Business Briefs

International Trade

Swiss cartel takes over U.S. dairy processing

Nestle, one of the core companies of the Swiss-based international food cartel, is attempting a takeover of the largest American dairy processor, Carnation Foods, in a $3 billion offer for all of Carnation's shares. If tolerated by the Justice Department, the takeover would be one of the largest corporate grabs in history, second only to the big oil company mergers earlier this year.

In the context of already-present dairy shortages and skyrocketing dairy prices, Nestle would be in position to dominate a huge portion of the market for dairy products, dictating terms to dairy farmers, and reorganizing this entire sector of the U.S. economy under Swiss control. Under conditions of widespread shortage, the upstream side of the dairy industry would command the greatest profits derived from the shortage. Nestle currently has more than $11 billion in annual sales around the world.

According to the Dow Jones wire service, "Nestle S.A. might be getting a bargain in its proposed $3 billion acquisition of Carnation Company, some investment bankers said, even though the price is the highest ever paid for a non-oil company.

"Investment bankers who have studied Carnation's recent financial statements and financial projections said the company has an unusually strong balance sheet and bright earnings prospects. Those figures were in the offer circular for the $83-a-share tender offer mailed to Carnation's holders yesterday.

"Carnation's current assets at June 30 of $1.2 billion included more than $245 million in cash, or about $7 a share."

Carnation's board of directors has recommended that shareholders accept the offer. Carnation shares on the New York Stock Exhcange rose $4 to $79.50 following the announcement of the agreement.

The offer was made through a subsidiary of the Swiss concern, Nestle Holdings Inc., which has been on an acquisition spree in the United States in the past 10 years with purchases of such food concerns as Libby McNeill & Libby Inc., Beech-Nut Corporation, and the Stouffer Corp.

Agriculture

Even USDA reveals extent of farm collapse

The Department of Agriculture (USDA) on Sept. 4 released estimates that commercial beef production in the second half of this year will fall about 4%. Consumer prices will go up.

As *EIR* has reported, this understates the situation, and the prospect of meat shortages looms. Breeding stock is going to slaughter; meat shortages so far have been disguised by the one-time-only slaughtering of dairy herds—as farmers are paid to kill cows in the dairy industry's version of a Payment-in-Kind (PIK) program—and by the influx of Mexican cattle and imported carcasses.

Further, farm-implement sales have dropped so greatly that manufacturers are permanently terminating white-collar jobs, as well as laying off and terminating factory workers. Deere and Company, one of world's largest combine harvestor builders, announced that 1,000 of its 14,000 office staff will be permanently laid off. Under a new plan, white-collar employees can qualify for retirement benefits at age 54.

According to a Census Bureau report released on Sept. 3, small farms of 50 acres or less grew a surprising 17% during the four years through 1982. But medium-sized farms from 50 to 999 acres, the heart of American agriculture, are declining in number. The average size of an American farm, 449 acres in 1978, dropped to 439 acres in 1984.

This is what Walter Mondale calls "vertically integrated agriculture"—a large number of small, unproductive plots controlled by the giant agri-business cartels—a 1984 version of feudalism.

"This is very unusual, because for years the farms have been getting larger in size," said Census Bureau analyst Mary Burch. "It's some sort of sociological phenomenon. We aren't exactly sure who's got those smaller farms."

Debt Crisis

Banks ease Mexico's debt burden but. . . .

In the first week of September, Mexico's bankers agreed to stretch out the country's unpayable debt over 14 years, with a one-year grace period on principal payments and a 1% reduction in interest-rate spreads. In return for this bounty, Mexico will have to maintain harsh austerity, and give foreign bankers more influence on internal economic policy.

Mexican President Miguel de la Madrid, in his state of the union speech on Sept. 1, said the government was "seriously concerned about the drop in the standard of living of the lower and middle classes," but asked Mexicans not to be "embittered by either our problems or our mistakes." He rejected any action which might spoil Mexican credit ratings with the foreign banks.

"An irresponsible attitude in matters of international credit," he said, "would bring about grave damage to the country by altering our economic relations with foreign countries and would affect for many years the prestige of Mexico. We will not accept adventures of destabilization of the international economy that would damage the weak countries with greater virulence than the rich ones."

The *Washington Post* editorialized that, "with a little luck and steady nerves," Mexico's leaders will be able to withstand the popular reactions to continued austerity for paying the debt. The *New York Times* gloated that the speech was "[de la Madrid's] strongest to date against international talk of joint action by Latin American debtor countries and domestic pressure for Mexico to suspend payment of its foreign debts in order to provide more money for internal needs."

International Credit

Citibank insures against defaults

Citibank, the bank that insisted the Third World debt default could never happen, has bought $900 million in insurance from a group headed by the Pennsylvania insurance giant Cigna, according to information released in papers filed with the SEC. The insurance covers only $200 million of potential losses in each of four countries—Argentina, Brazil, Mexico, and Venezuela—and $100 million of potential losses in the Phillipines. That represents only a fraction of $12 billion in loans outstanding from Citibank to those countries.

According to the Dow-Jones wire service, "Citicorp's move is a significant indication that U.S. banks are becoming less optimistic about the repayment of at least some of their foreign loans.

"Banking analysts and auditors generally viewed Citicorp's move as a small but creative effort to reduce its foreign-loan risk. For insurers similar policies sold to other banks would represent a new source of revenue. But several insurance analysts expressed fears that the coverage could drag the U.S. insurance industry into the world's foreign debt crisis.

"The insurance policy is viewed as particularly significant because Citicorp has insisted more strongly than most banks that its foreign loans are safe and no more than a short-term problem."

At a time when major insurance companies, suffering from bad real estate loans and devalued bond portfolios, are wondering whether their position is not worse than a commercial bank, the idea of private insurance against debt default is less than credible. The Insurance Industry Forum, a widely-circulated industry newsletter, warned in its August issue that preparations should be made for an emergency Fed bailout in case a major insurance company failed.

Middle East

Egypt's nuclear project postponed five years

Egypt has been forced to postpone its first nuclear project for five years, due to economic warfare launched against the country from abroad. Preliminary work on the project was to have begun by the end of 1984.

A key setback was the U.S. Eximbank's decision several months ago to refuse financing for a Westinghouse nuclear project in Egypt. This caused Westinghouse to pull out of the project. Egypt found it increasingly difficult to find other sources of financing, including in France and West Germany.

Inside Egypt, a faction fight developed in which the false choice was posed: Either nuclear plants could be built or the Qattara Depression could be developed, but not both. As *EIR* has demonstrated, however, the best way to proceed with the Qattara project is on a nuclear basis.

Briefly

● **PERU'S** reliance on the Soviet Union "is growing every day, and any break with Moscow would mean the collapse of the entire Peruvian defense system," according to an editorial in the Brazilian daily *O Estado de São Paulo* published Sept. 2. The Soviets are withholding vital maintenance information on Soviet-built equipment and are not allowing Peru to build up stockpiles of spare parts. The Peruvians are trying to build up their military in response to "warlike" statements by the new Ecuadorian President.

● **THE CARACAS** daily El Mundo's morning edition, *Ultimas Noticias,* ran a banner headline on Sept. 1: "TV Address to U.S. Monday Night; Hunger Threatens the U.S.A., Says Presidential Candidate." The headline directed readers to an article describing U.S. Independent Democratic presidential candidate Lyndon LaRouche's Sept. 3 broadcast on the danger of a 1984 "food shock."

● **ISRAEL** is facing its worst economic and financial crisis ever. According to the latest estimates of the Bank of Israel, the country has less than $3 billion in foreign reserves and an expanding foreign debt. The low level of reserves has been brought about by a continuous capital flow out of Israel over the recent months.

● **ARGENTINE BEEF** exports dropped 37% in August relative to July. The total shipped was 13,400 metric tons, the lowest figure in 10 years. Last year, the August figure was 40,000 tons, and the year before, 44,000. One of the major reasons is the absence of the Soviet Union from the Argentine market, and lower orders from other big buyers such as United States and Europe. The amount of meat being shipped overall for the year is also down 37%.