
BANKING

Debate over Euromarket controls

Speaking at the annual International Monetary Conference (IMC) in London on June 12, Bank for International Settlements economist Alexandre Lamfalussy warned that the growing pool of liquidity in the Eurodollar market is crowding out the International Monetary Fund, which he hailed as the only institution able to impose adequate conditions on borrowing countries. Lamfalussy went on to say that he sees no danger in placing controls on the Eurodollar market, thus registering his position in favor of Euromarket regulation, and making it clear that the current push for regulation of the

volatile off-shore market is really part and parcel of efforts to enforce IMF surveillance over the world economy.

The ongoing discussion of Euromarket controls occupied center stage at the American Bankers Association-sponsored IMC conference of international bankers last week. Among those in agreement with Lamfalussy were New York Federal Reserve Bank President Paul Volcker, who insisted that reserve requirements be imposed on banks' Eurodollar as well as their domestic operations, and Deutsche Bank board member Wilfried Guth, the

man rumored to be the next head of the Bundesbank. Guth said that the extension of mandatory capital ratios to the foreign lending of German banks would have more bite than the imposition of reserve requirements.

It is highly ironic that Guth and the current powers that be at the Bundesbank have taken a position in favor of stringent Euromarket regulation. Efforts to "stabilize the Euromarkets" were set in motion recently by Federal Reserve Chairman G. William Miller and other U.S. Fed, Treasury, and State Department officials as a bludgeon against West German and Japanese banks which have been lending to developing sector countries at relatively concessionary rates in violation of the principles of IMF conditionality.

Citibank Chairman Walter Wriston, who keynoted the IMC on June 12, argued against the imposition of Euromarket controls from a "free-market" standpoint: he said that greater regulation would mute the ability of the free market to respond

COMMODITIES

Oil price hoax becomes raw materials crisis

Japanese aluminum producers are finding it too expensive to produce aluminum domestically, especially since April-May when the oil price hoax shot costs in this energy-intensive industry sky-high.

Japanese domestic capacity utilization in aluminum plants is now at 58-60 percent, much lower than at the close of 1978. It is cheaper for Japanese firms to purchase aluminum from U.S. trading companies at prices of 70-73 cents per pound rather than produce at home. U.S. aluminum consumers pay 58-60 cents per pound for the same ingot and scrap.

New York metals trading firms have recently concluded contracts for delivery of 100,000 metric tons to Japanese importers within the next six months. At the same time, there is concern that U.S. domestic aluminum supplies may be short, not so much due to these exports, but as a result of a strike at three Alcan plants in Quebec, Canada which normally supply 20,000 tons of ingot to the U.S. every month.

This shift in aluminum contracts is merely one more example of how the oil price hoax is turning into a raw materials crisis—just as in 1974.

During the 1974 oil hoax, Japa-

nese aluminum corporations, with support from domestic banks, launched an effort to build aluminum capacity in Korea, Indonesia and Brazil. These capital-intensive investments would have served to lower production costs in Japan, partly by giving aluminum producers access to waterways, which are scarce in Japan and essential for the complex aluminum smelting process.

In 1976, the World Bank, acting in its capacity as "overseer" of global credit allocation to the Third World, cancelled most of these projects as part of its post-1974 oil hoax assault in behalf of austerity conditionalities for loans.

Japanese aluminum producers more recently have opted to go scouting for "cheap labor" in the advanced sector. Mitsui Corporation found some—in South Carolina, where it is building a 197,000 ton capacity aluminum plant in a joint venture with Alumax.

innovatively to financial tensions, and he plugged the proposed New York off-shore banking facility as such an innovation. Wriston noted that the creation of a banking free zone in New York would remove sovereign risk for banks dealing in the dollar part of the Euro market—i.e., allow them to seize the assets of debtor countries in default.

Wriston also warned that the imposition of credit ceilings in the Eurodollar market would penalize the developing countries, whose need for funds will increase because of the latest oil price increases; however, it is not clear what Citibank's Third World lending policy will be over the next months. While Morgan Guaranty Chairman Walter Heinz Page III sided with Wriston in opposing Euromarket regulation at the London conference, Morgan senior economist Rimmer de Vries said recently that the bank will be carefully scrutinizing all developing country loans in the coming period.

—Lydia Schulman

In the U.S.

The U.S. Congress Subcommittee on Mines and Mining is now holding hearings every month to investigate the Carter administration's commitment to opening up new nonfuel minerals mines on federal lands.

According to one staffer regularly involved with these sessions, the Subcommittee is "making it as embarrassing as possible for the Department of the Interior and for the administration" over their reluctance to give up federal lands for mining development.

The Carter Administration's minerals policy was originally designed to curry support from environmentalist organizations. Now, with oil prices rising, it has become cost efficient to launch massive coal and other minerals development schemes throughout North America.

—Renée Sigerson

TRADE

After the Shah: high-technology contracts cancelled in Iran

Secretary of State Vance and Energy Secretary Schlesinger's support for the overthrow of the Shah of Iran has cost the industrialized sector a conservatively estimated \$38 billion in contracts cancelled or defaulted on in the past six months. Vance and Schlesinger backed the Shah's overthrow in order to destroy the leading example of a "Third World" industrialization effort centered around nuclear energy.

The London *Financial Times* characterizes the Iranian cancellations as "losses unprecedented in business experience worldwide, short of a major natural disaster or a global war." The same source claims that the dollar value of recently cancelled contracts may go as high as \$75 billion. Leading the list of projects cancelled are the \$6.9 billion pair of 1,200 megawatt nuclear power stations at Bushire, one of which was 80 percent completed, the other 50 percent. The *Financial Times* suggests its own attitude toward the cancellations by citing an "Iranian energy expert" who recently wrote a scholarly paper advocating that the two giant nuclear power stations "be turned into grain silos."

There has been discussion that the Iranian nuclear cancellation—directed against Siemens subsidiary Kraftwerkunion (KWU)—may terminate West Germany's nuclear program. KWU still has options and letters of intent to build six more nuclear plants in Brazil. Secretary of State Vance and Assistant Secretary of State Warren Christopher have expended considerable effort to get those Brazilian nuclear contracts cancelled as well, however.

Although the Iranian govern-

ment has not yet officially cancelled the two KWU reactors, the few hundred remaining German workers have just been expelled from the country and Iran has repudiated \$400 million in payments due to Kraftwerkunion. Iran has also refused to pay interest on the defaulted sum as "contrary to the Islamic prohibition of usury."

Cancellation is also expected on a \$5.9 billion French nuclear plant project led by Framatome. Two 900 megawatt reactors were to have been built. Site-work had already been completed.

The Shah had been determined to use the occasion of the previous oil hoax—that of 1973—to transform his nation into one of the world's leading industrial nations. An important side effect of this commitment was to set up an example for the rest of the OPEC sector toward high-technology investment in the capital-goods sector, which in turn generated significant export orders for advanced sector industry.

This at least partially stabilized an otherwise crippling blow dealt to the world economy by the 1973 oil price hoax, launched by oligarchical circles in Europe and the United States, including notably the "Seven Sisters" oil companies.

But the Shah failed to create mass-based political institutions to underpin his program. With the Shah out of the way, City of London banking circles are now confidently trumpeting their view that the swelling oil producer surplus will not be channeled into any significant OPEC-sector industrial investment.

—Richard Shulman