

Inside Canada by Pierre Beaudry

Banking system ready to blow

Dome Petroleum and the CIBC are not the only entities in trouble. And a collapse would spill over on U.S. banks.

By the fall Canada may have its most spectacular bank failure since the 1930s: The Imperial Bank of Commerce (CIBC) will probably fail. As of the end of 1981, the CIBC had assets of \$66 billion (Canadian), or about \$53 billion American, making it one of the largest banks in the world.

It is likely that the gentlemen who run Canada's Privy Council—the real power in Canada, which controls Prime Minister Trudeau on behalf of Queen Elizabeth II—are hoping for a CIBC failure, because a Canadian banking crisis would bring to the brink of collapse the American banking system.

As a financial analyst who has studied the Canadian banking system for two decades reported July 14, "The American banks have lent their largest amount on the inter-bank market to Canadian banks, probably tens of billions of dollars. If Canadian banks go, the Bank of Canada will not step in to save them. That means that the Canadian banks will not be able to pay back some of their loans to the American banks. The American banks will have only one solution, to run to the Federal Reserve and ask for a bailout."

The strain this would place on the Fed would be enormous, and dumping of American bank stocks would begin.

A small foretaste of what could occur was delivered on July 9,

when, according to the July 10 *Financial Times* of London, panicky traders in the Euromarkets dumped significant amounts of "North American bank certificates of deposit and bonds." The Canadian bank targeted for dumping was CIBC. The dumping operation followed not only rumors of CIBC troubles, but the failure July 5 of Oklahoma's fourth largest bank, the \$500 million Penn Square Bank.

The Federal Reserve had to interject liquidity into the American banking system—thus temporarily lowering U.S. interest rates—before the markets were quieted.

The problems of CIBC stem most immediately from its overexposure to Dome Petroleum. Dome, one of the high-rollers in the Canadian oil expansion boom of 1979-81, will not be able to meet its interest and principal payments when they come due this September, according to a New York bank source July 13.

Dome has accumulated \$8 billion in Canadian debt, which has been heaped onto the leading Canadian banks: CIBC is owed \$1.7 billion; Bank of Montreal \$1 billion; Toronto Dominion \$1.8 billion; Royal Bank of Canada \$315 million, and Bank of Nova Scotia \$150 million. American banks have lent Dome Petroleum over \$1 billion, with Citibank of New York accounting for at least 10 percent.

But the oil and gas market has

broken across the world (see *Energy Insider*, page 14). No longer can oil companies expect to command the prices they used to, let alone the \$40 or more per barrel that Dome would have to earn in order to meet interest payments on its staggering debt and still have a positive cash flow. The Canadian government guaranteed a \$100 million loan to Dome recently (which was repaid), but Dome needs billions of dollars to straighten out its financial situation.

The July 14 *Montreal Gazette* reports that Canadian Energy Minister Marc Lelonde has privately said that the Trudeau administration will not bail out Dome under any circumstances. A source close to the Canadian government reported on July 13, however, that Dome will probably get a few billion from Ottawa in exchange for certain assets which the government will sell off.

But Dome may still not have enough money to get by. And, as most people know, Dome's stated \$10 billion assets (Canadian) are inflated by 40 to 50 percent.

There are tens of other Canadian oil companies, large and small, with similar debt problems. And the Canadian economy is in terrible shape overall. According to the weekly *Financial Times of Canada*, the profits of the top 70 Canadian companies listed on the Toronto Stock Exchange fell by 59 percent in the first quarter of this year compared with the first quarter of 1981. Profits in the first quarter of 1981 were down by 25 percent from the comparable period the year before.

Therefore, whether or not Dome goes under this September, it is likely that CIBC won't be around by the end of 1982.