

Business Briefs

The Debt Bomb

Bankers Worry About Ecuador's Correa

International financiers are concerned that Ecuador's Rafael Correa may do just what he says he will do: force creditors into an "Argentine-style" write-down of Ecuador's foreign debt, after he is inaugurated as President on Jan. 15. London's *Financial Times* ran two articles Jan. 4, saying that unlike Argentina, starving Ecuador is "oil-rich, and . . . can afford to pay its debt." Should it default, it "would be due to a lack of willingness rather than ability to pay." The country has \$135 million in interest payments on bonds due in February.

Financiers are assaulting the country, to try and force a backdown. Yields on key Ecuadorian bonds jumped from 7.88% in mid-November, to 13.48% in early January, rating Ecuador a greater credit risk than Iraq. One financial advisor assured the British paper that if Correa doesn't reschedule, investors could make a 35-45% return within six months.

Author Hal Weitzman threatened: "The danger for Mr Correa and Ecuador is that the mere threat of default could prompt an 'Argentine-style' financial crisis and a run on the banks, putting pressure on the country's dollarized economy and weakening his position as President."

Automobile Sector

U.S. Productive Employment Shrinks

The announcement of the breakup and liquidation of the large auto supplier firm Collins & Aikman poses the question: Just how fast is the productive U.S. auto industry workforce and capacity now shrinking? The Bureau of Labor Statistics has no overall figures past September 2006, at which point national shrinkage had been 22% since July 2000 (from 1.330 million to 1.047 million). But MLive.com published a survey of the auto industry in the Western New York region, which shows a much faster disappearance.

There, during 2006-07 alone (including some bought-out workers who will leave in early 2007), there is a 27% shrinkage of employment taking place, from 10,400 in mid-2005 to 7,630 or fewer by mid-2007. "It could get worse," depending on U.S. auto sales.

This survey is a cross-section of the industry, and includes the plants of GM, Ford, Delphi, Visteon, American Axle, and Continental Automotive Systems in the region.

Collins & Aikman is a 163-year-old family-owned firm, with a high proportion of R&D, machine-tool, and product development in acoustical materials, instrument panels, and turbines for small aircraft. The firm has three tool-and-die centers and three other design centers, comparable to GM or Ford, with 5-7 times the workforce. C&A owns at least 45 plants in North America with 14,000 employees, and through a partnership with Dura Automotive (also in bankruptcy), as many as 60 plants with 20,000 employees being impacted by the breakup/liquidation plan announced at year's end. Clearly, a second Delphi disaster, but more rapid. At least two plants will shut down in January, in Georgia and New Hampshire.

Real Estate

Britain's Housing Bubble Called Ready To Pop

"Overvalued House Prices Threaten Crash," reported the *Daily Telegraph* of London on Jan. 2. British house prices are now at their most overvalued in 15 years, since the 1991 housing price crash, according to the new figures compiled by the *Daily Telegraph*/Lombard Street Research Housing Affordability Index. House affordability has fallen almost 20% in the past four years, with the average homebuyer having to borrow 6.5 times his/her salary when buying a new property.

Banks and building societies are reporting that the average amount loaned for mortgages is now £146,900, a 12% rise for 2006, and almost three times wage increases. The average salary is £22,900.

On Dec. 14, 2006, the London *Guardian* reported a warning from Britain's Financial

Services Authority, that thousands of homebuyers who have been taking out "interest-only" mortgages have no idea how to repay them. The FSA said that 10% of borrowers of interest-only mortgages, some 50,000 people in 2006, "have either no idea or, at best, only a rough idea, of how they plan to repay the loan." Another 5% also have questionable repayment capabilities.

Some of these borrowers did not even know that the lender has the right to sell the house if the borrower fails to repay the loan capital.

A full 25% of British borrowers are taking out these mortgages, some 500,000 in 2006. Many banks and building societies are not checking whether the borrower has a way to repay the capital of the loan, the FSA reported.

Finance

Leveraged Takeovers Were Created by Banks

New revelations continue to make clear that it is the lending banks—the biggest international investment and commercial banking groups—which are driving the bubble in leveraged takeovers, by private equity funds and hedge funds which are the banks' creatures. (See *EIR*, Jan. 5, 2007.)

For example, "stapled financing packages" in leveraged takeovers—a pure conflict-of-interest violation by the banks involved—accounted for \$82.5 billion in 50 leveraged takeover deals in 2006. What is it? Banks, such as UBS, Goldman Sachs, and JP Morgan Chase, first advise a "target" firm to seek to be taken over. At the same time, the banks arrange large non-investment-grade (high-interest) loans, from themselves and other banks, for the takeover—hence, a "stapled" package of takeover financing, ready to go. Then they shop the loan package around to private equity funds to get one of them to take the financing and take over the target! The banks collect large fees from all sides, and are in multiple conflicts of interest. Sometimes targets' boards object; they are usually bought off.

In 2006, JP Morgan arranged \$2.67 billion for SSA Global Technologies (target)

and got Infor Global Systems to take over SSA. In 2005, Credit Suisse advised Toys 'R Us, arranged the loans, and brought in KKR to take over the toy company for \$7.5 billion. Delaware Chancery Court Judge Leo Strine said he found an "appearance of impropriety" in the fact that Credit Suisse collected \$10 million in fees for arranging the financing for the deal, even as it was advising Toys 'R Us in the buyout. In 2006, Goldman Sachs made an \$18 billion package for takeover of Clear Channel radio, while advising Clear Channel to find a buyout. Initially, Clear Channel's board rejected the idea, citing Goldman's clear conflict of interest; but then changed its mind.

Health Care

TRO Bars Shutdown of New York Hospital

A Bronx, New York Supreme Court judge has issued a temporary restraining order (TRO) barring implementation of the Berger Commission order to shut down Westchester Square Medical Center in the Bronx—one of nine New York State hospitals scheduled to be closed as a result of the Berger Commission policy, which became law on Jan. 1, in the absence of any action by the New York State Legislature to overturn it. (See *EIR*, Jan. 5, 2007.) While the TRO only applies to the Westchester Square Medical Center, the basis for the suit, that the Legislature engaged in an unconstitutional delegation of power in handing the decision over to the Commission, could have far-reaching effects, if upheld.

Further arguments in the case are scheduled for Jan. 29.

Nuclear Power

Russia Wants Japan To Help Build Reactors

Atomsprom, the new Russian nuclear power company scheduled to be launched officially in 2007, has asked Toshiba Corp.

and Ishkawajima-Harima Heavy Industries Co. (IHI) of Japan to enter negotiations for cooperation in developing manufacturing and supply of steam turbines and generators, *Yomiuri Shimbun* reported on Jan. 1. The Japanese companies have agreed on principle, and have also been urged to invest in Atomsprom.

Toshiba and IHI jointly purchased the U.S. firm Westinghouse Electric Co. last year. Atomsprom will be created by integrating TVEL, which produces and supplies nuclear fuel; Atomstroiksport, which is in charge of overseas businesses; and Rosenergoatom, which operates nuclear power stations in Russia, among other related companies. The Putin Administration reportedly plans to increase the electric-generation capacity of Russia's 31 nuclear power stations and increase nuclear-based electricity generation from the present level of 16% to 25% by 2030. The plan is reportedly to install two 100-MW nuclear plants every year.

Consumer Fraud

Malthusian Lester Brown Disputes Ethanol Claims

Even the malthusian Lester Brown of the Earth Policy Institute knows that people will starve if the ethanol bubble is continued. The Earth Policy Institute held a conference call on Jan. 4 to release a paper by Brown, saying that the people promoting the ethanol bubble are using facts and figures that are vastly understated respecting the volume of corn required to manufacture fuel. Brown states that the U.S. Department of Agriculture projects that distilleries will only require 60 million tons of corn from the 2008 harvest. But his institute says that it will take actually 139 million tons of corn, which is half of the projected 2008 harvest.

Brown says that this will drive food prices to record levels and make it difficult for people to buy food. He is calling for a moratorium on the licensing of new distilleries. If there is not a moratorium, the increased use of the harvest corn will affect world food-aid programs and could lead to urban food riots in developing countries.

Briefly

DERIVATIVES have taken the risk out of the market, the *Wall Street Journal* assured readers in an editorial on Dec. 30: "Take comfort in the fact that all that buying, selling, swapping, trading, and securitization of risk has actually made the financial system less risky."

BRITAIN'S HOUSING market is so inflated, that it is almost impossible for a first-time buyer to purchase a home, British media reported on Dec. 30, 2006. The number of first-time buyers is the lowest in 26 years, which jeopardizes the housing bubble. The number of first-time buyers dropped to 315,000 in 2006, from 340,000 in 2005. Fast-rising energy costs and stagnant wages are also keeping people out of the housing market.

THE IRAN-PAKISTAN rail link, from Kerman to Zahedan, is making steady progress, and will create the first-ever rail connection between the Indian Subcontinent and the rest of Eurasia. It is scheduled to open in 2007 or 2008, the *Railway Gazette* reported on Dec. 29, 2006. A new complex including gauge-changing facilities will have to be constructed, since the Iranian line uses the 1,435 mm gauge, while the Pakistani railroad uses a 1,676 mm gauge.

SOUTH KOREA'S Ministry of Commerce, Industry, and Energy warned on Jan. 1 that Free Trade Agreements under negotiation with the United States, Japan, China, and the Association of Southeast Asian Nations (ASEAN) will put over 100,000 Koreans out of work in the next ten years. In a report submitted to the National Assembly, the ministry said that the FTAs will put pressure on some 13,000 firms to "rationalize" their workforce.

TAIWAN'S high-speed "bullet train" began service on Jan. 5, traveling at 180 mph on a 215-mile route from Taipei to the industrial city of Kaohsiung on the South China Sea. The trains were driven by French and German drivers.