

# Business Briefs

## Third World Debt

### Venezuela's CAP announces 'solution'

Carlos Andrés Pérez (CAP), the Socialist International's President of Venezuela, has finally made his long-expected proposal for the establishment of a special debt facility that would buy up Third World debts at heavy discounts. Speaking at the World Economic Forum at Davos, Switzerland, CAP introduced this, the latest transmogrification of a proposal that has been kicking around for several years now.

From reports so far available, it is not entirely clear how CAP intends his facility to function, but he appears to call for this new agency to issue bonds to the bank creditors of Third World countries, in exchange for the banks' loans to these countries, at discounts in the range of 50% of face value.

The agency would then pay interest on the bonds at well below market rates. The effect would be lower by as much as 50% of the average interest burden of indebted nations. Thus, even were the banks to accept losing 50% of their interest income, it would leave the debtor countries still paying out enormous sums on a net basis each year.

West German Economics Minister Helmut Haussman praised CAP's proposal, but U.S. Treasury official David Mulford called it "a non-starter."

## Energy

### France to offer India nuclear plants

French President François Mitterrand told a *Times of India* newspaper correspondent in Paris Jan. 27 that when he arrived in New Delhi Feb. 1, he would discuss with Prime Minister Rajiv Gandhi a proposal for France to finance joint-venture nuclear power plants in India. "Every margin of maneuver should be utilized to present an offer enabling France to launch fruitful cooperation with India in this priority field," he said.

According to Rajendra Prabhu, the *Hindustan Times* correspondent, he was given

a tour of French nuclear plants, and Mitterrand would offer two 1,300-megawatt plants, accompanied by an attractive credit package.

Upon Mitterrand's arrival in New Delhi, he and Gandhi promptly signed agreements on cooperation in the life sciences, biotechnology, and medicine. A joint venture agreement was also signed to build a \$66 million plant outside the Indian capital to make polio, measles, and rabies vaccines. Economic cooperation and ways of closing the North-South gap between developed and developing nations dominated the first round of talks between Mitterrand and Rajiv Gandhi, according to Reuters, which did not report any discussion on either suggested French cooperation in harnessing Brahmaputra and the Ganges rivers, or the nuclear deal.

However, the presence of M. Cheret, president of France's Professional Syndicate of Water Distribution, and several top French experts in water management among Mitterrand's entourage suggests that discussions will occur. Nobel Prize-winner Professor Dausset is also part of the team and will speak at a seminar on "Water for Mankind."

## Food

### 'Will the world starve this year?'

"Will the world starve this year?" So begins a feature on the world food crisis in the Jan. 28 London *Independent*, "Rethinking the Politics of Plenty." Washington correspondent John Lichfield answers the question, "Probably not. But the shriveled, wind-blasted condition of much of the winter wheat crop in the U.S. central and southern plains—one of the most important crops in the world—is giving politicians and agricultural analysts food for anxious thought."

Last year's various droughts and/or crop failures around the world have "left global cereal stocks at their lowest level, in relation to world food needs, for 40 years. It would take only one more failure, or even a serious shortfall, in any leading growing region to cause drastic food shortages by the end of this year."

World food stocks, he adds, "have now been drawn to unusually low levels: enough to feed all the people and animals in the world for just under 8 weeks (compared to 14 weeks two years ago). . . . World stocks of wheat—the main human consumption grain in the developed world and parts of Asia—are especially low."

Relative to the "plenty" of the 1980-86 period, the world is undergoing a "biblical transformation," in which, "for the past two years, the world has eaten more grain than it has produced."

## Europe 1992

### 'Merger rules' key to market dominance

Brussels insiders say that the key battle over who will control "Europe 1992" is taking place over the content of 1992 "mergers" rules. In that year, all customs barriers to the movement of goods, people, and capital are to be eliminated, and a process of corporate consolidation is already well under way.

According to these reports, there is a raging battle under way over what rules the European Community in Brussels will adopt to regulate corporate mergers. The EC proposal being debated would give Brussels "yes or no" review power over mergers of companies across EC borders when the sales of the new entity exceed \$1 billion per year.

The West German position is that Brussels' control should only apply to companies above \$11 billion in sales, leaving smaller bids in national hands.

The real issue, say the insiders, is whether Europe 1992 will be a protective bloc dominated by a continental European German-French bloc on industry and monetary policy, in which Britain would be forced to play a subsidiary role; or, whether Britain, with backing of U.S. and Japanese interests, would be able to take advantage of the market deregulation to extend its control over strategic industrial and financial sectors of the EC.

British Prime Minister Margaret Thatcher's new appointee to the European Commission, Leon Brittan, has just secured the key post of Competition Commissioner,

who is responsible for drawing up the new rules for mergers, and is reportedly planning to block emergence of giant European corporate groups.

The biggest concern is over how the EC will define "market share," one Brussels observer notes. "Will Brussels allow major European companies in some industries to merge so they can be world-class size to compete with the Japanese or U.S.? Or, will they try to maintain competition inside the EC?"

### **Corporate Strategy**

## **British try to grab German steel giant**

British Steel PLC is about to buy the important steel trading company, Kloeckner, of Duisburg, West Germany, according to British sources. The move is reportedly coming at the initiative of Deutsche Bank, which took over the Kloeckner trading group last October, following suspicious oil trading losses by the company.

If the takeover goes ahead, German steel companies are expected to wage a major fight against the fact that British Steel just received \$2 billion in government subsidies to prepare it for "privatization" by the Thatcher government, and is now taking undue advantage of its cash position to target the German steel industry, Western Europe's largest and most advanced.

### **Thrift Institutions**

## **Will action on LBOs trigger stock crash?**

Sen. Lloyd Bentsen (D-Texas) confirmed Jan. 29 that one of the reasons Congress is not acting to place strong curbs on leveraged buy-outs (LBOs) is the fear of triggering a stock market crash.

"That's certainly one of the problems" of imposing strong curbs, Bentsen said on ABC's "This Week With David Brinkley."

An LBO involves the purchase of a firm

through junk bond transactions or other forms of borrowing to purchase the majority equity in that firm—in effect converting most of the purchased firm's equity into debt. The firms are then sold off piecemeal (asset stripping) to pay off the debt.

Bentsen said that he was "deeply concerned about the move from equity to debt." His fear, he said, is that the "next recession will last longer, be deeper, and have many more bankruptcies than we have now"—which could mean a "reverse leverage" situation crashing the corporate debt created by LBOs.

### **Asia**

## **Japan: bigger budget for bigger role**

The Japanese government has proposed a budget which provides for the largest increase in spending since 1981. The 60.4 trillion yen (about \$491 billion) budget plan calls for 6.6% increase in total spending.

The level of foreign aid spending will make Japan the largest aid donor in the world, ahead of the United States, and is intended to fulfill a commitment made by Premier Noboru Takeshita last year that Japan would double its overseas development aid for 1988-92 to a total of \$50 billion.

Defense spending will continue its steady increase. The Finance Ministry has proposed a 5.2% rise, but analysts expect the cabinet to up that to at least 5.5%. The approximately \$23 billion defense bill makes Japan the second largest military spender in the free world. Still defense will consume only about 1% of Japan's gross national product.

The budget accomplishes two stated goals of the ruling Liberal Democratic Party: 1) to reduce budget deficit, and 2) to increase the flow of funds for public works and regional development. These goals have been in conflict, but economic growth has brought unexpectedly large increases in tax revenues. The tax coffers are projected to grow by 13.1% next year.

Behind the plan, Japanese analysts see the hand of Takeshita, who is seeking another term as LDP president—and government premier—this fall.

## **Briefly**

● **CHINA** will give Mali an interest-free loan for construction purposes, and repayment of four loans China has made to Mali will be postponed. The announcement was made after Deng Xiaoping met with Moussa Trarore, the President of Mali and head of the Organization of African Unity, in Shanghai Jan. 27.

● **LONDON** banking circles say they are growing alarmed at what is characterized as Bush administration mismanagement of the savings and loan situation in the United States. "The perception is growing, that Bush has already demonstrated he is not competent by the way he allowed his bailout plans to be prematurely leaked."

● **SOVIET** wheat and coarse grain imports through June 1989 will be up a sharp 13% over last year because of its poor harvest, the International Wheat Council forecast Jan. 29.

● **OCCIDENTAL** Petroleum will pay the Energy Department \$150 million in damages to settle an eight-year-old dispute involving violation of federal oil price control regulations.

● **EASTERN AIRLINES'** largest union, the International Association of Machinists, representing mechanics and ground crews, could strike the carrier as early as midnight of March 3, after the National Mediation Board ruled in favor of a 30-day cooling-off period Feb. 1. Eastern has been demanding broad concessions from its workforce to offset losses of \$1 million a day.

● **THE HOUSE** Agriculture Committee Feb. 1 launched its own investigation of illegal trading on the Chicago futures markets, the target of a massive FBI probe. Committee chairman Kika de la Garza (D-Texas) said the panel "will endeavor to insure that these markets are properly regulated and that investors are not the victims of fraud or other trading abuses."