

### EMS already functioning

Not waiting for a U.S. commitment, the European Monetary System, the model for the new world economic order which Giscard and Schmidt intend to establish, has been functioning unofficially since Jan. 2. A British-engineered dispute over agricultural pricing which generated a lot of heat for the French government from peasant layers, forced the European governments to delay the formal launching of the new monetary system.

Since Jan. 2, European central banks have been working closely together so that EMS member currencies have been fluctuating against each other within the 2.25 percent bands (or 6 percent in the case of Italy) stipulated by the Brussels agreement on the EMS.

European press reports indicate that Schmidt and Giscard worked out an agreement at Guadeloupe to get the EMS in full operation by the end of January. Giscard told reporters on Jan. 8 that he expected the EMS to be operational by Jan. 31. Schmidt announced at a Jan. 9 press conference in the Bahamas that roadblocks to the formal inauguration of the EMS could be removed within two weeks.

—Alice Sheppard

## HongShang-Midland merger in trouble

Reports are circulating in the New York financial community that the Hongkong and Shanghai Banking Corporation's proposed acquisition of 51 percent of the shares of Marine Midland Banks, Inc., will fail under a U.S. Labor Party challenge. The Labor Party, in testimony before Federal Reserve Board of Governors staff Oct. 18, 1978, argued that the HongShang and other British banks acted as "launderers" for billions of dollars deriving from international heroin traffic concentrated in Hong Kong and that the HongShang, in particular, was the central bank of the dope traffic.

Earlier published reports and informal briefings from the merging banks suggested that a judgment was expected before the end of the year, and the Fed's failure to adjudicate the issue immediately provoked suspicion that the merger was in trouble.

Extracts from the Labor Party brief alleging HongShang involvement in financing the narcotics traffic were

first published in the *Executive Intelligence Review* on Oct. 31, 1978 and have since been expanded into a paperback book entitled, *Dope, Inc.*\* According to a Labor Party spokesman, the Labor Party has already submitted a protest against the proposed acquisition of the Union Bank of California by the Standard and Chartered Bank on similar grounds, and will file a full evidentiary brief supporting the objection later in January.

According to sources intimately connected to the HongShang case, the Federal Reserve, which has regulatory jurisdiction over takeovers of American banks by foreign financial institutions, may throw the case open to the public. The HongShang's position is especially weak because of the so-called hidden reserves issue. Under British (and Hong Kong) banking practice, income accruing from sale of fixed assets, foreign exchange activities, and investments is either contributed to or deducted from internal reserves, which are not made public. In a letter dated Aug. 29, made public in the sheaf of documents that the HongShang provided to the Fed in support of the proposed merger, the HongShang's accountants refused to certify the bank's financial data because of the secrecy problem. The accountants, Peat, Marwick, Mitchell and Price Waterhouse, noted that the Hong Kong government had intervened to ensure that no such information would be released.

However, the Fed requested additional data pertaining to the hidden reserves and the bank's list of subsidiaries, on the condition that it be kept confidential. Since the Labor Party's allegation is that the HongShang keeps two sets of books, and it is a matter of public record that the bank keeps a second, secret set of books, refutation of the Labor Party's exhaustively documented charges is difficult.

The same sources report that the Board of Governors of the Federal Reserve may find itself "out of its depth on the narcotics issue," and unwilling to make a judgment either way. In order to diminish its own responsibility, the sources continued, the Board of Governors may decide to act on a Labor Party request, and throw the issue open to public hearings. The HongShang has strenuously opposed such hearings.

It is expected that the New York State Banking Authority, which has jurisdiction over HongShang's ability to vote any shares it buys in a New York State bank holding company, will follow whatever lead the Fed provides.

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\**Dope, Inc.*, by Konstandinos Kalimtgis, David Goldman, and Jeffrey Steinberg (New York: New Benjamin Franklin House, 1978).