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Debt Crisis . . . continued from page 1

But our bankers today, unlike in the simpler world of yesteryear, were under pressure to 'get the money out and working.' A former executive with a major Venezuelan bank recalls literally being chased down a Miami hotel hallway in the late '70s by North American bankers desperate to lend. As a result, they wrote a lot of very bad loans, relying on the 'sovereign' guarantee but forgetting that countries, like individuals, can go *de facto* if not *de jure* bankrupt. Furthermore, they were ignoring the relatively low rates of return that could realistically be generated by the projects being financed.

The ensuing crisis hurts both sides. Apportioning blame after the fact is patently counterproductive, although it undoubtedly would be refreshing if the developed world accepted more openly its role in the genesis of the crisis. For Canadians, the current manner in which sovereign debt of defaulting countries is held by our banks and regulated by the Inspector-General of Banks leaves us with a loss/loss situation. As sovereign debt has proven to be uncollectible — even though it is guaranteed by governments and their agencies including the financial institutions — our banks have been required to write down significantly the book value they place on such debt.

The Bank of Montreal has been the most exposed with $4.65 billion in LDC debt and a loss provision of $2.78 billion. The respective numbers are $4.2 billion/$2.95 billion for The Royal Bank of Canada; $4.1 billion/$2.6 billion for The Bank of Nova Scotia; $1.17 billion/$1.17 billion (excluding Mexico) for the Canadian Imperial Bank of Commerce; and $1.2 billion/$732 million for the National Bank of Canada. The Toronto-Dominion Bank has sold all but $200 million of its LDC debt on the secondary markets with a loss provision at 80% of that remaining exposure. Those provisions have been taken directly from the banks' income statements and, therefore, have reduced their income tax liability. These provisions evidently are completely appropriate but they are an obvious cost to Ottawa and its taxpayers. *Result: loss number 1, reduced government revenues.*

But the loss provisions made by Canadian banks have not meant a write-off of the liability due from LDC debtors, only a provision against it; the nominal value is maintained for the purpose of calculating interest outstanding. Our banks continue to demand full payment of interest, to be applied against the nominal value of the debt, with the predictable result that the LDCs are unable to service the debt. Hence, they remain in default even after several reschedulings, and in a hopeless situation as interest is calculated on interest upon a principal which has no 'real' value in an interbank marketplace that trades daily in LDC debt at huge discounts from face value. (Shearson Lehman Hutton reports recent market prices of LDC debt at 36-37% of face value for Venezuela, 3-6% for Peru, and 45-47% for Yugoslavia.) *Result: loss number 2, a debtor still in default.*

For Canadians concerned about maintaining job opportunities and a vibrant domestic industrial base, the third loss is possibly the most serious. Because of the ongoing defaults by LDCs, lines of credit for such countries are, quite understandably, severely restricted, effectively non-existent or, at best, limited to short terms (30 days) for small amounts. But for Canadian exporters, buyers in LDCs often require much longer terms of credit prior to payment (180, 270 and 350 days, or even longer). The logic to this is that the buyer wants as much time as possible to use the goods, such as industrial machinery, to create profit that would finance the purchase. Often the buyer finds that its domestic bank will insist on an extended credit term to help the bank's own foreign currency reserves. For the Canadian supplier, on the other hand, this demand for extended credit can be deadly because its bank here will not accept anything more than a short-term line of credit for the buyer's ban. *Result: loss number 3, the exporter cannot finance the sale, loses the contract and Canada suffers more unemployment.*

And so we all move into the 1990s very much affected, even in relatively prosperous Canada, by a global debt crisis that is like a glacier freezing relations between the developed world and the LDCs — seemingly immutable and obviously mutually unproductive.

Trevor Bartram is a Toronto lawyer specializing in trade and finance.

SIGNPOSTS

OTTAWA — Canada does not plan to relent on its economic, cultural and other sanctions against South Africa until there is 'a clear indication of irreversible change' that will lead to the dismantling of apartheid. That commitment from External Affairs Minister Joe Clark came within hours of the unconditional release on Feb. 11 of African National Congress leader Nelson Mandela after 27 years in prison. Furthermore, Mr. Clark's statement to reporters was in keeping with Mr. Mandela's own declaration, after his release, that 'to lift sanctions now would be to run the risk of aborting the process' set in train by State President F. W. de Klerk. The only major resistance so far has been, predictably, from Britain. Although Mr. Clark said it was 'very difficult' to be specific about the circumstances under which Canadian sanctions would be lifted, Mr. Clark urged

ly our Europe-based forces are far from insignificant. That said, and as an aside, I would note that for both alliance reasons and for purely selfish national reasons, Canada has much to offer and much to gain by its military presence in Europe.... It gives an extra dimension to our bilateral relationship on the North American continent' and justifies 'a place at the table' at NATO headquarters in Brussels and in Vienna, the Austrian capital being the centre of East-West non-nuclear armed forces reduction talks.

WASHINGTON — Canadian embassy staff have been paying close attention as the United States Senate began debating clean-air legislation. It is the third time in a decade that Congress has tried to pass a package that would restrict emissions of acid rain constituents as well as toxic chemicals and automotive exhausts. Those fell afoul an unreceptive White House and pressure from states with high concentrations of polluting industries. Ottawa is counting on passage of the new package to serve as a framework for an acid rain accord with the U.S., but there are indications that President George Bush, notwithstanding stated commitments to a cleaner environment, is not happy about the projected cost of implementing the new bill's measures over 30 years. 'I want to sign a clean air bill this year', he said in a letter to Congress, 'but I will only sign legislation that balances environmental and economic progress.'

TORONTO — Peter Murphy, the senior American negotiator of the Free Trade Agreement with Canada, says the FTA is in for a rough ride this year because the slowdown in the United States economy almost axiomatically means increased protectionism. While the FTA is in 'decent shape' at the moment, he said during a speech to the Canada-U.S. Business Association, 'there is going to be a difficult time in 1990.' Noting that Americans have never been overly enthusiastic about the pact, he counselled a concerted lobby on Washington to ensure that the 10-year phased elimination of remaining tariffs continues despite the expected protectionism. 'While the agreement was broadly supported in Congress at the time of its adoption, this support masked a number of business interests that felt threatened by the agreement', he said. 'There will always be pressures to close markets. Nobody wants that to happen, least of all you, but it could....'

WASHINGTON — A comprehensive review of Canadian extradition laws has begun in response to what Justice Minister Doug Lewis says are complaints that Canada is becoming a refuge for foreign criminals. 'It is incumbent upon all countries to ensure that alleged criminals ... do not regard other countries as safe havens', he told a meeting late last month of the Society for the Reform of the Criminal Law. 'We must, therefore, strive to ensure that our extradition arrangements appropriately meet current needs.' Concern about the current laws has grown because an American charged with the murder of 13 people in California has managed to fight extradition for more than four years. The Supreme Court of Canada rejected his final appeal last fall and Mr. Lewis ordered his return to the U.S., but the minister's ruling is being appealed, a process that could see the case before the Supreme Court again.

BONN — In an attempt to assuage worried potential investors, Quebec Premier Robert Bourassa has insisted that his province will always be a safe place to place capital even if failure of the Meech Lake Accord revives separatism. His comments during a 10-day swing through Europe came only a few days after Deputy Prime Minister Don Mazankowski told a Chamber of Commerce meeting back in New Brunswick that foreign investors are increasingly nervous about the possibility of 'another constitutional crisis' in Canada. 'They are starting to ask questions,' Mr. Mazankowski said. However, Premier Bourassa said that regardless of what eventually becomes of the Accord, 'it's in the interest of all of Canada ... to opt for economic and monetary stability.' He specifically declined to sugar-coat his assessment, saying investors are owed more than 'generalizations and platitudes'.

OTTAWA — Seven months of research by Prof. Martin Rudner of the Asian Pacific Research and Resource Centre at Carleton University has yielded a book on Canada-Philippine Relations: The Dimension of a Developing Relationship. Although targeted to university audiences and priced under $10 at many campus bookstores, the book should be of interest and value to government agencies, academics and the business community. Canada-Filipino trade tops $400 million annually. Formed last year,