

THE UNWELCOME PARTNER

I was leafing through my archives when I unexpectedly came across an article I wrote over 10 years ago, in April 1996. It seems to me that it is still - maybe, even more - relevant to what is happening today in our dispute with Iran and present a viable reason for the strange tolerance of Iran by European tolerance of Ira's defiance and Iran's apparently justified conviction that defiance will not be punished. S.F.

There is an ancient business cliché that goes, "If you lend someone a thousand dollars he is your creditor, but if you lend a hundred thousand dollars, he is your partner." With inflation, of course, you may want to add a few more zeros to the numbers, but regardless of scale, like most clichés, this one is universally true.

Someone who has borrowed very large sums is in a position to manipulate the lender by threatening not to repay the loan. The lender, more often than not, has no choice but to make additional concessions in the hope of getting something back or else losing everything. If the amount is large enough to significantly affect the lender, he surrenders, gnashes his teeth and throws good money after bad.

There are of course other remedies, some more effective than others. There are appeals to the morality and conscience of the borrower - this seldom works. There are legal avenues and collection agencies - this takes a very long time, is seldom effective and mostly enriches the lawyers representing both sides. Then there are the arm breaking and kneecapping methods used by the less civilized lenders. These are usually effective, or if not, at least provide some satisfaction to the lender and serve to instill caution in potential future defaulters, but they are considered to be unethical, immoral and usually illegal. Today, global lenders are faced with a global borrower who has become a de facto partner of a number of major nations by using the threat of defaulting to leverage their greed.

The borrower is Iran. The lenders are Western governments. The major lenders are Italy, Japan and France, but there are 46 nations altogether to which Iran is in default for hundreds of billions of dollars.

History seems to be repeating itself here. During the 1980s European and Japanese credits enabled Iraq to build up its weaponry and support terrorist movements worldwide. It was left to the U.S. to eventually risk American lives to solve the crisis that was partially created by Western financiers. Western lenders lost between 40 and 100 billion dollars when Iraq defaulted on its loans in 1991. Undeterred by the Iraqi experience, the West then continued to pour credits and loans into Iran tempting history to repeat itself. The u.s. has been trying to discourage its friends and allies from this obviously foolish path but there has been only limited cooperation from Europe, Canada, Australia, Japan and others.

In the early 1990s, when oil prices dropped, Iran stopped making payments on the loans it had made at below market 5%-9% rates. By 1993, frightened that it may lose all it had lent, Germany rescheduled the debt at even more favorable rates with a 2-year grace period. Since 1993, Germany, Italy, Japan, France and others have lent Iran over \$11 billion at below market interest rates. This was done at a time when commercial lenders charged Iran a 33% risk premium on letters of credit or else refused credit altogether. Iran's average credit rating with major commercial banks is now below Pakistan, Mexico, Egypt, Sri Lanka and Bangladesh!

Still government money keeps pouring in. German Chancellor Kohl told Israel's Knesset Foreign Affairs Committee in June 1995 that Germany could not break trade ties with Iran because, as its largest creditor, Germany had to make sure that Iran paid its debts. It appears that Iran is now Germany's partner!

Iran's economic crisis has forced it to delay major military modernization. It has canceled or held up billions of dollars of arms purchases from Russia and China. New credits would give Iran the money it needs to buy, build and develop new deadly technologies.

There was a time when a nation used its military forces to collect its debts. As far as I know, last time this was done was in Mexico and Central America when the U.S. Marines, in the beginning of the 20th century, occupied ports and collected taxes to repay money these countries owed. Effective as it was, this is no longer something civilized countries are expected to do. I just wonder whether these civilized countries will once again expect the U.S. armed forces to clean up the mess that will be created by the invigorated, subsidized and enriched radical Islamic forces emanating from Iran. In any case, after the

unavoidable default by Iran, they will do what they did in the case of Iraq: pass on the losses to their taxpayers and look for another potential menace that could use their financial help.

So there we are. Maybe there is an explanation while a solution is still absent 10 years later.