Business Briefs

Agriculture

Yeutter hedges on Reagan embargo policy

Clayton Yeutter, president of the Chicago Mercantile Exchange and former assistant agriculture secretary in the Nixon and Ford administrations, has been chosen by Ronald Reagan to chair the President-elect's Agricultural Task Force to plan the transition to the new administration. Other task force members include former agriculture secretary Earl Butz.

Yeutter, a leading candidate for Agriculture Secretary in the Reagan administration, this week cautioned that lifting the Soviet embargo—a campaign promise made by Reagan—would have to be a presidential decision that involved an "intense evaluation" of future U.S.-Soviet relations and a careful determination of "how and when."

U.S. Economy

Industry, trucking contract as rates jump again

The U.S. Steel Corporation announced Nov. 5 that due to the collapse of steel orders, it has decided to postpone the building of a new, fully integrated steel plant in northeastern Ohio until the late 1980s. On the same day, Chrysler, despite improved sales of its new K-cars, said that it will close three plants and lay off 10,000 more workers next week.

Also on Nov. 5, the money center banks, led by Chase Manhattan Bank, raised the prime lending rate to 15.5 percent. This widely expected move was immediately precipitated by the tightening of credit by Federal Reserve Board chairman Paul Volcker. By Nov. 6, Volcker had pushed the federal funds rate—which are reserves traded overnight by banks—to an opening of 15⅛ percentage points, which would justify a 16 or 16.5 percent prime.

On top of this, the American Transportation Association predicted this week that truck tonnage would fall by 10 percent for 1980. This is attributed both to the collapse of the U.S. economy and the adverse effects of trucking deregulation. The high interest rates will hurt the heavily consumer-product oriented trucking industry.

Gold

Teheran's friends finance war effort

Since the U.S. Treasury froze Iran's assets in banks a year ago, the Iranian regime has become increasingly dependent on gold as a source of finance, London gold dealers report. According to Reuters, London dealers expect that if the freeze is lifted as part of a deal on the hostages, Iran will use much of the formerly blocked dollar deposits to purchase more gold to finance its war effort.

"Some dealers speculate that Iranian reliance on the traditional international monetary system will have been severely eroded and a significant part of the assets freed could well go towards gold purchases," Reuters states. "Given the background to the assets saga, the obvious market for future Iranian gold purchases would be London and Zürich. Dealers would expect Iran to move home most gold purchased. If at some stage, however, Iran needed to raise finance to aid its war-torn economy, it could well leave some gold in Europe to be used as loan collateral."

Meanwhile, an Oct. 31 analysis by *Financial Times* columnist David Marsh highlights the extraordinarily "cordial" relationship which has been maintained between the Bank of England and the Iranian central bank, Bank Markazi, throughout the entire hostage ordeal. Since the seizure of the hostages, Bank Markazi has transferred back to Iran 46 tons of gold that had been stored in the London and Zürich gold trading centers. About 29 tons were brought back from London, the great bulk of which, it is believed, was lodged with the Bank of England.

According to Marsh, Ali Reza Nobari, the governor of Bank Markazi, "is thought to have made at least one visit to London since the asset freeze to discuss the affair with the Bank. His remark last December that the Bank of England was on Teheran's side caused some red faces at Threadneedle Street—it was reported on the same day that Mr. Cyrus Vance, then U.S. Secretary of State, was in London seeking help with the blocking action." Mr. Nobari was also a guest at the Basel-based Bank for International Settlement's 50th anniversary lunch in June.

Marsh also reports that senior gold dealers in London and Zürich do not believe that Iran has actually sold much of its gold so far to finance arms purchases. Some sources suggest that Iran might already be using its gold holdings as collateral for loans but, Marsh notes, "This type of operation, however, would require Teheran to hold gold stocks outside the country as physical backing for any loan—and it also begs the question of whether Iran has any friends left to provide such assistance."

Banking

Eurodollar reserve rules tighten lending

New Federal Reserve requirements coming into effect Nov. 13 are having a tightening effect on international lending.

Under the Depository Institutions Deregulation and Monetary Control Act of March 1980, the Fed's Regulation D on reserve requirements asked of banks is being gradually modified. On Nov. 13, a 3 percent reserve requirement will be added. To borrowings by U.S. banks from the London Eurodollar and other offshore markets, no such reserve requirement presently exists. Gross borrowings by U.S. institutions from unaffiliated foreign banks, and net borrowings from an institution's own foreign offices, are subject to the requirement.

The expectation of this additional squeeze on their international lending has already caused U.S. banks to bring a significant amount of funds back to U.S. head offices in anticipation of the Nov. 13 deadline. London sources report that this has, in turn, reduced the availability of funds for lending to developing countries' net borrowings in the Euromarkets since the funds are earmarked not for borrowers but for sterilization at the U.S. Fed.

Second, from the Nov. 13 deadline on, U.S. banks will be forced to increasingly concentrate international lending *outside* the U.S., where the reserve requirement cost is not added to the already spiraling interest rates on international dollar loans. In a July 1980 memo on Regulation D and the deregulation act, Fed Domestic Monetary Policy staff director Stephen Axilrod wrote that many banks commented upon the ruling that "they might be forced to move international activities outside the U.S." Such "crowding" of the international markets into London will tighten credit, too.

International Credit

Bank of America chief to change World Bank policy?

A. W. "Tom" Clausen, the nominee to replace Robert McNamara when the outgoing World Bank president retires next June, may change McNamara's basic lending policy, according to sources close to Clausen. Clausen, now the chairman of the board of Bank of America, was chosen by the Carter administration to replace McNamara after consultation with the Reagan camp.

McNamara concentrated the World Bank's resources on the "basic needs" development approach, encouraging rural agriculture, so-called appropriate technologies, and population control through birth control and sterilization, at the expense of lending for large-scale capital improvements in developing countries.

However, according to friends of Clausen, the Bank of America chairman believes "you have to increase productivity to help" developing countries. "Alleviating poverty is, of course, commendable," said one Bank of America official familiar with Clausen's views. "But the real bottom line is that you have to raise productivity, which Clausen talks about here all the time." Neither is the Bank of America chief fond of lending for "import substitution," the World Bank's approach toward reducing capital imports by scaling down the technology level of development projects. "That concept should have gone out with the 1960s" a Bank of America official scoffed.

Clausen is also expected to tighten up on internal administration and budgeting, considered lax during McNamara's tenure.

Narcotics Traffic

Peru promises coca shutdown . . . slowly

In the face of growing international outcry and skyrocketing drug consumption among local youth, the Peruvian government has reiterated its pledge to gradually eliminate its vast coca bush plantations, which are the world's largest source of cocaine.

Agriculture Minister Nils Ericsson Correa declared late last month that "it would be irresponsible" to legalize the growing and trafficking of coca leaves as demanded by some congressmen. The politicians are responding to the fact that under the instructions of the International Monetary Fund for expanding "cash crops," Peru has been turned into a huge drug plantation employing 300,000 people (13 percent of the work force) in the direct production and smuggling of over 100 tons per year of coca.

Ericsson says that it will take 15 years to eradicate coca growing; a niggardly $30 million budget is being deployed against a traffic worth more than $1 billion per year. Furthermore, Peruvian president Francisco Belaunde Terry promises to resettle 800,000 unemployed Peruvians in precisely the jungle regions where coca is the only profitable crop.

Briefly

- **EXIMBANK** announced a major credit for Taiwan this week. Working jointly with a consortium of U.S. commercial banks, the U.S. Export-Import Bank is pulling together $1.8 billion to finance a public-utility-owned nuclear power plant in Taiwan.

- **EURODOLLAR** rates on 3-month money hit 16 9/16 on Nov. 6. This closes up the one-point differential between Eurodollar and Eurosterling for the moment, the two currencies which are keeping global interest rates locked into upward levels.

- **ALLAN GRANT,** the former American Farm Bureau president, expects U.S. lending to foreign nations for imports of U.S. agricultural goods to continue under the next administration, he told the *Wall Street Journal* Nov. 6. The Carter administration had planned to end the direct-loan program for most nations.

- **ORRIN HATCH** of Utah, the Republican who will chair the Senate Labor Committee, said to the *Washington Star* Nov. 7 that "there is no reason to be alarmed. I come from the labor movement. I believe that there should be labor unions. If the unions give me a chance, I think we can do good things together." An AFL-CIO spokesman commented, "We trust that Reagan will put a tight leash on Hatch."

- **DAVID ROCKEFELLER** told the Brazilian weekly *Veja* that he thinks it will be "difficult" for the Brazilian government to allow more political freedom while undergoing the austerity he demands as a major creditor.

- **THE EUROPEAN** Economic Community may have its $10 billion petrodollar recycling facility in place by this winter, EC sources announced this week.