

Business Briefs

International Credit

Venezuela plays hardball with the banks

Venezuela has refused to accept the high interest rates and fees offered it by the 17 international banks managing a \$2 billion Eurodollar loan syndication. The Venezuelan government countered with a set of reasonable terms comparable to its other recent syndications. For good measure, the Venezuelan negotiators reminded the banks that it had \$5.7 billion deposited with them which could be withdrawn, just as Venezuela had pulled \$3 billion out of London banks when the British fleet sallied forth against sister republic Argentina.

The London *Financial Times* fulminated against Caracas for daring to challenge the banks. However, it was soon realized that in the past Venezuela has simply borrowed in order to redeposit money with the banks at lower interest rates . . . a kind of gift to the banks.

Venezuelan bankers told *EIR* that their total international assets stand at \$26 billion, "or more like \$30 billion if our gold were valued at market rates" compared with a mere \$19 billion in debts. An officer of the state-run Banco Industrial commented, "Latin America is already putting pressure on the banks. Venezuela might withdraw from all those banks if the jumbo doesn't go through."

The jumbo did not go through.

Domestic Credit

BIS predicts new rise in interest rates

The Bank for International Settlements (BIS), the central bank for central bankers, stated in its annual report, released June 14, that U.S. interest rates will rise substantially in the second half of 1982—which would send interest rates worldwide higher.

Already, between late May and June 17, three-month Treasury bill rates have risen from 11.5 percent to 12.32 percent,

which is also sending the dollar higher.

Were interest rates to continue to rise, there would be large-scale U.S. bankruptcies. Since the BIS helps set Federal Reserve Board policy, its "prediction" of higher rates is more like a threat to raise rates.

The BIS also reports that in 1982, there will be about \$500 billion in savings worldwide, which would not be enough to meet world credit needs. Further, the BIS report states, the U.S. commercial banks net external loans rose by \$38.5 billion in 1981. The United States stepped in especially in the second half of the year to fill the role of OPEC as net supplier of funds to the world banking system. OPEC surplus had been falling, leading to OPEC's cutback in lending. As a result, the U.S. banks, which extended much of these new loans to the Third World, may have overextended themselves. The BIS report notes that the capital base of large commercial banks may have become dangerously thin, which could leave them exposed if a Third World country were to default.

The BIS report proposes that countries should sharply cut their budgets and impose wage controls.

Canadian Economy

Will Trudeau lower rates and break with the U.S.?

As Canadian Premier Pierre Trudeau returned from his European tour on June 14, cabinet ministers, on behalf of the Privy Council, were issuing warnings to the effect that the Canadian economy is now confronted with an "imminent financial catastrophe," as the *Montreal Gazette* put it. "Fear is growing," the front page declared, "that the economy has had all the abuse it can take and any more will plunge Canada into a depression." Concern is so intense, said Stan Roberts, president of the Canadian Chamber of Commerce, that "every banker is telling you that a lot of companies have really only six months to go." "Indeed," wrote Richard Gwyn in the *Toronto Globe and Mail*, "the surprise

about big bankruptcies will be if they don't happen."

The background to the clamor is the possible collapse of big companies like Dome Petroleum, Ltd., sending big banks such as the Canadian Imperial Bank of Commerce over the edge. The number of bad loans reported by Canadian banks is expected to double this year to C\$1.5 billion. Bill Mackness, the chief financial analyst for Pitfield MacKay, Ross, told the press that "unless interest rates come down soon, and sharply, a default crisis is almost inevitable."

Canada has a post-depression record of 10.6 percent unemployment, with 1.2 million people out of work, inflation over 11 percent, and the Canadian dollar at 0.78 U.S. dollars, and still going down. If interest rates, now at 17 percent, are not eased, the economy will soon go belly-up.

On May 23, the *Los Angeles Times* had reported that Trudeau may be "willing to cut Canada's ties to the American economy" altogether by lowering interest rates below those of the United States and enforcing the move with some kind of "currency exchange controls." This would have an immense effect on the United States, since Canada is its biggest trade partner.

Under this option, Trudeau would also have to impose draconian wage and price controls and reflate the Canadian dollar, that is, print money, to prevent big corporations from going under.

International Trade

Comecon moves towards autarky

This year's annual conference of the Council for Mutual Economic Assistance (Comecon), the East bloc's economic association, marked an historic shift toward *independence from Western technology* and autarkical self-sufficiency within the bloc. The Budapest meeting, which followed the Versailles summit of Western nations by a few days, emphasized in a final communiqué "socialist integration" rather than further open-

ings to the West.

Economists for East bloc governments emphasize that "socialist integration" is a code word for autarky. The past 10 years' experience of East-West trade has been a major disappointment for the Eastern economies, Eastern European government sources report, and opponents of expanded contacts with the West have gained in influence.

In particular, East bloc sources emphasize, the trade pattern in which Eastern countries bought downstream technologies for finished-goods production with credit, intending to repay credits through exports to the West, has left the Comecon countries with declining markets in the depressed West, and shortages of both raw materials and spare parts.

Poland in particular does not have the foreign exchange to buy spare parts for Western installations that it cannot manufacture itself.

Therefore, although Comecon will still seek Japanese and West German cooperation in such major projects as Siberian resource development, this will be at Comecon's own pace and its own terms.

Gold

Physical demand up while price falls

As *EIR's* gold columnist Montresor revealed May 11, the June-issued annual report of Consolidated Gold Fields of South Africa, *Gold 1982*, demonstrates that physical demand has risen sharply over the past year despite the more than halving of the market price of gold (to \$308 on June 18). ConsGold reports that:

1) "In 1981, the fabrication of new gold into jewelry, coins and industrial products exceeded supply for the first time since 1972, by 51 tons."

2) "Identified investment hoarding of bars reached 280 tons, the highest total ever recorded since these annual surveys began."

3) "In contrast to this strong physical demand, there was an almost total absence of any large-scale investment or

speculative interest in gold at the more sophisticated end of the market. In fact approximately 330 tons must have been sold from investment holdings during the year, in order to supply the gold required to meet the above mentioned demand for fabrication and bar hoarding."

The report, which is the authoritative source on gold supply and demand, concludes, "It is entirely conceivable that the requirement for gold will again exceed supply in 1982, and by an increased margin. This will have to be met through continued disinvestment. Logically, it can be argued that there must come a stage when the strength of physical demand proves to be a lasting support to the price."

Decisive in increased gold supply were a doubling of jewelry demand to over 1,000 tons, of which 100 tons represented Mideast buying, and the bar hoarding noted above, of which Japan alone accounted for 117 tons.

Agriculture

Farmers cut back on fertilizer usage

U.S. fertilizer usage for the year ending June 30 will be down 11 percent from the record high usage of 1981. U.S. exports also dropped, with finished materials declining by 20 percent and phosphate rock sales down 23 percent.

"Lack of both farm income and higher future commodity prices, plus high interest rates, caused fertilizer use in the U.S. to drop for the first time in four years—and not since 1975 has the drop been this significant," said Edwin Wheeler, president of the Fertilizer Institute in Washington, D.C.

The record usage level of 53.3 million tons will be down to 47 million tons.

While farmers have been cutting back on machinery and equipment, fertilizer cuts are a last resort. Farmers may still be applying the correct amounts per crop; the reduced consumption comes from no longer being able to afford that "extra spread for good measure" for which U.S. agriculture is famous.

Briefly

● **BANCO AMBROSIANO** is subject to intense monitoring by its clearing agent in New York, Bankers Trust, following the "disappearance" in mid-June of its chairman, Roberto Calvi. Bankers Trust will no longer make payments for Ambrosiano on an expected-cable basis. Calvi was arrested in Italy last year during the scandal of the Propaganda-2 Freemasons, who were documented to be involved in terrorism, drug-running and flight capital operations.

● **FRITZ LEUTWILER**, Swiss central banker and President of the Bank for International Settlements, told a press conference June 15 that he expected European Monetary System rates to revert to free-floating within a year.

● **PETRA KELLEY**, head of West Germany's environmentalist Green Party and transcontinental nuclear-disarmament agitator, gave a fair description of how she and her party operate in an interview in the June 14 issue of the mass-circulation weekly *Der Spiegel*. Kelley related proudly, "When the lizards were debated in the state of Baden-Wurttemberg—the lizards harmed by [nuclear plant] radiation—a deputy of the Green Party stood up and said, 'I am the representative of the lizards here in parliament.'"

● **KATHERINE GRAHAM**, chairman of the Watergate-conduit *Washington Post* hosted a private party at New York's 21 Club restaurant the night of the June 13 Holmes-Cooney fight, for her associates—mob lawyer Roy Cohn and Capital Communications head Tom Murphy. Murphy is also on the Board of Directors of Resorts International, the operation Meyer Lansky set up to turn the Bahamas into an offshore banking operation for the drug trade.