Business Briefs

Energy Policy

A break in the German 'nuclear freeze'?

The first West German nuclear plant construction license in more than five years has been granted. The permit, obtained by Bavarian Bayernwerk for its 1,300-megawatt KWU reactor, Isar II, is expected to be followed soon by approval for Lingen in Lower Saxony. Two similar reactors, Biblis-C in Hesse and Necharwestheim II in Baden-Württemberg are expected to be licensed within the coming year.

The de facto nuclear-plant freeze has been abetted by Interior Minister Gerhard Baum, a Free Democrat. Baum has come under strong pressure from industry.

The last reactor approved, Grafenrheinfeld in Bavaria, required 240,000 pages of paperwork to satisfy requirements from Baum's office. The four new reactors will be built by KWU, a subsidiary of Siemens, under a new "convoy" method of standardized design which is calculated to reduce construction time by about 25 percent.

East-West Trade

German banker's Soviet tour confirms pipeline

Deutsche Bank Chairman F. W. Christians' extraordinary three-week tour of the Soviet Union recently led West German bankers to conclude that the Soviets were deadly serious about the pipeline project, and strengthened the West Germans' decision to go ahead with the project at all costs, top-level German banking sources say.

Christians spent a week touring the Eastern Siberian gas fields, and was shown housing for 30,000 workers, including 10,000 women, who will move to Siberia for two to three years on a volunteer basis. The German banker, who was a war prisoner in Russia and speaks fluent Russian, was "very impressed" by the ability of the Soviets to move such a large workforce into the sub-zero climate, a colleague says.

Christians also spent a week in Afghanistan, presumably evaluating for himself the political and military stability of the Soviets' southern flank.

Deutsche Bank was the lead manager in a syndicate of German banks who provided a DM 6 billion loan to further the Soviet pipeline last month, the largest-ever loan made by West German banks.

European Industry

Bonn reports a sharp decline in output

In the May through June period, West German capital-goods industry reduced output by a full 5 percent. The intermediary processing sector showed a fall of 3 percent.

According to figures released the first week of August by the Economics Ministry, the only industrial exception was construction, where output rose by 8 percent. The ministry notes, however, that "construction activity still remains under the already low average level" of 1981.

Overall industrial output for all sectors declined by 2.5 percent.

U.S. Industry

Harvester restructuring won't work

"International Harvester will find it very difficult to sell its construction equipment production facilities," reported Larry Hollis, analyst for Robert Baird, a Milwaukee-based stock brokerage firm, on Aug. 3. Harvester had announced July 29 that it plans to sell off its construction-equipment production facilities, which earned $1 billion per year in revenues; close or sell off some of its truck and agricultural implements facilities; and restructure its debt, including foregoing paying interest, as part of a sweeping "survival" plan.

The problem Harvester will have in selling its construction-equipment facilities is that any purchaser of the plant would have to assume the workers' unfunded pension liabilities at $1.2 billion are twice the size of the value of Harvester's invested assets of $580 million. If this two to one ratio obtains for the construction division, a purchaser might not be forthcoming. If a purchaser agrees to assume those liabilities, but offers no cash that would not help Harvester sufficiently.

High U.S. interest rates have reduced American farm implement producers' tractor sales (of over 40 horsepower) from 130,863 units in 1978 to 83,148 on an annualized basis for the first six months of 1982. American sales of combines has fallen from 31,494 units in 1978 to 9,298 units on an annualized basis for the first six months of 1982.

International Credit

Mexican Alfa Group renegotiates its debt

Mexico's industrial Alfa Group conceded to 150 creditors gathered at Chase Manhattan on Aug. 3-4 that it was unable to pay either principal or 70 percent of interest due on its $2.3 billion foreign debt. Under the tutelage of Lehman Brothers Kuhn Loeb, Alfa presented a proposal for separately reorganizing each of the 15 companies in the Alfa group.

Alfa is trying to preserve total Mexican ownership of its HYLSA steel unit, one of the few Mexican companies which controls an advanced-technology process utilized around the world—one for the direct reduction of steel. The bankers are interested in acquiring HYLSA, one of the few profitable units of the combine, as partial payment for Alfa's unpayable debts.

The Alfa bankruptcy is being used to

try to shake open the doors of Mexico's industrial economy, which has grown rapidly in recent years through government subsidies and protection. The creditors, led by Lehman Brothers, are pressing to asset-strip the industrial giant to pay bank debts while continuing to negotiate with the Mexican government for further government credits to Alfa to pay off debt.

Lehman Brothers assured the other creditors that the Mexican government had assured Alfa that it would continue bailing out the firm at the same level the banks and management assume losses.

Domestic Credit

Interest-rate decline due to economic collapse

Last month's decline of U.S. interest rates, which saw the prime rate at major banks fall from 16 to 15 percent, is the direct result of an economic collapse, Federal Reserve staff economists believe. The decline is the result of lower cash balances in the banking system, and therefore lower reserve requirements at commercial banks, in direct relationship to the decline of economic activity.

The private view of the Federal Reserve is that the economic depression will continue without relief, contrary to Chairman Paul Volcker's public statements.

Declines in the so-called federal funds rate (the rate for overnight lending of banking reserves between major commercial banks), led the general decline in rates, Fed officials point out, noting that the rate fell from 14 percent in June to slightly over 11 percent during the first week in August. The fed funds rate slide was not principally due to Federal Reserve injection of funds into the banking system, Fed officials argue, but rather to lower reserve requirements arising from the declining rate of growth of the volume of checking account deposits.

Virtually all new borrowing is now "distress borrowing," i.e., a paper transaction whereby a corporation that can only pay interest by borrowing the wherewithal uses the proceeds of a new loan to immediately repay the bank. Such "distress borrowing" generates no additional checking accounts.

Therefore, the Fed staff has concluded, the high rate of growth of lending has continued while so-called demand for money has shrunk. Obviously, such means of easing interest-rate pressures only point to the overall weakness of the financial system. Despite the weakness in the economy, the $50 billion per quarter rate of Treasury borrowing suggests another steep rise in rates in early fall, with even more devastating consequences for a corporate sector which has by all practical standards moved to the verge of outright bankruptcy under the Volcker regime.

Banking

Private credit to LDCs drops precipitously

Credit given by banks to less-developed countries fell by over 80 percent in the first quarter of 1982 compared to the first quarter of 1981. According to a report by the Bank for International Settlements (BIS), lending to LDCs dropped to $3.1 billion in the first three months of 1982 compared to $16.9 billion in the comparable period the year earlier.

The BIS reports that LDCs drew heavily on their deposits in banks, as did countries in the Soviet bloc, whose indebtedness declined by $2.8 billion in the first quarter.

The Bank of England looks approvingly upon a policy of much more "selectivity" in bank lending to LDCs. The banks, said one spokesman, "will be much more selective. There will be tiering, premiums. The consequences are unpleasant, but they are sustainable." He claimed that the Euromarkets' rate of growth will decline from 20-25 percent a year to single-digit figures.

Briefly

- **JAPANESE** interest rates are being raised by 0.5 percent, bringing the prime rate to 8.9 percent, reports the *Japan Economic Daily*. The government was forced to raise rates on government bonds in order to market them successfully, propelling a rise in the entire interest rate structure. In addition, short-term rates have been hiked over recent weeks to stop the outflow of capital, which is seeking higher interest rates overseas, and weakening the yen.

- **JAPAN-INDIA** cooperation in construction and engineering projects in third countries was the subject of a conference in Japan beginning Aug. 5, attended by 400 firms from both countries. India would like to provide Indian manufactures, raw materials, and skilled labor for projects in partnership with Japanese capital, technology, and finance. India already has experience in engineering projects in the Middle East and Africa. The Indian delegation was led by Commerce Minister Virendra Patil while Minister of International Trade and Industry (MITI) Shintaro Abe headed the Japanese group.

- **SHAUL EISENBERG,** a former official in the Israeli Mossad linked to Dope-Incorporated networks, sealed an agreement last month on a feasibility study for a $6 billion coal venture in Guizhou province, China. Earlier this year, a similar deal was made with Peking by Qaddafi-linked Armand Hammer for a coal-mining project in Shaanxi.

- **THE U.S. COMMERCE** Department has found a way to bolster the impression that an economic recovery is just around the corner. Commerce dropped the level of bankruptcies from among the components that make up the leading economic indicators. This year the number of bankruptcies is the highest since 1933.