent to $144.4 million. Net income would have been even higher except for non-banking expenses related to Marine's major expansion programs and investments in new products and services. *EIR* has long contended that the Hong Kong banking parent purchased Marine for use in its laundering of international narcotics revenues. Could this be part of the earnings surge?

● **THE U.S. TREASURY** is disturbed that Congress has not yet renewed its authority to issue long-term bonds, which ran out in January. The Treasury desperately needs to issue more 30-year debt, and 30-year paper is now trading at a premium due to a shortage on the market, Wall Street traders said in mid-April. "We are seeking congressional action to increase our bond-issuing authority," a Treasury spokesman told reporters.

● **THE STATE** Legislature of Massachusetts is deliberating the first comprehensive bill for total deregulation of all banking, including allowing savings & loans all the activities of commercial banks.

● **WORLD WILDLIFE** Fund President Russell E. Train was in Brazil in mid-April, ostensibly to attend major environmentalist meetings on the preservation of rare species in the Brazilian jungles, aides said. Train, a leading member of the Committee for the Year 2000, the private-sector support group for the *Global 2000 Report*, was probably looking into measures to begin reducing Brazil's growing population.