

# Business Briefs

## Reverse Leverage

### Swiss BankCorp takes Nabisco to court

A spokesman for Swiss BankCorp in Basel has admitted that a legal action it recently initiated against Kohlberg, Kravis, Roberts & Co. (KKR) and RJR Nabisco has a "hypothetical potential" to unravel the entire RJR Nabisco \$25 billion junk bond takeover, the largest of the recent wave of leveraged buy-outs in the United States.

The spokesman said the case arose from a January request by Swiss BankCorp on behalf of a \$120 million corporate bond issue it had managed for the old RJR Nabisco Corp. According to the terms of the 1986 bond issue, Swiss BankCorp had the right, in the event of a corporate reorganization of the borrower, RJR Nabisco, to declare the bonds immediately due and payable unless the reorganization included "adequate protection of the bondholders."

A request for such safeguards to the new KKR and RJR Nabisco management was finally answered in the negative March 21, reports Swiss BankCorp. KKR/Nabisco refused to provide adequate safeguards to the old bondholders—that is, creditors—before the company took on the \$25 billion junk bond debt.

The next day, the bank went into court in Basel to seek a "declaratory judgment" against Nabisco.

The challenge could represent a fundamental offensive against U.S. "junk bond" takeovers. Leveraged buy-outs have latent within them the potential for rapid collapse, on the principle of "reverse leverage."

## Energy

### Iraq may rebuild bombed nuclear plant

Iraq is seriously contemplating the reconstruction of the nuclear power plant destroyed by Israeli Air Force bombing in 1981, the Indian newspaper *Hindu* has reported from Bahrain. Egypt will be the main col-

laborator in the plant's reconstruction.

The source of the technology for the plant has not yet been disclosed.

The semi-official Arabic daily in Bahrain, *Al Ayyam*, quoted Egyptian Electricity and Energy Ministry sources to the effect that Egyptian and Iraqi officials are working on the establishment of experimental nuclear reactors for power generation as part of a larger plan prepared by the new Arab Cooperation Council (ACC). It consists of Jordan, Iraq, Egypt, and North Yemen.

## Food

### Microbe contamination called biggest threat

Microbe contamination of food products is the most urgent food threat, not pesticides or chemicals, according to several scientific studies just released.

Dr. Frank E. Young, head of the Food and Drug Administration, told the March 28 *New York Times*, "We are seeing a marked increase in microbial contamination and a constantly diminishing contamination by pesticides in our food supply." The result, he said, has been an "explosion" of disease caused by food-borne microorganisms, many of which can be killed by proper cooking.

At the same time, he said, a fear of chemicals has obscured the "low and decreasing risks associated with both natural and manmade pesticides."

The *Times* also reported that in a national survey of 234 foods from supermarkets in 1987, the FDA found no pesticide residues that exceeded 1% of acceptable daily intakes established by the World Health Organization.

Furthermore, regarding chemical additives hysterically denounced by environmentalists, the National Research Council in March reported that exposure to such chemicals individually, in the minute quantities found in the average diet, "is unlikely to contribute to the overall cancer risk to humans in the United States," and that "the facts suggest that our society as a whole is not facing a health crisis posed by environmental agents."

## Infrastructure

### EPA's Reilly vetos urgent water project

The largest and most important water project in the western United States has been blocked by William K. Reilly, the new head of the Environmental Protection Agency, in an unprecedented decision.

The \$1 billion Two Forks Dam project in Colorado, critical for a water-starved Denver and surrounding farm areas, has already received approval from the Army Corps of Engineers, the Denver Water Board, and even the regional administrator of the EPA.

But Reilly, in a statement released to the press March 27, said that while he recognizes Colorado's need for water, he is required to "respect other values important to Coloradans and all Americans: a beautiful free-flowing trout stream of the highest quality; wetlands; a downstream habitat of endangered whooping cranes." He said the project "contemplates the destruction of an outstanding natural resource."

Reilly is the former head of the World Wildlife Fund and the Conservation Foundation, two feudal-oriented elite "environmentalist" organizations created by European aristocracy.

## Agriculture

### Peru suffers failure of potato crop

Half the potato crop in the region of Peru supplying the capital city, Lima, failed this year, according to the English language publication *The Andean Report*. It blames this on Peruvian President Alan García's former policy of generous subsidies to growers and importation of cheap potatoes, which forced down market prices.

This year, when the cheap credit from the government was eliminated and the state food-buying agencies kept prices low, the peasants stopped planting potatoes, a staple of the Peruvian diet.

## Briefly

The same report said that Peru's rice harvest fell by one-third for the same reason, with rice farmers on the coast planting cotton, and in the jungle, coca. Sugar shortages will also continue.

*The Andean Report* projects that, as a result, Peru will have to import \$75 million worth of additional food in 1989. Moreover, it will experience trouble financing the food imports, since only Argentina, Brazil, and U.S. AID are offering financing.

### Banking

## MCorp threatens to declare Chapter 11

MCorp, Texas's second largest banking company, is threatening voluntary bankruptcy under Chapter 11 of the bankruptcy code—protection from creditors while it draws up a reorganization plan—because three minor bondholders have petitioned for involuntary (Chapter 7) bankruptcy.

That is causing Federal Deposit Insurance Corporation (FDIC) chairman William Seidman headaches. Seidman has been seeking a buyer for MCorp since October. He would like the sale to be under President Bush's new thrift "rescue" plan, which has not yet been enacted into law, because this would give him broader power to control the solvent banking units of a troubled bank-holding company. Under current law, bank regulators may only seize the insolvent units. Many of MCorp's banks are solvent, but Seidman has been trying to sell them off as a whole.

In late March, A. Robert Abboud, who took over First City Bancorporation of Texas with the help of a federal bailout, entered the bidding. Other known bidders are a group headed by MCorp's two largest creditors, Shearson Lehman Hutton and Kleinwort Benson Securities, as well as Kohlberg, Kravis, Roberts & Co. of RJR Nabisco takeover fame. The deadline for new bids is April 3, but the status of all is cast into doubt by the legalities of attempting a federal bailout of a company in Chapter 11 bankruptcy.

The huge insolvent Texas bankholding company said it is being forced to file for

Chapter 11 due to the forced bankruptcy petition against it. Chapter 11 permits MCorp to continue in operation under court protection from its creditors while it tries to come up with a plan to pay its debts. Last October, MCorp stopped making interest and principal payments on \$470 million in debt.

The FDIC has never before had to deal with a bankruptcy filing—the filing would put the holding company, some \$400 million in assets, and possibly any healthy banks MCorp owns, under the jurisdiction of a bankruptcy judge whose approval of any deal the FDIC tries to work out would have to be secured before it could be completed.

### Thriffts

## FSLIC getting itself into more trouble

The Federal Savings and Loan Insurance Corporation (FSLIC) has generated a growing number of law suits against itself, "primarily because of its insistence that the institutions it takes over need not honor previous commitments" or even "federal plant-closing statutes," stated the March 28 *Wall Street Journal*.

The paper reported that the FSLIC seems to have a reverse Midas touch, taking even relatively healthy assets and finding just the right way to treat them so that they will depreciate in value.

For example, last December, the FSLIC found itself owning Gemcraft Homes, a once-huge homebuilder. It immediately suspended the payroll, froze all new construction, and hired as its consultant a man the FBI is currently investigating for defrauding FSLIC in a previous case.

Within two months, Gemcraft was out of business. The FSLIC no longer has a viable business it could sell, but will have to try to sell the pieces at fire-sale prices. It also has about \$50 million in costs from various lawsuits against Gemcraft from home-buyers, subcontractors, and suppliers. The FSLIC itself is being sued by some Gemcraft employees, because it only gave 24-hours notice when it fired them, in violation of federal plant-closing statutes.

● **JAPAN** will head the new bank steering committee which Venezuela will name to handle renegotiations of its foreign debt, Treasury Minister Eglee Iturbe announced March 26. The Bank of Tokyo is one of Venezuela's principal creditors, according to Caracas's *El Nacional*,

● **FRANK LORENZO**, the strike-provoking Eastern Airlines asset-stripper, "has so far made at least \$900 million from his initial investment of \$265 million to purchase Eastern," estimates the March 28 *Washington Times*. His methods included selling off Eastern assets worth \$1.2 billion to his Texas Air for only \$100 million at low interest, to then only lease the same assets back to Eastern.

● **AN IMF AID** package to Pakistan, worth \$813 million to finance immediate import needs, requires budget cuts, price and exchange rate adjustments, elimination of subsidies, an increase in public service and user charges for health and education, and harsh new taxes, including a general sales tax likely to raise prices all around. The next annual budget is likely to end subsidies to agriculture.

● **YOH KUROSAWA**, deputy chairman of the Industrial Bank of Japan, warned that debt moratoria would result from any delay in the Brady Plan. "Because the responsible regulatory authorities said there should be a reduction [in debt burdens] . . . nobody would pay installments until the reduction were fixed," he said on March 28.

● **A \$3.8 BILLION** cash surplus at the Los Angeles Federal Reserve, a 2.2% jump since 1985, is "a red flag that we are awash with drug cash here," according to the local U.S. Attorney's office.

● **NEW YORK** led the nation in numbers of cows lost from dairy herds in 1988. Herds declined by 90,000 cows nationwide. New York lost 36,000, Wisconsin 32,000, and Minnesota 21,000.