

Business Briefs

Finance

Malaysian paper attacks 'rogue' derivatives

The "rogue" in the international financial system is the derivatives system itself, economist Martin Khor wrote in *The Star* newspaper in Kuala Lumpur, the capital of Malaysia. Refuting the "lone assassin" theory behind the collapse of Barings Bank, he concluded that crises such as Barings are endemic to the system itself.

"On hindsight, many financial experts and newspaper commentators have remarked that massive losses leading to a collapse like Barings suffered had been in the cards. Given the volatility of futures markets, the inherent trading risks, and the lack or impossibility of regulation, it is predictable that many companies or institutions would lose big money," he wrote.

Khor suggests that Malaysia reconsider plans to open its own derivatives market later this year. Malaysia still plans to launch two financial futures markets, despite Malaysian Prime Minister Mahathir Mohammad's attacks on derivatives trading as a form of gambling. Derivatives trading is like "trying to predict, like you predict which horse is going to win, or which interest rate is going to go up, or which index is going to go up or down," the national news agency Bernama quoted Mahathir as saying. "I think this is carrying speculation too far. . . . I don't see the need for it."

Foreign Exchange

South Africa to scrap dual rate

South Africa scrapped its dual exchange rate on March 13, and reverted to a single unified rand, following an announcement by Finance Minister Chris Liebenberg on March 10. The move is a further indication of President Nelson Mandela's weak position to deliver on his election promises for economic growth.

The existing financial rand system was introduced in September 1985 to deter capital flight. "The government has . . . decided that . . . the exchange control restrictions on the

free convertibility and repatriation of the local sale proceeds of non-resident-owned South African investments will be repealed. The financial rand and the dual exchange rate system will thereby effectively be terminated," Liebenberg said. He added that at this stage, exchange controls applying to foreign investments by South African residents remain in force.

The decision leaves South Africa with only one exchange rate which will apply to both current and capital transactions between residents and non-residents. "This one and only exchange rate will . . . be determined by market forces, and the Reserve Bank will continue to intervene in the foreign exchange market mainly to smooth out undue short-term fluctuations in the exchange rate," he said.

Environmentalism

Greenpeace hits Russian nuclear reprocessing

Greenpeace has launched an international campaign against a Russian nuclear fuel reprocessing plant in Siberia. In early March, the Atomic Energy Ministry said it plans to complete the RT-2 plant at Zelenogorsk (formerly the Krasnoyarsk-26 secret city on the Yenisey River) in line with a decree signed in January by President Boris Yeltsin.

Dmitri Tolmatsky, a representative of Greenpeace in Moscow, told Reuters that the plant will threaten the environment and the world's nuclear security. Tolmatsky said that "once completed, this facility will eventually boost nuclear proliferation and help some countries produce nuclear weapons. . . . This project threatens to transform Russia into a nuclear waste dump."

Construction of the plant was stopped in 1989 because of financial problems. The plans are to finish construction by the year 2004. The plant will isolate plutonium from nuclear fuel taken from VVER-1000 Soviet-designed pressurized water reactors. It will also reprocess fuel from other countries, including Germany, South Korea, India, Taiwan, and Switzerland, and return the reprocessed fuel to the country of origin.

Russia is currently reprocessing nuclear fuel from other countries at the RT-1 plant, near the city of Chelyabinsk-65. It is a lucrative business, and plant operators receive a much higher quality of fuel than what they can purchase. Despite Greenpeace claims that this reprocessed fuel is weapons-usable, it is in fact low-grade fuel. Weapons grade plutonium is produced at two completely separate plants at Chelyabinsk-65 and Krasnoyarsk-26.

Greenpeace is claiming that the State Duma (parliament) will appeal to Russia's constitutional court to examine Yeltsin's decree ordering the completion of RT-2.

Shipping

Sea-Land reflags ship, slashes pay scales 40%

Sea-Land Service, Inc., one of the three largest U.S. shipping lines, flew "security personnel" to Singapore to guard against sabotage when it forced the U.S. crew off the *SS Sea-Land Freedom* in February, the *Journal of Commerce* reported on March 8. Sea-Land reflagged the ship under Marshall Islands registry under its subsidiary Intersea, and replaced the U.S. crew with licensed officers from Croatia and unlicensed seafarers from the Philippines.

Sea-Land plans to reflag another ship in March, and three more in April, to drive down wage scales. If any U.S. officers are hired (which is unlikely), they will receive much lower pay. For example, a master, the top-ranking and highest paid officer, will receive \$72,760 in wages and benefits for an eight-month shift on a reflagged ship, compared to \$132,000 in wages and benefits on a U.S.-flagged ship. In addition, any U.S. officers hired would have no collective bargaining rights, even though they will have to join the International Organization of Masters, Mates and Pilots within 31 days, and will not have access to normal grievance procedures, such as union representation during arbitration.

A telegram from Marine Engineers Beneficial Association president Joel E. Bem to MEBA members warns that Sea-Land "says it will pay American engineers not to work rather

than hire them on the five reflagged ships," and that Sea-Land believes it is not obligated to cough up severance pay.

Petroleum

Iran signs deal with U.S. oil company

Iran has signed an agreement with Conoco, a subsidiary of Du Pont, to develop two offshore fields, the *New York Times* reported on March 7. It is the first U.S. oil investment in the country since Iran's Islamic revolution in 1979. The agreement, worth about \$1 billion, "indicates a long-term relationship" between Conoco and Iran, the paper commented. According to "analysts," this is a major shift in Iranian policy, and it could be followed by other deals in the future.

The deal comes in the face of threats by Sen. AID' Amato (R-N.Y.), who introduced a bill in January which called for banning "trade with Iran," and other attempts in Congress to impose economic sanctions on Iran. Also, according to one State Department official, the United States was seeking ways to "turn up the heat on Iran."

The State Department and Department of Defense had expressed their uneasiness over the recent deployment of Iranian missiles and artillery close to the Straits of Hormuz in the Persian Gulf.

Labor

EU spokesman warns against low-wage society

The European Union should avoid stripping away worker protection, or risk creating an American-style "low wage society," EU Social Affairs Commissioner Pdraig Flynn said on March 8, Reuters reported. "Americans advise me strongly, don't go down that road."

Flynn, while answering a question about the need for deregulation to stimulate job creation, singled out Britain, which he said had created a high number of part-time jobs, while

offering workers a low level of protection. Britain has blocked an EU proposal to guarantee part-time workers the same hourly pay and benefits as full-timers.

But Sweden, Denmark, and the Netherlands have done the same thing while guaranteeing part-timers in many respects the same benefits as full-time workers, he said. "It has worked very well for them," he said. "They have high levels of productivity and a very motivated workforce."

Flynn said the U.S. system of low protection meant that workers had to be supported in other ways, for example through government welfare payments. "Simplistic deregulation for the sake of deregulation is not the way forward," he said.

Employment

The U.S. 'dejobbing' recovery marches on

The continued mass layoffs and large-scale hiring of temporaries, appropriately called the "dejobbing" of America, continues apace. The following layoffs were reported by Reuters in the first week of March alone:

Orange County, California announced on March 7 that it will eliminate 10% of its workforce, including 1,040 layoffs and elimination of another 563 jobs, to balance its budget.

McDonnell Douglas said on March 7 that it will close two plants and lay off 1,300 workers due to defense cutbacks. The closings are in Florida and Missouri.

America West Airlines announced on March 3 that it will lay off 700 workers and cut more than 1,000 jobs, primarily in Phoenix, Arizona.

The Downtown Development Corp. of Laredo, Texas has applied to President Clinton to consider a bailout package for the Texas-Mexico border area because of the disastrous effects of the North American Free Trade Agreement. Sales volumes have declined in Laredo 75-90% since the treaty and unemployment is officially 14% in Brownsville, Texas.

Meanwhile, in Canada, 45,000 public servants in Ottawa may lose their jobs, in the biggest layoff in Canadian history, if the proposed national budget is adopted.

Briefly

● **CHINESE** Premier Li Peng said that the central government had "underestimated the repercussions" of the sharp rise of prices of grain, crude oil, cotton, and other basic commodities in early 1994, in his "state of the nation" speech to the National People's Congress on March 5.

● **RTZ CORP. PLC**, one of the key firms of the British House of Windsor, is buying 10.4% of Freeport-McMoRan Copper & Gold for between \$450 million and \$875 million. RTZ is also acquiring 25% of its copper smelter in Huelva, Spain for \$25 million.

● **NEGOTIATIONS** between Bramalea, the Toronto-based real estate arm of the Bronfman empire, which filed a second petition of bankruptcy in March, and International Realty Investors, collapsed after creditors refused to convert Can \$600 million of its debt into equity. Bramalea, with debts of Can \$3.5 billion, first filed for bankruptcy in 1993.

● **RUSSIA** will reportedly sell six more Kilo-class attack submarines, worth \$200-250 million each, to China, the *South China Morning Post* reported on March 4. Moscow has sold four others, and China plans to buy another 12 by the year 2000. Buying in bulk is reportedly a condition imposed by Russia for transferring technology to China.

● **MINMETALS**, the Chinese state company, is going ahead with its suit against Lehman Brothers, for seducing one of its traders into "incredibly complicated derivatives transactions that were impossible for him to understand." It is seeking \$128 million in damages.

● **MERRILL LYNCH** was the big winner in the Orange County, California derivatives mess. A disparity was found "between Orange County's losses—about \$2 billion—and the tens of millions of dollars in profits" made by the firm that had sold most of the investments, the March 12 *Washington Post* reported.