Click here for Full Issue of EIR Volume 6, Number 21, May 29, 1979

COMMODITIES

Major shakeup underway of U.S. raw materials supply channels

U.S. industrial consumers of raw materials who are concerned with the pattern of 20-100 percent annual inflation rates in primary metals costs should begin to keep close watch on a number of bills now going through the U.S. Congress.

Senator Dole, for example, has just brought a bill into Congress, already passed by committee, which calls for "joint efforts" by "Canada, Mexico and the U.S. to promote a continental energy policy." Dole's package is modeled on the prospectus issued during 1978 by the Blythe, Eastman, Dillon investment firm for creation of a North American Common Market, a scheme whereby investment in the U.S. and neighboring nations will be rechanneled out of industrial corporations, and high-technology energy development, in favor of basic mining, oil extraction and "soft" energy technologies.

In presenting the bill, Dole urged that President Carter immediately call for a summit meeting with the heads of state of Canada and Mexico to promote the "Common Market" idea.

Just as important is the legislation about to be passed on Alaskan development; as well as Senator Hillis' (Rep.-In.) bill for creation of a select committee on raw materials, whose major purpose will be to design policies to confront supply shortages induced by political disruptions, "boycotts" and other crisis developments abroad.

These bills are all connected to the Carter Administration's commitment, over the next few months, to increasingly centralize government policy-making for raw materials in the hands of the Federal Emergency Management Agency (FEMA), the "crisis-staff" apparatus signed into effect by presidential decree on April 1, 1979.

If fully implemented, FEMA will *not* be concerned with getting materials cost inflation under control. Rather, its purpose will be to "cartelize" raw materials production and

FOREIGN EXCHANGE

A foot in the Tokyo door

The latest in a series of measures to "liberalize" the Tokyo currency and capital markets occurred in mid-May, as both foreign banks and Japanese commercial and trust banks were allowed to issue negotiable-rate certificates of deposit (CDs). The velocity of CD growth, their expected volume, and the extent to which the Japanese Finance Ministry will retain or intensify administrative guidelines on CD transactions are not certain. What is clear is that the liberalization measures have been urged on Japan by the Carter Administration and by those international bankers who share a resolve to (1) dismantle the joint state-industry control over capital allocations that has made Japan the most advanced capitalist economy in the world, and (2) make the yen into a reserve-currency adjunct and a major repository for diversification out of dollar holdings, en route to a world Special Drawing Rights regime.

The introduction of three- and six-month CDs—currently in minimum amounts of $2.3 million—was opposed by the Big Three Japanese long-term credit banks, and pressed by the foreign banks. The latter's cost of funds will drop, according to the May 18 London *Financial Times*, given the current 5.1-5.4 percent rate on three-month CDs as compared with the 5.75 percent level of a three-month bill on the discount market. At the same time, Japanese banks which have been paying lower rates on customers' compensatory deposits will have to pay more on CDs, a disadvantage only mooted by the *Financial Times* when it suggests that some Japanese banks are requiring CD customers—against the rules—to simultaneously hold current balances at the bank.

Despite their misgivings, it is the Japanese banks which reportedly plunged into CD issuance, because of their need for funds, while foreign banks have held off until a secondary market is established. What is in question is not only interest-margins

© 1979 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

allocation, and to mete out mining contracts to the investment bank proponents of the North American Common Market scheme.

Raw materials 'boom' was engineered

The "boom" in raw materials prices since October 1978—which has entailed a 40 percent rise in copper prices, 35 percent rise in nickel, and 10-20 percent rises in aluminum and lead—has been deliberately pushed by the same British-linked investment houses which have made a killing off international price increases in petroleum.

The copper boom, which set the stage for all subsequent price rises, was kicked off by the political crisis in Iran. Not only did the antitechnology forces under the new Khomeini-dominated regime put a halt to development of Iran's Sar Chesmah copper mine project—scheduled to bring 145,000 tons a year of output on line this June—but, just as importantly, the oil supply "scare" which began with the cutback of Iranian output provoked a wave of "hot money" into the metals markets, driving copper to record highs.

The shift of capital flows into metals speculation in the wake of the crisis, though, helped to convince U.S.-based multinational oil companies that it was time to "diversify" their operations out of strict energy development, into more general raw materials operations.

What deserves close attention is the role the FEMA apparatus will play in delving out the coal and other mining leases which have become such hot items under the impact of the commodities price "boom."

No less than 40 percent of the U.S. land surface is presently administered by the Department of the Interior, which has been completely reorganized to intermesh with the FEMA bureaucracy.

The complicity of the Carter Administration with speculative investment interests behind the raw materials boom, and the desire of both the Administration and the speculators to get FEMA under way will become blatantly clear in coming weeks, when Wage and Price Control Council reviews aluminum and lead prices. In both cases, inflation is taking off under the impact of a "split" in prices on domestic and foreign markets.

As prices of both metals are higher abroad, speculators, middlemen, and producers are shifting their contracts to foreign purchasers. This has raised the spectre of supply shortages domestically, leading producers of both metals to urge the Administration to grant them increases on a par with prices abroad.

—Renée Sigerson

---

but volume and above all deployment of funds.

Presently, foreign banks in Tokyo can only issue a total of CDs up to 10 percent of their yen loans outstanding, and cannot issue them at all to their home offices or other overseas branches. However, as the *Financial Times* states, "Eventually it is hoped that the government will allow more flexibility in the amounts of the CDs and the terms." The effect, even in the near term, tends to skew the Tokyo market toward the shorter-term end; and CD advent could also have some upward impact on corporate borrowing costs by skimming funds from the "Gensaki" repurchase market.

International lending base

But the point is longer range—to create a foreign-bank yen base for building offshore yen loans. These loans, according to their advocates, would embody the opposite principle of the "consolidation plan" credits first quietly proposed by Japanese leaders last year. That plan would centralize Eurocurrency deposits—primarily offshore *dollar* liquidity—for the purpose of long-term development credits and mammoth well-planned trade financing at progressively lower interest rates. Yen loans have already occurred in this direction, and could play a secondary part in the "consolidation plan." But what the Tokyo liberalizers are doing is opening the way for the foreign banks most oriented toward International Monetary Fund conditional lending for payments deficits, and World Bank "appropriate technology" project credits, to "fund a yen credit safely for a prolonged period without relying on the leadership of a major Japanese bank," in the words of the May 22 *Journal of Commerce*

So the foot in the door not only nudges Japanese corporations away from their close relationships with domestic banks; it tracks into a reserve status for the yen. Even if the yen were to be brought up from the current 218-to-the-dollar level to Ohira and Blumenthal's 200 target range, while exports simultaneously grow once more, there is only one way to secure real yen strength—not so ironically, through a strong dollar that in turn expresses a net expansion of world trade and investment, through something like the consolidation plan and its European Monetary Fund (EMF) institutional channel. Signs from very highly placed monetary officials indicate that they will stall and sidewind the Tokyo liberalization (see story p. 7) while using the need for energy investment to get the EMF under way. During the postwar period, such attempts have again and again been cut short by Mideast wars and equally artificial financial catastrophes. This is why something much more than "competition" is at stake in the Tokyo markets.

—Susan Johnson