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Business Briefs

Nigeria

U.S. Is Targetting West African Oil

Continuing the pattern of the United States shifting to oil products imports from West Africa, the Nigerian National Petroleum Corporation (NNPC) on May 21 signed a joint-operator agreement with three U.S.-based oil multis. The Group Managing Director of the NNPC, Jackson Gaius-Obaseka, said that the signing was not regular government business, but an international venture driven by a strong commitment to boost Nigeria's crude oil production. He continued, "What we are doing today is a partnership, we are going for the first time as contractors to work on the block with the Americans."

The NNPC, through its wholly owned Nigeria Petroleum Development Company, signed an agreement with Esso Exploration and Production Nigeria Limited (Esso Oil), a subsidiary of ExxonMobil and Chevron Oil, for the oil prospecting license, OPL Block 214, and with Phillips Petroleum Company and ChevronTexaco for the OPL Block 318. In the OPL Block 214, Esso Oil has 55% in equity participation, with Chevron and NPDC owning 30% and 15%, respectively; while in the OPL Block 318 Phillips has 50% equity with Chevron and NPDC sharing the remaining in the proportion of 30% and 20%, respectively.

David Johnson, who signed for Phillips operations, described the event as a "turning point" in Nigeria's history of oil exploration activities.

Mexico

Revenue Collapses From Fall in Trade

Mexico's falling trade and physical economy forced the Fox government to cut payments to states and municipalities again; federal revenues were 5.1% lower in the first quarter than in the year before. Two main causes are blamed: the fall in tax revenues (income, value added, and import taxes all fell, due to reduced economic activity), and a drop in oil income.

The collapse in the latter was not solely a result of variations in oil price: The *volume* of crude oil, gasoline, cooking fuels, liquid gas, and petrochemical products sold in the Mexican domestic market fell by 5.1% in the first quarter. Sources from the state-run oil company, Pemex, say cuts in activity by small and medium-size businesses and a drop in automobile usage drove the collapse. Combine this fact with the report in *El Universal* that electricity usage in the country is today 14% less than the high point reached in September 2000, and you have a devastating reading on the depth of the collapse of the physical economy.

Mexico's imports fell by 5% in 2001 as a whole, and its imports by 4%. To an economy "reshaped" disastrously by the North American Free Trade Agreement (NAFTA), this is deadly. *Maquiladora* re-export factory production is down 20% in March, below March 2001.

Its policy being to limit the deficit to 0.65% of GDP, come what may, the Fox government cut payments to the 32 states by 9.7% in the first quarter of 2002, as part of its budget-balancing effort. Certain states were hit even harder: Sonora was cut by 13%; Oaxaca, Campeche, Nayarit, and Tlaxcala by over 11% each; Coahuila, by 10.2%. Payments to the Federal District were cut back by 16.8%, provoking Mexico City Gov. Manuel Andrés López Obrador to call for an audit of federal revenues, saying he suspects the Fox team is siphoning off money to maintain the bank bailout fund (Fobaproa), or the like.

Poland

Szczecin Shipyard To Be Renationalized

The third-largest shipyard in Europe, privatized ten years ago, will be renationalized. The news was announced on May 17, a day after the meeting between the government, the shipyard's employees, and its board of directors. The private owners decided to hand their shares (for a symbolic one zloty) over to the state Treasury, hoping that the government will be able to negotiate a $40 million credit line necessary to continue production. The shipyard workers hope that the government will be able to pay the three months' wages which they are owed. Workers had been demonstrating for many days, demanding back pay and a better financial policy to maintain production, since the shipyard is in trouble, not due to lack of orders, but rather, due to expensive credits, bad management, and allegedly lower revenues from ship sales.

Polish mass media and many political personalities described the decision to renationalize the shipyard as an important precedent. Asked whether other private enterprises, which are now in trouble, will be taken over by the state Treasury, Prime Minister Leszek Miller said that "privatization is not a miraculous remedy. Management is most important. Other cases will be considered on individual bases."

The government is still proposing privatization of refineries and the energy system, but the precedent with the shipyard may put a halt to this process.

Israel

Inflation Explodes In April War-Month

Israel's Central Bureau of Statistics released figures on May 17 showing 1.5% inflation in April. This brings inflation for the first four months of 2002 up to 3.9%, already 0.9% above the maximum range set by the government for the entire year. April was the month of the Sharon government's massive military deployment into the Palestinian territories, "Operation Defensive Shield."

The Bank of Israel is expected to jack up interest rates later this month, reversing a 2% interest rate cut made last December, in a desperate attempt to reverse the accelerating fall in the Israeli economy. The daily *Ha'aretz* said the inflation report sent shock waves throughout the political establishment, as it was much worse than expected, hit every category of prices, and was attributed to a further fall of the shekel against the dollar.

The result has been in-fighting between

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the Treasury, which blames the December interest-rate cut for the run on the shekel, and the central bank, which blames the government's irresponsible fiscal policy. The Treasury Department also said that, because of the recession, the business sector had frozen prices, but as the shekel's depreciation increased the cost of inputs, that price freeze could no longer be maintained.

However, press reports tended to ignore the effects on the economy, of Ariel Sharon's war against the Palestinians.

Auto

European Crisis Hits Italy Hardest

Figures published by the European auto industry show a 2.6% decline of sales in the European Union in 2002 so far, with a dramatic −13.4% in Italy during April. Worst hit was the FIAT auto group, with a collapse of 20.1% in April, and a decline from 10% to 7.9% of the European market share.

Fears that FIAT, the largest Italian industrial group, could be bought by foreign interests, have arisen as the group's value declined to an all-time low. As a result of declining earnings in 2001 and the first quarter of 2002, FIAT's capitalization is today half of what it was two years ago: down from 14.7 euros to 7.6 billion euros. The idea that Italy might lose this center of automobile production, has sent shock waves through the country. FIAT is one of the last large private industrial companies left in Italy, with 18 domestic factories (plus three in Poland, two in Argentina, and one each in Brazil and Venezuela) and 12 research centers (one in Brazil). FIAT used to employ up to 300,000 workers, but a years-long downsizing has cut its workforce in Italy to 80,000.

As a result of the auto crisis which started in 2001, indebtedness of the entire FIAT group rose to 6.6 billion euros. FIAT's management reacted to the crisis by announcing layoffs of 2,400 workers and short work for 10,000 in June 2001, in order to achieve a production cut of 14,700 cars. Given that for each FIAT worker there are three who work in the supply industry, it is feared that the real figures could quickly multiply. FIAT is also trying to sell parts producer Marelli, and part of its crown jewel, Ferrari. Trade unions oppose the measures and have announced strikes.

Germany

Tax Revenues Falling Sharply

Already in the first three months of 2002, tax revenues in Germany fell considerably below the level of last year, while the government had expected an increase.

The new semi-annual tax estimate, put out by a gathering of experts called the Working Group Tax Estimate, was even more shocking than these results. For the year 2002, total German tax revenues, on the Federal, state, and municipal level, are now expected to fall 11.7 billion euros behind the estimate of just six months ago. For each of the next three years, tax income will be about 18 billion euros lower than forecast in November.

This will create a combined revenue hole of 65 billion euros in four years. The main contributing factors are both the declining economy—much weaker than expected—and the miscalculation concerning the effects of recent tax reductions, in particular for large companies. The situation mirrors that in the United States, at both Federal and state levels.

In related developments, Siemens, Germany's largest electronics and engineering firm, announced on May 22 that it would cut 7,000 jobs at its business unit, Siemens Industrial Solutions, which currently employs 30,000, in order to reach "profitability goals." Last year, Siemens, which now employs 443,000 worldwide, shed 20,000 workers from its mobile phone and telecommunications networks units. And Deutsche Telecom announced that while revenues were up 15% over last year, to 12.77 billion euros, in the first quarter of 2002, it still recorded a total net loss of 1.8 billion euros, in the same period, compared to a loss of 358 million euros in the first quarter of last year. Deutsche Telecom is loaded with some 66 billion euros in debt.

Briefly

FOREIGN INVESTORS are steadily reducing purchases of U.S. stocks: from $175 billion in 2000; to $166 billion in 2001; to only $11 billion in 2002's first quarter (a third of the first quarter 2001 amount). This vanishing subsidy for the U.S. current account deficit has put sharp downward pressure on the dollar, after years of huge net investment inflows.

EXPORTS fell worldwide in 2001, by 4% in value, and by 1% in total volume (indicating worldwide commodity price deflation occurring at the same time), according to the World Trade Organization on May 2. By the fourth quarter, world exports had fallen 6% by volume since 2000's fourth quarter, with East Asia and the United States leading the drop. All three major product groups were hit—agriculture, mining, and manufacturing.

MICROSOFT is losing billions in overseas cable investments, the *New York Post* reported on May 19. The software giant has already sold off holdings in Globo Cabo of Brazil, the crashing British cable company NTL, and a Dutch cable company. Next may be Telewest Communications (UK), from whose board Microsoft has pulled its directors. It paid $2.9 billion in July 2000 for a stake in Telewest now worth less than $100 million.

U.S. BANKS hold huge amounts of debt of the two Federal real-estate mortgage companies, known as Fannie Mae and Freddy Mac; nearly half of all banks hold debts from these companies alone equal to one to five times their total capital. These debts are not guaranteed by the government, and are far larger than the U.S. Treasury could legally buy up, should a real-estate market crisis hit.

BANKS have rationed credit to Germany's productive *Mittelstand* industrial firms, far below the sector's requirement, squeezing these firms into a production standstill, says a new study by Barclay's Capital in Frankfurt.