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British Midland Bank Accepts Goods As Partial Payment For Loans To Peru

by John Neagle

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According to a Sept. 17 report in the NEW YORK TIMES, Britain's Midland Bank has agreed to accept iron, copper and other raw materials from Peru as payment of part of the \$160 million it owes Midland. Midland plans to sell through contractors roughly \$23 million of the commodities in world markets and then give Peru \$14.2 million of the proceeds. Midland will keep the \$8.8 million difference as partial repayment of the Peruvian debt. The agreement was signed this week in London and Lima. It marks the first time since the debt crisis began in 1982, analysts said, that a commercial bank has agreed to accept commodities instead of cash. A spokesman for the First Interstate Bank of Los Angeles said Sept. 16 that his bank was putting the final touches on a similar deal with Peru. Although there have been previous debt-for-commodity swaps, they typically involved money owed to countries, not banks. Ever since the topic of such swaps was raised by First Interstate more than a year ago, debate has been heated. Some banks argue that the swaps give one lender preferential access to a country's export earnings. In this instance, Midland will keep the entire \$8.8 million, but if that sum were a conventional repayment in cash, Midland would be required to share it with Peru's other lenders. A Midland spokesman in London said the swap would be good for all of the lenders because Peru's overall indebtedness would be reduced by \$8.8 million, thus increasing the country's ability to make future payments. The other members of Peru's bank advisory committee, the spokesman added, were kept "completely advised right along the line." Few believe that debt-for-commodity swaps will be a cure-all. Many of the commodities produced by the developing world are perishable foods. Others, as in Peru's case, involve high transportation costs. Many banks would have to hire outside experts to sell the goods.

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