Business Briefs

Energy

World oil demand not recovering

Oil demand through the third quarter of 1983 continues to drop in most of the world. According to the latest industry analysis made by *Petroleum Intelligence Weekly* the last week of August, third-quarter data coming in from Japan and from key European markets indicate that the highly touted U.S. demand recovery for oil is being "fully offset by continuing steep falls elsewhere."

According to the *PIW* analysis, total demand for major petroleum products (gasoline, fuel oil, heating oil, and so forth) fell 600,000 barrels per day during the latest quarter, all of it outside the United States.

Since July, OPEC producers have raised their production above their self-imposed 17.5 million barrels per day ceiling. To a large extent, this has been the result of the end of several months of worldwide inventory drawdown, especially by the major oil companies. During the first three months of 1983, OPEC producers were accusing the major companies of intentionally forcing oil price instability through what they referred to as "dumping" of 4 to 5 million barrels per day. The situation underscores the extreme fragility of current world oil prices, a situation which could rapidly change.

Agriculture

'Let farmers pay for own disasters'

"Farmers were supposed to buy Farmers Home Administration-subsidized crop insurance, but they didn't, so now they are stuck expecting the government to pay." This is the view of Federal Reserve economist Emanuel Melichar, who claims that the government can no longer afford to subsidize low crop prices and therefore price supports should be scrapped.

He advocates that farmers should, however, pav for a federally subsidized revenue insurance program. FmHA, the government's own lending arm for farmers who cannot borrow from commercial banks, would issue such crop insurance, in place of financing loans for production.

Increasingly, government and agricultural circles are repeating the Heritage Foundation's policy line, that farmers can best protect themselves by taking out insurance rather than waiting for the government to give them subsidized loans.

A Congressional Budget Office report released the first week of September claims that such insurance might provide more effective protection against volatile farm incomes than current programs, and the resulting reduction in risk and income stability could contribute to a more efficient allocation of resources. It would also reduce direct government influence on prices, production, and the allocation of supplies and therefore would open up the sector to free-market policies.

The Budget Office calculated that 30 to 40 percent of price-support outlays under the current programs went for price stabilization and would not be necessary under an insurance program.

Nuclear Power

China and Japan to discuss cooperation

The People's Republic of China on Sept. 5 accepted a proposal from the government of Japan to hold intergovernmental talks on the peaceful use of nuclear energy, according to JIJI press. The talks will begin after the P.R.C. joins the International Atomic Energy Agency (IAEA).

The proposal for discussing cooperation was made by Japanese Foreign Minister Shinaro Abe and International Trade and Industry Minister Sosuke Unio during a Japan-P.R.C. ministerial conference in Peking that began Sept. 4. The Japanese ministers announced their support for China's bid to join the IAEA, and that Japan wants to export nuclear technologies to China to build a nuclear plant there.

Chinese Foreign Minister Wu Xuqian formally requested a second bank loan from the Export-Import Bank of Japan, for the development of China's coal projects. But Unio told her that, given Japan's current energy and fiscal situation, it would be difficult to make a loan which would require Japan to import Chinese coal.

Debt Policy

Brazil rubs its arrears in bankers' faces

Brazil's arrears are causing insomnia among, especially, the New York-based banks. Brazil has practically not paid any debt service at all since July and is over 60 days overdue on several hundred million in interest payments and another $2 billion in principal to commercial banks. If Brazil's debt is not refinanced before September 30 and new money put in to wipe up these arrears, the major New York banks will have to list their Brazil loans as "non-performing debt" on their third quarter statements, and reduce their reported profits accordingly. This will prove quite embarrassing to banks such as Morgan, Bankers Trust, Chemical, Manufacturers, and their stockholders—unless magical changes in bank regulations occur.

The banks will not reach a timely settlement with Brazil, since they are adamant that they will not give money even as bridge loans until Brazil signs a letter of intent with the IMF. When Brazil's central bank chief Langoni resigned Sept. 1 criticizing the IMF, Saão Paulo insiders believed it meant that Brazil would immediately sign a new letter of intent. Those beliefs have been crushed by Finance Minister Galvêas, who reiterates that "there is no hurry" to sign with the IMF. Galvêas suggested that the IMF should give Brazil its approval and the banks dole out to Brazil without such a letter.

While the IMF wants month-by-month adherence, Galvêas says that Brazil will be "flexible" about the targets it sets with the IMF. For instance, the 55 percent inflation target for next year, "may be 55, 60, or 65 percent" and the committed reduction of the public deficit to zero may end up as a deficit of 7 percent of GNP. Despite all the flap, reality is that Brazilian military and civilian institutions are still unwilling to hand their country over to IMF surveillance.

European Debt

Portugal selling gold reserves to pay debt

Portugal may have to sell some of its gold reserves to repay a $300 million loan from the Bank for International Settlements government sources revealed Sept. 6. Portugal has borrowed from the BIS three times this year. The latest loan, for $300 million, was arranged Aug. 1.

Prior to Mario Soares's Socialist government, with its avowed committment to zero-growth austerity taking power in June, Portugal was forced to use its gold reserves as collateral for the loans. The government deposited 36 tons of gold in March to recieve a $400 loan, and another 30 tons for a $300 million credit in May.

Portugal is negotiating with the International Monetary Fund for a $480 million loan, but it is doubted that a sufficiently severe austerity plan will be agreed upon in time to enable Portugal to repay the BIS loans. The goverment sold gold in August to meet a $400 million payment.

Ibero-America

Chilean minister foresees economic policy change

Chilean Interior Minister Sergio Onofre Jarpa Reyes announced Sept. 5 that the Pinochet government would shortly begin "a new phase of government" that would put an end to "the confusion in which the financial sectors have predominated," and give greater importance to the role of the trade unions.

Jarpa told reporters that Chile had no need "for recipes from foreign universities," an apparent reference to the economic theories applied in Chile by Milton Friedman and others from the University of Chicago. The new policies will be announced on Sept. 11, the anniversary of the 1973 coup that overthrew Salvador Allende.

Jarpa was until recently his country's ambassador to Argentina. At the reception given him the last week in August upon his departure from the Chilean embassy in Buenos Aires, Jarpa praised the agreement just signed between the two countries for cooperation in the development of nuclear energy. Such cooperation is a sure way to guarantee peace between the two nations, he said.

Research and Development

New laser investment vehicle

The first mutual fund emphasizing investment in laser technology registered in late August with the Securities and Exchange Commission by the Dividend/Growth Fund, Inc., a "series" mutual fund. The fund will be managed by American Investment Managers of Rockville, Maryland.

A key factor in American's decision to launch the fund at this moment was President Reagan's March 23 strategic policy address, which committed the United States to the rapid development of beam weapons, said Dividend/Growth Fund President Gordon Lamb.

Lamb stated, "There is a lot of talk about robotization, but the impact on basic industry hasn't begun. When you combine computer controls in manufacturing with lasers that can cut, weld, or treat metal 10 to 20 times faster than existing tools, with unlimited flexibility of operations, you are talking about productivity gains of 500 to 1,000 percent."

The Fund's technical coordinator, Dr. Robert White, said that President Reagan told this country's scientists to pull all the stops to face the present strategic challenge. "Industry will have to go in the same direction," according to Dr. White. "We think the market is paying too much attention to fads in so-called 'technology issues.' Our objective is to build a portfolio which will capture the transformation of the whole economy."

Briefly

- **JAPAN'S** government will launch a basic study on the proposed construction of a second Panama Canal, in order to take a positive role in the project along with Japanese industry. The first government survey mission to collect data for a feasibility study, from the Ministry of International Trade and Industry (MITI) and the Ministry of Transport, will go to Panama by the end of September.

- **MITI** will accept a U.S. demand for simultaneous abolition import tariffs on semiconductors by the two countries. The Japanese ministry hopes to reach formal agreement with the United States by the time of President Reagan's planned visit to Japan in November.

- ***THE WALL STREET*** Journal defended the withdrawal of a $10 million IADB loan to Guyana in a lead editorial Sept. 6. Under the title "Why Apologize?" the editorial stated: "The U.S. Treasury recently risked Third World wrath by vetoing [the loan]. Our pleasure at this show of spunk dimmed a bit, however, when we read that Treasury officials were denying anything 'political' about this move. . . . Whether you call it political or economic . . . with some 22 countries currently in the process of rescheduling debt payments, according to World Bank figures, it seems about time questions [about the effectiveness of programs to expand rice production] which held the price so low as to destroy incentives for farmers . . . were being asked."

- **VENEZUELA** requested a third three-month moratorium on $18 billion in short-term debt the first week of September. Venezuela has already been granted two 90-day moratoriums on short-term debt, one in March and the second in July. The third moratorium would extend to Dec. 30. Venezuela is also suspending talks with the IMF on the conditionalities under which the IMF would agree to refinance the debt until after the Dec. 4 presidential elections.