Business Briefs

Austerity

De la Madrid rejects creditors' goals

In a speech which won him a five-minute standing ovation from representatives of all Mexican state legislatures, President Miguel de la Madrid stated what Mexico would *not* do in return for a U.S.-led
from its debt problems. In that fashion, he gave a clear idea of what, in fact, creditors are pressuring Mexico to do.

"Let no one be mistaken: We Mexicans are not willing to negotiate dependency for economic support. Let no one inside be mistaken. We are not going to deal with the economic crisis by means of authoritarianism or dictatorship; we are not going to hand power over to a junta of notables; we are not going to make the *ejido* [cooperative farm] disappear; we are not going to weaken the unions; we are not going to abandon popular and nationalist education; we are not going to allow the interference of the clergy in political affairs."

"Let all know that economic difficulties are not going to make the Mexicans break; let those who think this is the moment to destroy the Revolution or betray the country lose all hope."

In a second speech in Tijuana, to a California newspaper publishers convention, the Mexican President stated, "We do not want to depend so much on oil." He said Mexico would focus on developing mining, fishing, and tourism to provide foreign exchange needed to pay debt.

Banking

Venetian conference backs central banks

A conference at the Venetian Cini Foundation Feb. 12 was devoted to defending the "independence" of the central banks of Europe and the United States (i.e., Federal Reserve), especially in times of crisis.

"The independence of the Federal Reserve is real, but, at the same time, is quite fragile. The independence can be compromised by government officials. . . . Besides, that independence can be put aside in periods of serious national emergency, as clearly shown by the two world wars," said Prof. Richard Sylla at the gathering on St. George Island in Venice.

The conference was organized by the Olivetti Foundation under the title, "The Role of the Central Banks Between Governments and the Credit System in the Industrialized Countries."

Debt

Peru limits interest on debt rollover

The government of President Alan García has announced that all Peruvian public debts will be rolled over until May 2, 1986, and that interest payments on such debts will not exceed a certain upper limit.

On medium- and long-term debts, interest is limited to a maximum of 1.75% over LIBOR, which is lower than that Brazil is currently paying, while interest on short-term commercial debts is limited to 2.25%. On short-term interbank loans, the maximum will be 1.25% over LIBOR.

The decree allows creditors to capitalize unpaid interest, estimated by the economics ministry to be over $300 million.

Peru's total foreign debt is $14 billion, of which $11.25 billion is public medium- and long-term debt, and $1.5 billion is private.

Finance

Study sees trouble for oil lenders

Data Resources, Inc. has issued a study projecting that banks lending to oil-producing nations, in light of recent oil price declines, could be in deep trouble.

The DRI study was released Feb. 16, and says, "The economies of these oil exporters [Mexico and Venezuela], already plagued by austere fiscal policies and diminished exports, will be crippled. . . . In the worst-case scenario, Mexico [or] Venezuela will default on their loans." DRI's Paul Ross added, "In the most optimistic case, domestic banks will only stand to lose a little money."

DRI says that the banks with the greatest vulnerability in both Mexican and Venezuelan debt include Chemical, Manufacturers Hanover, Bank of America, Chase Manhattan, Marine Midland, and Citibank.

The DRI study also named several Denver banks and First City National of Houston as having more than 25% of their assets in oil-related industries.

The 'Recovery'

Japanese shipping company to go under

The largest shipping company in Japan, Nakamura, is reported on the verge of collapse. With total liabilities over $540 million, the 50-year old fleet of 78 vessels is expected to trigger a string of secondary failures of smaller Japanese shipowners.

European shipowners report that Japan is expected to resign from the important trans-Pacific rate cartel agreement, which could trigger rate wars between the Far East and North America. Already, Russian freighters have been under fire by European Commission members for extreme rate violations.

Technology

SDI pacts by summer, says Abrahamson

Italy, Israel, West Germany, and Japan will finalize deals for cooperation with the U. S. Strategic Defense Initiative by the summer of 1986, according to the British *Financial Times*. Addressing a conference on the SDI Feb. 17 in London, SDI chief Lt.-Gen. James Abrahamson assured his audience: "We are not here to pick the cherries from your technical genius. We are not here to steal ideas, but to back people."

Foreign research groups, he said, have much to offer the SDI project in technologies such as sensors to spot the positions of warheads in space, and composite materials that could form the basis for lightweight space platforms to carry devices such as mirrors which would direct lasers to their targets.

Abrahamson flew to Israel Feb. 19 for discussions with researchers there on work—among other things—in another promising technology, rail guns, space-based devices which could destroy missiles by shooting small, automatically guided pellets accelerated by electromagnetic force.

The Debt Bomb

Banker: Use Baker Plan as ploy

The Baker Plan must be used as a "political ploy," a British banker told *EIR* in comments on the oil-price collapse and its impact on the world debt crisis. "Bankers here in the City of London are saying privately that something must be done, either by the Fed or the administration," he reported.

"One idea being discussed here is reviving a special form of the stalled 'Baker Plan' as a political ploy to keep Mexico from exploding. This could then also be used to relaunch the discredited Baker Plan with other debtors."

Africa

Chevron to expand operations in Angola

John H. Silcox, president of Chevron Overseas Petroleum, Inc., has informed the Angolan government that Chevron plans to expand its offshore fields in the Marxist-ruled country. The announcement came despite threats of sabotage by Jonas Savimbi's pro-Western UNITA movement.

Chevron's activities in Angola provide revenue to maintain Cuban and Soviet occupation forces there.

Silcox assured Angolan head of state dos Santos that his company plans to continue and increase its operations in Angola's Cabinda enclave.

Savimbi, while in the United States seeking aid, delivered a warning to Gulf Oil, which also operates in Cabinda, that sabotage could not be ruled out if they continue propping up the Soviet-allied government.

International Credit

Japan, Mexico reschedule debt

Japan and Mexico have agreed on rescheduling repayments of nearly $60 million Mexico owes Japan, the Japanese foreign ministry announced on Feb 18.

The agreement is in line with a decision reached at a meeting of creditors in June 1983. The decision covers Mexico's debts, including government-guaranteed ones, whose repayments were due either in the middle or end of 1983.

This was the first agreement between the two countries on terms of Mexican repayment.

Ibero-America

Argentina seeks lower usury rates

Argentine Finance Minister Juan Sourrouille was cited Feb. 19 in the Buenos Aires dailies *La Nacion* and *La Prensa* saying that Brazil and Mexico agree with him that "old debt" should be given much lower interest rates than "new debt."

Sourrouille will lead discussion of interest rate reductions at the meeting of the 11 foreign and finance ministers of the Cartagena Group in Punto del Este, Uruguay, Feb. 26-28. The group may unilaterally impose lower interest rates or ask bankers to do so.

Bankers might be expected to demand that any lowering of interest rates be compensated for by capitalization of interest, i.e., adding the difference onto the debt principal.

A source close to Sourrouille says Argentina will suggest that debtors pay 2.5% below LIBOR (London interbank offered rate), currently at 8.1%. Under those terms, old debt would pay about 5.6%.

Briefly

- **A BUDGET CUT** of huge size will soon be announced by Mexican President Miguel de la Madrid and his cabinet, a columnist closely linked to Banco de Mexico wrote Feb. 19. Luis E. Mercado, writing in *El Universal* predicted a 1.7 trillion peso cut, to be accompanied by a package of heavy subsidies of consumption of tortillas, beans, rice, milk, and eggs. "This plan will sacrifice the long-term in order to keep going now," Mercado comments.

- **'ARGENTINA** is making a big strategic mistake," Reuters quotes a banker on Argentina's proposal to the 11-nation Cartagena group for lower interest on "old debt." "Argentina has a tremendous competitive advantage today over other Latin debtors—it is not in its interest to join forces with anyone."

- **THE JAPANESE** government is moving to allow private business to participate in research on the U.S. Strategic Defense Initiative, according to the daily *Asahi Shimbun*. The paper reported that the government plans to send a team of business and government officials to the United States as part of its bid to create "an environment to promote participation by enterprises."

- **THE U.S.A.** has levied duties on certain iron from Canada and some steels from Turkey and Thailand after the U.S. International Trade Commission ruled the imports were hurting domestic industries.

- **THE FEDERAL** Reserve Board claimed in mid-January that the nation's factories, mines, and utilities increased their operating rate to 80.8% of their capacity in January because of stronger auto production.

- **CHASE MANHATTAN'S** acquisition of a full-banking license in the rich Florida market by buying a failed bank in mid-February is a key victory in its fight to expand its nationwide network. Chase aquired the St. Petersburg, Florida-based bank for $62.6 million.