'Fall-Back Option' Could Squeeze Out Chase, Citibank

BANKING

Faced with the threat of Third World debt defaults which could trigger a crash of the entire Eurodollar market, the San Francisco-based Bank of America and other leading international banks have formulated a "fall-back option" — an attempt to keep the existing international monetary set-up intact but at considerable expense to the two banks most closely associated with the Rockefeller family, Chase Manhattan and Citibank. According to top banking sources, the details of this "fall-back" plan were thrashed out in the closed-door sessions of the International Monetary Conference held in Tokyo during the last week of May, where Bank of America Chairman A.W. Clausen served as conference moderator.

Based on the reports of conference participants, the plan consists of two elements: First, the creation of a new public lending institution within the existing International Monetary Fund-World Bank framework, which would provide for large-scale private bank/IMF-World Bank "co-financing" of loans to the Third World sector. The main purpose of this institutionalized "co-financing" arrangement — at least as Bank of America sees it — would not be merely to cover immediate balance of payments difficulties, but to funnel capital into longer-term "development projects" to allow Third World countries to generate the income to pay off their debts. According to the official text of Clausen's speech to the Tokyo conference, which has been released to the press, Clausen expressed concern that three-fifths of all new loans to the non-oil producing developing countries are now going to pay debt service, leaving nothing for "development projects." In addition, Clausen stated, "co-financing" should appeal to private banks because it offers them IMF-World Bank guarantees and forces Third World countries to adhere to IMF austerity conditions.

The second aspect of this "fall-back" approach — which is not being highly publicized — is that large sections of Third World debt, the so-called "basket cases," would simply be frozen or written off. As one bank analyst put it, the holders of loans to Zaire, Peru and other so-called "lower-tier less developed countries" will have to "bleed a little." Of the largest U.S. international banks, Chase Manhattan and Citibank are known to have the greatest exposure to "lower-tier LDCs," Bank of America and Manufacturers Hanover are based more firmly on the "middle-tier" Brazils and Mexicos, while Morgan Guaranty is somewhere between these two extremes. Bank of America's approach is to force Chase and Citibank to take necessary losses on the "basket cases" in an attempt to save the rest of the debt structure.

Significantly, Manufacturers Hanover Trust chairman Gabriel Hauge has recently emerged as an enthusiastic backer of "co-financing." Immediately following the Tokyo conference, Hauge decided to "move this along" — in the words of a Manufacturers Hanover spokesman — by sending a letter to the IMF executive director, H. Johannes Witteveen, suggesting that he establish an advisory committee of bankers to study the possibility of a formal co-financing system. Hauge's proposal appears to differ from Clausen's, however, in that Hauge speaks only of balance of payments financing in conjunction with the IMF and makes no mention of projects. According to the bank spokesman, Hauge's plan "could eventually involve hundreds of billions of dollars. This is a mechanism for getting the private banking sector involved." Hauge also makes clear that co-financing would entail harsh conditions for borrowers, suggesting that one condition the IMF might impose "could be an energy conservation program."

British banking interests are also converging on the Bank of America "development project" line. The June 6 issue of the *London Financial Times* gave prominent coverage to a report issued by the British-influenced OECD staff proposing to establish a "fourth institution" within the World Bank group, which would take in Eurocurrency deposits and re-lend the funds to Third World countries. Private international banks would participate as shareholders in this "new bank" along with the other multilateral institutions, OECD governments, and Third World governments. The OECD report sharply attacks "profit-minded bankers" who continue to lend to "basket case" countries, like Zaire, at high interest rates, even though these countries are completely bankrupt. Instead, the OECD staff suggests, rates should be reduced and "international controls" be introduced to provide security to the lender.

Significantly, the London-based Morgan Grenfel Bank and Tokai Bank recently announced a $30 million loan for an electric power plant in Malaysia, with World Bank co-financing. The Malaysian loan carried an interest rate of less than one percent over LIBOR (London Interbank Rate) — the lowest rate seen for a non-OECD country since 1973-74. The Morgan Grenfel-Tokai deal evoked loud protests from Wall Street bankers about "over-competition driving down rates," with Citibank complaining the loudest.

The British perspective was also enunciated in a June 8 article by *London Times* correspondent Frank Vogel based on an interview with World Bank economist John Holsen. Vogel stressed that industrialized countries must liberalize trade policies so they can import more goods from the Third World, while making more funds available for international lending "to carry significant trade deficits for some years and make efforts to encourage industrialization." Perhaps not accidently, the *Wall Street Journal* — which leaked the story of Hauge's letter — carried an editorial entitled "Third World Debt" in its June 7 issue which also insisted that liberalized trade and capital flows to the Third World would solve the debt problem.

Discussions with Citibank officials, meanwhile, confirm that there is a growing rift between Citibank, on the one hand, and Bank of America and the other "project-oriented" international banks on the other. A Citibank spokesman expressed the sentiment that it is "too early" to consider institutionalizing co-financing, particularly with the World Bank, since there are "legal problems" still to be resolved. These legal questions proved to be ones concerned with "sovereign immunity"; that is, questions of whether the bank has the authority to seize a borrower's assets in the event of a default, and which creditor has priority over the others. Instead of long-term project loans, Citibank would prefer to see direct IMF refinancing of balance of payments deficits on an expanded scale. Top Citibank official Irving Friedman has even called for increasing the stalemated Witteveen "special facility" of the IMF to $100 billion. Clearly, Citibank strategists are fearful that if more capital is steered into actual productive projects that not enough will be left over to bail out their holdings in the "lower tier." Citibank's chairman failed to even attend the Tokyo conference, and the bank sent only one observer to what they considered a "West Coast-dominated" gathering.

The banking policy fight has even spread to the World Bank itself where, according to *New York Times* columnist Clyde Farnesworth, World Bank president McNamara's staff is pushing for a "fundamental change in strategy." The McNamara faction wants to end the bank's involvement in industrial projects and concentrate on "income redistribution." By contrast, the June feature of the joint IMF-World Bank publication *Finance and Development* contains a long, feature article on the advantages of industrial project co-financing by World Bank economist Roger Hornstein.

U.S. Maneuvers To Cut In On World Shipping Collapse

SHIPPING

The depression in world shipping threatens to reach breakdown proportions this year. A growing surplus of oil tankers, given the reduction in oil consumption since 1974, is putting governments of major shipbuilding countries in a squeeze. They can continue to provide subsidies, and cheap credit to shipowners, resulting in greater surpluses of tonnage, lower chartering rates and subsequent defaults on tanker loans, or begin to dismantle their shipbuilding industries.

Inactive and laid-up oil tankers accounted for about 4 percent of the tanker fleet in February 1975. By March 1976 there were 48 million Dead Weight Tons (DWT) of tanker shipping capacity inactive. This was 17 percent of the existing fleet. The severe winter of 1976-77 improved the situation slightly, reducing inactive tonnage to 28.8 million DWT in February 1977. The trend towards large surpluses is continuing with 30.2 million DWT inactive in March; and 31.9 million DWT inactive in April. These figures however, are only the first indications of a year that promises to be the worst ever for oil shipping.

1976 saw large oil stockbuilding by oil import nations, resulting in a 7.3 percent rise in petroleum trade. No such increase is foreseen in 1977, without the implementation of a new world economic order. In addition, the opening of the Iraq-Turkey pipeline, the newly available Alaskan and North Sea crude and a more moderate winter will further reduce oil trade. When these factors are examined and added to a heavy tanker delivery schedule and limited scrapping for 1977, one can see why the London publication, *Shipping Statistics and Economics*, sees tanker surpluses reaching 130 million DWT this year.

This surplus will be kept on the seas through slow steaming or the purposeful slowing of ship speeds. Although this has been going on for some years, there are recent indications that slow steaming hurts the engine and the hull of large tankers and it is uncertain to what extent owners will continue the practice. With mariners slow steaming, the amount of tonnage left inactive may still reach 80 million DWT — about 25 percent of the fleet. Half of this inactive tonnage will be the new ultra-large and very large carriers which require expensive maintenance programs to be kept seaworthy. Older smaller ships that may never be taken out of mothballs will also be docked.

Taking Apart Capacity

Industry analysts are now predicting that on the basis of current trends including Carter's energy program, the demand for oil tankers will fall 50 percent by 1985.

With this perspective industrial spokesmen are calling for the dismantling of much of the world's shipbuilding capacity. Most countries involved are hesitant to take any action that might result in permanent reductions in their building capacity and loss of their market share.

Planned reductions have been announced by Sweden, Denmark, West Germany, Japan, and the Netherlands. Most are marginal cuts in overtime and expansion programs. OECD nations are worried that Japan's modern shipbuilding industry will grasp a growing