Business Briefs

World Trade

Steel war tied to NATO restructuring demand

A longtime NATO procurement expert and consultant to the West European Union claimed Aug. 12 that the steel trade war launched by the Commerce Department against European producers is designed to force them to agree to a common Western defense industrial base as detailed in the Roth-Nunn bill, which is expected to pass Congress soon.

The NATO expert claimed that while German Chancellor Helmut Schmidt may oppose participation in a supranational defense industrial base, in the longer term the opportunites "will look more attractive."

The Commerce Department's countervailing duties have produced a European agreement to set quotas on national steel production and exports to the United States. This is viewed as a significant relinquishing of national sovereignty and a step toward participation in the Roth-Nunn bill's top-down NATO control over production, investment, and marketing.

Energy

London termed immune from oil weapon

A recent report on the mechanisms of the 24-nation International Energy Agency, the Paris-based body set up by Henry Kissinger in 1975 of the major oil-consumer nations, reveals a strange invulnerability. The report, produced by Louis Turner for the joint energy policy program of the British Institutes, concludes that under any conceivable major cutback of OPEC oil supplies to the U.S., Europe or Japan, the U.S. is slated to be the one forced to provide oil to all other nations. This is the case, the report concludes, even if the U.S. were the worst-hit by a supply crisis.

The report also demonstrates that the one country least vulnerable to even a 50 percent reduction of OPEC supply is Great Britain. Ironically, despite Britain's near self-sufficiency in North Sea oil, under present IEA rules, that country could demand supplies from the U.S. even if the U.S. suffered a more severe supply reduction. For example, under present stipulations, in a crisis situation of 50 percent OPEC supply cutoff, West Germany, Italy, and Japan would be hardest hit with an immediate loss of 17 percent of consumption. The U.S. would lose 12 percent, Britain only 10 percent.

Financial Scandals

Will Sterling National go down the tubes?

Sterling National Bank of New York is reported to be one of a list of "troubled" U.S. banks compiled by the White House. The White House list categorizes the banks according to whether they would be bailed out by the federal government. According to sources who have seen the list, Sterling would not receive help from the government should it falter.

Sterling National Bank came into the public eye last year as a defendant along with former Treasury Secretary David M. Kennedy in a suit filed by the Italian government concerning financial looting of several Delaware corporations. Sterling National Bank was involved in the initial funding of the Anti-Defamation League of B'nai B'rith.

According to sources in Italy, Sterling's Italian correspondent bank, the Bank of Milan, is being investigated by the Vatican for improper handling of church investments.

European Industry

German economy moves into worsened phase

The fight among West Germany's banks which led to the decision to push Allgemeine Elektrizitäts-Gesellschaft (AEG), the seventh largest industrial firm, into bankruptcy proceedings was strongly influenced by a serious worsening of the country's overall economic performance since the beginning of 1982.

Both the mechanical engineering sector, and the manufacturing/non-ferrous metals sector showed a decline in exports in June. For the mechanical engineering companies, foreign orders fell 9 percent for the first 6 months of 1982; for the manufacturing/processing sector, May/June foreign orders were down 3.5 percent compared to the previous two months.

Unemployment stands at 7.5 percent, a record since 1950. In June, industrial output was 5 percent below May levels.

German firms are hoping that the currently low level of the deutschemark, which at around 2.5 to the dollar is about 10 percent below value, will help exports to move upwards in the second half of the year. Such hopes depend significantly on these firms being able to increase sales to the United States. Germany is now running a trade deficit with the Soviet Union (from which it is importing increasing quantities of raw materials and energy), and has been replaced by the U.S. and Japan as leading exporter to the U.S.S.R.

Banking

Daiwa economist calls for Third World debt moratorium

"The international banking system has only one of two choices," warns Tadashi Makamae, chief economist for the European offices of Japan's Daiwa securities—"either accept a moratorium on interest payments [of developing countries] or face some sort of default."

In a privately circulating paper obtained by *EIR*'s Wiesbaden bureau, entitled "High interest rates; an alternative view," Nakamae argued that the primary reason for high interest rates is not the U.S. federal budget deficit, but rather the extraordinary demand for dollars needed by developing countries to pay their Euromarket debts.

Nakamae points out that the debt of the 21 largest Third World countries is $440 billion, of which $140 billion comes due this year. In addition these nations face a $60 billion current account deficit, of which $45 billion is simply interest payments. Thus these 21 nations must find $200 billion of financing. With OPEC now running a deficit, the U.S. banking system and the Eurodollar market become the source.

"Two thirds of the deficit on current account of the developing countries are due to interest payments. The increase in the current account deficit of Argentina, Brazil, Mexico, Chile, Korea, Thailand and the Philippines was entirely due to the growth of interest payments.... It is the need for financing of these interest payments which has maintained high credit demand, which in turn, has prevented the lowering of interest rates. This vicious cycle of high credit demand maintaining high interest rates and thereby increasing the debt burden and the credit demand further, has been taking place concurrently with the deepening world recession."

"The current level of interest rates is extraordinarily high.... *It would only be brought down by freezing the interest payments* burden which is at present the major source of credit demand in the Euromarket." Nakamae points out that rollovers simply solve the problem today only to make it worse tomorrow.

Paralleling *EIR*'s views, Nakamae points out that "as long as the financial aspect of the North-South problem is not solved, the world economy cannot enter a new recovery phase."

However, Nakamae points out the major political problem: the blindness of world financial elites. "It is unlikely, however, that this practical solution [moratoria] would be implemented in order to rescue deficit countries except if a serious crisis developed. For instance, the default of a major debtor country could force international bankers to apply a moratorium."

East-West Trade

No relaxation of pipeline sanctions expected

Despite reports from the odd doings at the Bohemian Groves late last month to the effect that Secretary of State George Shultz promised German Chancellor Schmidt that sanctions against the Soviet-European pipeline would be lifted soon, well-placed White House sources claim that no such decision will be made.

Schmidt apparently believed his old friend Shultz, since he told reporters in a later trip to Canada that he expected the pipeline problem to solve itself. Nonetheless, after the administration reviewed the modest softening of martial law conditions undertaken by the Polish government last month, the White House decided emphatically that the Poles had not met their conditions.

On the contrary, a White House official says, there could be stiffening of the sanctions. "There may be more unrest this month, because there are many kinds of anniversaries" of importance to the Solidarity union movement, the official added. "In this case, there would be retrograde action" that is, a stiffening of the sanctions.

International Credit

East bloc seeking new round of loans

On a case-by-case basis, Western banks are now informing East-bloc debtor countries whether or not they are eligible for a new round of requested loans. The banks have evolved a policy of "coordinated risk evaluation" in handling the non-U.S.S.R East-bloc countries.

On Aug. 7, Hungarian central bank head Janos Fekete signed a $260 million loan in London, put together by a consortium of Western banks. Hungary was granted the loan after a recent round of 20-25 percent food price increases, and promises that rents and utility rates would be raised.

The Western banks granted the credit to Hungary—after denying loans to Yugoslavia and Romania—to indicate backing for Hungary's economic "liberalization."

In London, Fekete also indicated that Hungary may receive an additional $300 million in September from the Swiss-based Bank for International Settlements.

On Aug. 12, Romania learned that it is now eligible again for U.S. bank credit, after such credits were suspended during deliberations on Romania's suspension of debt payments earlier this year.

Briefly

● **GEORGE SHULTZ** has run into obstacles in the form of "previous administration commitments" to the pipeline sanctions and other policies Shultz would like to change, close advisors say. They add that "European skepticism" of his capabilities is justified.

● **A CABINET-LEVEL** U.S. group is now discussing measures to deal with an international banking crisis, including increased central bank swap lines and IMF borrowing on the private markets.

● **LOMBARD-WALL'S** bankruptcy filing Aug. 12 hit Chase Manhattan for $45 million, Chase's third such incident this year, following Drysdale Securities and Penn Square Bank.

● **JACK KEMP's** anti-tax-increase group believes it has a strong chance to stop President Reagan's three-year, $100 billion tax rise in the House of Representatives.

● **A SECRET TREASURY** meeting last month on the natural gas pipeline discussed pushing AEG-Telefunken into bankruptcy in retaliation for the German firm's leading role in the pipeline, a month before AEG's Aug. 10 Chapter 11 filing.

● **THE SIMPSON-MAZZOLI** bill to further restrict "dark-skinned" immigration to the U.S. advanced toward passage Aug. 13.

● **THE SOCIETY** for Mideast Confederation, based in Haifa, Israel, is calling for large-scale irrigation projects to develop the Syrian desert, partly by tapping the latter's underground water and partly through flows from the Tigris and Euphrates Rivers. According to the *Frankfurter Allgemeine Zeitung*, the author of the plan also seeks to develop the West Bank, to provide the economic basis for a viable Palestinian state.