International Credit by Peter Rush

Europe cornering petrofunds

For entirely political reasons, the coveted petrodollar surplus of OPEC is undergoing diversification into predominantly European securities.

Economics has become politics in Europe this week as that continent maps countermeasures to the lethal U.S. credit policies of recent months. The run-up of interest rates to the 20-25 percent mark may have caused a rush of speculative money out of Europe and propelled nation after nation to hike its own interest rates. But unlike the Carter administration, Europe, led by France and Germany, do not seek an uncontrolled crash brought on by wiping out credit availability in order to "solve" the world economic crisis. Rather, they have concrete plans which center around the use of Mideast petrodollars for dealing with balance of payments, problems and lagging economies.

The central issue was put succinctly by the Mideast manager at a prominent European corporation who reported that French francs are being very much sought after, which, he said, "makes very little financial sense in itself, but it makes a great deal of political sense."

OPEC nations flush with surplus petrodollars have two choices: rush after the highest interest rates for a short-term killing, at a cost of total financial chaos in the near future; or use their funds according to political criteria and bring long-term financial stability.

Put bluntly, France's Giscard d'Estaing and Germany's Schmidt are out to corner the petrodollar market. In the aftermath of Giscard's extremely successful Mideast tour, and with the increasingly close relations between France, Germany and the Middle East, they are very close to doing just that. France is already rumored to have been promised many lucrative deals, including the report that the Saudis will place a $1.5 billion order for the new Mirage 4000 warplane.

In Germany, rumors are widespread of efforts to line up Saudi and other OPEC funds to spur German exports and meet balance of payments needs. In this country unused to trade deficits, the 1979 deficit caused by high oil pries has brought a sharp response. Bundesbank head Otto Poehl, German Chamber of Trade and Industry head Otto Wolf von Amerongen, and outgoing Krupp head Petry, among others, have all called for Germany to launch a major export drive comparable to the post-1973 one. Petrodollars will be needed to finance any such drive.

One possibility being discussed is that Germany could bill some of its imports in deutschmarks, perhaps pay with deutschmarks, and get the German government to guarantee financing by OPEC of German exports to Third World countries. Such recylcing would boost German exports, provide needed goods to the LDCs, and circumvent the difficulty of certain banks that have already reached their country lending limits with many LDCs.

This week, the German Finance Ministry's number two man Lahnstein is in Riyadh, Saudi Arabia arranging a DM 10 billion sale of German bonds to the Saudis, a move which may become a paradigm for large-scale Saudi and Arab financing of the French and Germans. Kuwait is reported to be turning the Arab bank consortia (UBAF, UBAE, BAII, etc.) into vehicles for recycling more petrodollars into Europe, and to be creating new banks with French, German and Swiss partners.

Looking to the longer term, Guido Brunner, head of the Energy Commission of the EEC, proposed in a speech to the Spyarkassen Coloquium March 17 that a conference of finance ministers and central bank presidents be set up between the EEC and OPEC. Brunner said he hoped such a meeting could set up the mechanisms for issuing a massive European Currency Unit-denominated loan to the EEC to be taken up by OPEC. The loan would be available to cover country budget deficits, and also balance of payments deficits.

Some of the means no doubt remain to be worked out. But the Arab holders of petrodollars recognize that the stability and long-term arrangements sought by Europe are also in their own best interest and that they will use "political" reasons to decide between interest rates and petrodollar funding of Europe. This prospect is causing sleepless nights in London and Washington, which had counted on drawing the lion's share of the petrodollar bonanza to themselves.