International Credit by Renee Sigerson

Lenders batten down the hatches

Citicorp's commercial paper experiment for Third World borrowers signals a grave 1981 situation.

Sometime during the coming weeks, New York's Citicorp will introduce $300 million in commercial paper on the U.S. market for Brazil's national oil company, Petrobras. This is the first time that any Third World-based corporation will try out U.S. commercial paper for a credit line.

Soon afterward, two entities in Mexico, Nacional Financiera and Pemex, will also raise funds through commercial paper, according to investment banking sources.

Venezuela and Argentinian companies, while being viewed by the banks involved with considerably more discretion, may attempt the same route after Mexico.

The opening of U.S. commercial paper to Third World borrowers has been a pet project of a handful of New York investment banks since at least 1976. At that time, Goldman Sachs deployed analysts to Brazil to "educate" officials there on the benefits of commercial-paper-based loans. A. G. Becker and Salomon Brothers became publicly active in moves to expand U.S. commercial paper transactions onto the offshore Euromarkets in 1978.

There exist many "technical" advantages for the lender in issuing these short-term instruments in place of longer-term bank loans, but there is one overriding advantage to commercial paper instruments. Linked to trade credits, accounts receivables, and inventories, commercial paper credits are "isolable" in the event of the eruption of a Third World debt crisis.

Citicorp's push to get the Petrobras issue out early this year signals that top Third World creditors are preparing for stormy payments crises. While Mexico's credit rating will remain top-notch due to the country's oil resources, the prospect of a major payments crunch emerging in some other corner of the world (for example, in Turkey, which has called emergency debt rescheduling negotiations with its private creditors for Jan. 14) endangers the entire world debt structure.

EIR has made an exhaustive study of the conditions under which the U.S. Treasury could be forced to freeze foreign accounts at U.S. banks under threat of a general banking crisis. The November 1979 freeze of Iran's deposits in U.S. banks, the study documents, was actually a dry-run for the chain of command that would have to be activated under conditions of a threatened general crisis.

In their efforts to build commercial paper transactions, Salomon, Goldman Sachs and A. G. Becker have for years been working toward creation of a market which even under these conditions would be attached to seizable inventories and goods which would guarantee the value of their loans even if payments were halted.

When the banks in question first began to publicize their commercial paper gameplan, their intent was to shut the New York money-center banks and other commercials out of this new pool. At that time, these loans would have usurped the commercial banks on their own traditional turf: top-name corporate lines of credit.

In September 1980, however, agreement was reached between the money-center commercials and investment banks to go into this emerging market together. At that time, the Securities and Exchange Commission brought Bankers Trust of New York to court for attempting to market commercial paper through A. G. Becker. The Commission claimed that Bankers Trust was infringing upon the Glass-Steagel Act for trying to market securities.

Paul A. Volcker, the man who has done more in the last 18 months to strangle global credit than any other individual in the world, countermanded the SEC's suit, saying commercial paper didn't qualify as a security. The deal had thus been cemented to "insulate" new lines of credit from 1981's pending monetary storms.

There is little reason to doubt that within months some of the most troublesome monetary dislocations in world history will materialize. Just-released figures from Morgan Guaranty estimate that a full 20 percent of export earnings from leading Third World debtors will go to interest payments on outstanding debt alone. In 1980, based on a 16 percent portion of export earnings, interest payments were already $16 billion.

Those who are now trying to chart a safe passageway through this crumbling monetary structure are giving the strongest signals that they consider such a crash unavoidable.

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