Business Day

The New York Times

BUSINESS Digest

FRIDAY, JANUARY 16, 1981

The Economy

Industrial production increased 1 percent in December, the Federal Reserve reported. It was the fifth consecutive month of production gains, after six months of declines. Economists said the rate was likely to slacken in coming months, but none foresaw a big new recession. A preliminary estimate showed 1980 industrial production to be off 3.5 percent from the 1979 total. [Page D1.]

A record $2.8 billion was invested in money-market funds during the week ended Wednesday. Comparatively high yields, averaging about 17 percent, and heavy stock selling were cited. [D1]

Companies

Chrysler Corporation should attempt to find a merger partner, or form a joint venture, Treasury Secretary G. William Miller reportedly told the auto maker. Sources involved in the revised bailout plan said Mr. Miller pushed the point as a condition for approval of an additional $400 million in Federal loan guarantees. [D1]

Lenders to Chrysler say payment, in effect, of 15 cents on the dollar for more than $1 billion in loans is the best they can expect at this point. Some bankers say they are unsure that the $150 million will be forthcoming. Formal approval of the revised plan still must be obtained from Chrysler's 125 bankers and other lenders. [D3]

Lawyers for the American Telephone and Telegraph Company said the Justice Department was trying to "destroy" the company, "the greatest enterprise on earth." They were responding to Government charges, on the first day of the Bell System's antitrust trial, that A.T.&T. deliberately constructed a monopoly in telephone equipment and services. [D1]

Nissan U.S.A. said it would raise the suggested retail price of its Datsun cars and trucks by an average of $192, or 2.6 percent. General Motors and Ford Motor raised prices last week, but Chrysler did not. Nissan attributed the price increase to rising costs and the decline of the dollar against the Japanese yen. [D3]

Burlington Industries reported a 13 percent profit rise for the quarter ended Dec. 27, 1980. But the company said recession abroad, poor demand for knits, the weak housing markets and high interest rates had all limited its results. Champion International reported a 46.9 percent decline. Amstar a sixfold gain and Ralston Purina a 9.6 percent advance. [D3] Bankers Trust New York said earnings before securities transactions rose 36 percent and cited increased net interest income. The Irving Bank reported an 8.5 percent rise and Security Pacific an 18 percent gain. [D3]

International

An impasse between a dozen major banks and Iran may represent a major obstacle to the release of the 52 American hostages. The chief Iranian negotiator said American banks "have not made an acceptable move" related to the transfer of Iran's frozen assets under their control. He set a deadline for today for the transfer of an unspecified amount of frozen bank deposits. [A1]

Iran's desire to recover the fortune of the late Shah and his family faces major obstacles. Most of the wealth is lodged overseas. Moreover, many of the assets in the United States are held in fictitious names or by secret corporations. [A10]

The Markets

The Dow Jones industrial average gained 3.50 points to 969.97, as energy issues rose on the prospects of early decontrol of domestic oil prices. Some high technology issues declined on bearish industry forecasts. Volume slowed to 39.6 million shares. [D6] Interest rates rose moderately in all credit markets. Analysts said that the Federal funds rate must decline from the current 19-to-20 percent range before interest rates will fall. [D5] The dollar rose sharply, bolstered by the high interest rates. Gold gained $16.25, closing at $575.50 a troy ounce in London. In later New York trading, Republic National Bank quoted gold at $561, down $8. [D9] Soybean and potato future prices fell sharply, on Government estimates of large crop yields. But orange juice futures continued to climb following the cold temperatures that damaged Florida's citrus crop. [D9]

Today's Columns

President Carter's economic record is close to those of the Nixon and Ford Administrations. But his problem with the electorate was a slow finish after a fast start. In contrast, Ronald Reagan is likely to pave the way for stronger growth later in his term by starting with a fight against inflation. Leonard Silk: Economic Scene. [D2]

A performance comparison of various investment advisers has been prepared by Computer Directions Advisors. The service analyzes stock performance for institutions that managed more than $100 million in equity assets. Market Place. [D6]

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Cigarette Tar Wars Intensify

New Brands, Huge Sums Put Into the Battle

By STEVE LOHR

The dollar ante and intensity of the so-called tar wars — that marketing struggle for success in selling low-tar, low-nicotine cigarettes — has been stepped up in recent months.

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During the past year, the major cigarette producers have trotted out new entries at dizzying speed and startling expense. The most striking evidence of the trend is the current campaign for the Barclay brand by the Brown & Williamson Tobacco Corporation — the most expensive new-brand effort in the history of the industry.

$150 Million Promotion

Last September the company, a distant third in the industry and fifth in the low-tar field, started Barclay with a $150 million bankroll for advertising and promotion, according to industry estimates. Previously, so-called rollout budgets in the $50 million to $80 million range, reportedly spent for several recent new labels, were tops.

The company's blitzkreig effort is generally viewed as a last-ditch attempt to gain a stake in the low-tar sweepstakes.

"Brown & Williamson's approach with Barclay," said Jeffrey M. Weingarten, an analyst for Goldman, Sachs & Company, "is clearly an indication of that company's need to make an impact in the real growth segment of the market — low-tar — and its lack of representation there so far."

Tar refers to the particulate, or solid, matter of a tobacco blend, which is transformed into vapor as it is smoked. Nicotine, found on tobacco leaves, is a habit-forming drug that is poisonous in large quantities. Cigarettes with high tar ratings also tend to contain relatively high levels of nicotine.

Favored by Women

In the $18 billion-a-year cigarette industry, the 100 or so low-tar entries last year accounted for 48.8 percent of all cigarettes smoked, up from just 16.7 percent in 1976, according to John C. Maxwell Jr., an analyst for Lehman Brothers Kuhn Loeb, whose regular statistical reports are widely followed in the industry.

And more and more smokers seem to be switching to low-tar brands. "We're probably up to 50 percent or more by now," Mr. Maxwell says. Women, in particular, seem to prefer low-tar brands, industry analysts say.

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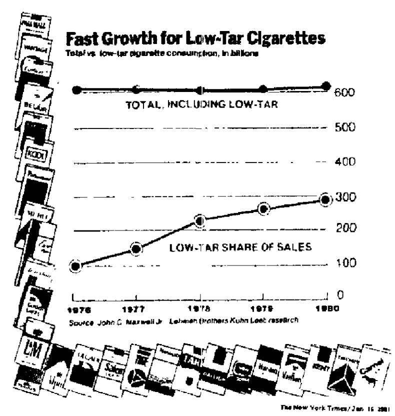

The New York Times/Jan. 16, 1981

Miller Insisting Chrysler Pursue Merger Search

By AGIS SALPUKAS

Special to The New York Times

WASHINGTON, Jan. 15 — Treasury Secretary G. William Miller is insisting that the Chrysler Corporation continue to take all possible steps to find a merger partner or form a joint venture to improve its long-term viability, according to people involved in the auto maker's efforts to get additional Federal loan guarantees.

In giving conditional approval for $400 million in such guarantees last night, the Chrysler Loan Guarantee Board, which Mr. Miller heads, stipulated that the company agree "to commit itself to take all possible steps to obtain an infusion of new capital through merger or other means."

Chrysler is required to report periodically to the board on the progress of efforts to find a merger partner. A search committee consisting of Chrysler directors has been assisted by Salomon Brothers, the New York investment banking house. This provision was included, said one person close to the situation, because of Mr. Miller's belief that the company's survival depends on finding a merger partner and his feeling that the company was not trying hard enough to find one.

A spokesman for the Treasury Department said today that Secretary Miller had no comment.

Lee A. Iacocca, Chrysler's chairman, said last night at a news conference where the board's conditional approval of the loan guarantees was announced, that eliminating about $1 billion in bank debt would greatly enhance Chrysler's ability to find a merger partner.

Under the plan, the lenders would accept payment of 30 cents on the dollar for half of the debt and conversion to preferred stock for the other half. Acceptance by the lenders, Mr. Iacocca declared, would help bring "several suitors out of the woodwork."

He said that there had been talks with the Mitsubishi Motors Corporation and Peugeot but that Chrysler's debt was now so high that those companies were reluctant to make serious offers.

In an interview, Mr. Iacocca said that one of the best possibilities for a joint venture was to produce a light truck with one of the Japanese auto makers at Chrysler's truck plant in St. Louis, which was closed last July. The plant has modern equipment, he noted.

There are many major hurdles to overcome before Chrysler can begin to draw on the loan guarantees.

One of the steps was taken today when Chrysler's board of directors voted unanimously to accept the conditions of the revised plan asked by the loan board.

The loan board is expected to give official approval for the additional loan guarantees at a meeting tomorrow. There is then a 15-day waiting period so that Congress can review the board's action.

During that time Chrysler officials

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December Production Up by 1%

Some Slackening In Five-Month Trend Noted

WASHINGTON, Jan. 15 (AP) — American industry increased its production by a full 1 percent in December, the fifth consecutive month at that rate or higher, the Federal Reserve Board reported today.

Large industry suffered badly when the economy went into a slide early last year, "and the recovery is taking place where the recession hit the hardest," said William Cox, the Commerce Department's deputy chief economist.

December's rate of production increase slipped a bit from the 1.9 percent and 1.6 percent rates of October and November, respectively, and Mr. Cox said, "I wouldn't be surprised to see it continue slowing."

A slackening trend might be fueled if interest rates remain high and expected declines in auto production and housing starts materialize, some analysts believe.

However, Mr. Cox noted that recent Commerce department figures showed business inventories were "relatively tight," and he said demand for various products and materials remained strong. Under those conditions, he added, "You don't suddenly have a recession setting in."

Still Down from 1979

The figures released by the Fed today indicated that, despite rapidly rising production in the second half of the year, output in December was still down 1.2 percent from the previous December, before the recession set in.

And a preliminary estimate for all of last year "shows industrial production to have been 3.5 percent below output for 1979," the board said.

The report showed seasonally adjusted production increases for all major categories of consumer goods, equipment and materials except automobiles.

Autos were assembled at an annual rate of 6.3 million units in December, a

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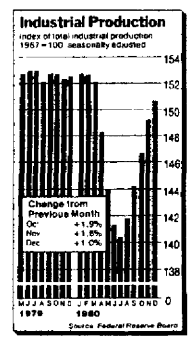

The New York Times/Jan. 16, 1981

British Steel: Moment of Truth

By WILLIAM BORDERS

Special to The New York Times

LONDON, Jan. 15 — Ian MacGregor, the Scottish-born American who was brought back to Britain last year to try to save the British Steel Corporation, is polling his work force on what he says is a last-chance survival plan for the company.

In the voting tomorrow, British Steel's 130,000 employees are being asked to approve a six-month wage freeze and the elimination of at least 20,000 jobs. And if they vote no, Mr. MacGregor said last week, it will mean that "we are really starting the process of liquidation of the company."

The Government-owned corporation registered a loss of $1.3 billion in the last fiscal year. Mr. MacGregor has said that the current year will be worse.

"By any ordinary reckoning, British Steel is bankrupt," he said, with a bluntness that has characterized many of the statements he has made since he came here last summer from New York, where he was a partner in Lazard Frères. "If we were a private company, we would now be out of business."

$1.8 Billion Request

Just to keep going for the next year, the company plans soon to ask the Government of Prime Minister Margaret Thatcher for a new infusion of $1.8 billion in aid. But Mr. MacGregor has said that the approach to the Government is dependent upon a favorable outcome in the voting.

"How can I ask the Government for [the money] British Steel needs urgently unless I know that you support me?" he asked in a letter sent to all the employees asking them to approve the salvage plan.

The Iron and Steel Trades Confederation, which represents about half of the work force, has urged its members to vote against the plan "because they have had no say in its formulation." According to Bill Sirs, the union's general secretary, Mr. MacGregor "gave us a direct commitment that no plan would be produced until we had an opportunity to provide an input."

The purpose of the ballot, the union leader said, is to enable the management "to go to the Government and say, 'the workers will accept anything the chairman says.'"

Other, smaller unions represented at the company have recommended that the plan be accepted. Because of the current recession, the worst economic slump here since the 1930's, many unions that are usually militant have been accepting settlements this winter well below the rate of inflation.

In Mr. Sirs's view, which is widely shared by other opponents of Mrs. Thatcher, part of the purpose of the Government's economic policies, in

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The New York Times

Ian MacGregor at a steel mill in South Wales. Mr. MacGregor, head of the British Steel Corporation, is fighting to save the company from liquidation.

Government, A.T.&T. Fire First Salvos at Trial

By ERNEST HOLSENDOLPH

Special to The New York Times

WASHINGTON, Jan. 15 — The attorney for the American Telephone and Telegraph Company, responding to the Justice Department's opening charge today in its huge antitrust suit against A.T.&T., said the department was deliberately trying to destroy "the greatest enterprise on earth."

Lawyers for the Justice Department had accused the Bell System of using its size and power to foster a monopoly.

In six hours of opening discourse in United States District Court, George L. Saunders Jr. for Bell and Gerald A. Connell for the Justice Department laid out the dimensions of the arguments that are expected to unfold in the coming months.

The courtroom of Judge Harold H. Greene was packed for the opening salvos, with lawyers — 23 for the Justice Department and 21 for A.T.&T. — making up a third of the gathering.

Mr. Connell said the Government would seek to show that Bell manipulated prices for services; blocked the makers of competing equipment, and maneuvered its own phone companies into buying in-house machines.

Partly in response to these charges, Mr. Saunders said that the company scrupulously abided by the orders of the regulatory agencies, and that any resistance was in response to efforts by competing companies to offer service only in choice markets while avoiding losing markets Bell serves by law.

Mr. Connell, the Government lawyer, said A.T.&T. reminded him of "an enormous but friendly elephant, somewhat of a slow thinker, stumbling through the regulatory jungle." He continued, "The elephant can't quite figure out what its regulatory masters want, but there is that feeling that the beast can at any time reach out, reach out and crush someone.

"But regulation means never having to say you're sorry," he added, paraphrasing the oft-quoted line from the Erich Segal novel "Love Story."

In response, Mr. Saunders said: "I seldom read Segal, but I have read Voltaire. On riding across France once, he said he found that the laws changed nearly as often as he had to change horses. In regulation too, things are always changing, and we are blamed for not anticipating the changes."

Despite today's courtroom action, both sides are still talking informally about an out-of-court settlement.

Cash Flow Into Funds Sets Record

A record $2.8 billion of new cash flowed into the nation's money market funds in the week ended Wednesday, the Investment Company Institute reported yesterday.

The two principal reasons for the huge growth appear to be the relatively high yields currently offered by the funds, compared with competing financial instruments, and a diversion of investment money from the stock market.

The aggregate assets of the 97 money funds counted by the mutual fund trade group now stand at $78.7 billion.

That performance, added to the previous week's $1.4 billion jump, reversed a prior three-week period of declines.

"We're seeing the money pour in again," William Berkowitz, president of Dreyfus Liquid Assets, said. For the $4 billion fund, new deposits outpaced redemptions by about $150 million in the past week or so, Mr. Berkowitz noted.

The recent decline in interest rates now gives the money funds a temporary yield advantage over other financial instruments. "The funds are paying a much more competitive yield than was the case a short while ago," Alfred P. Johnson, chief economist of the Investment Company Institute, said.

The funds invest in such short-term

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microfilm.

Source: John C. Maxwell Jr., Lehman Brothers Kuhn Loeb research

Tar Wars Intensified By Cigarette Makers

Continued From First Business Page

dependent on a higher level of nicotine than the low-tar brands provide, are smoking more low-tar cigarettes a day than they did of the higher-tar cigarettes.

While the Federal Trade Commission defines the entire low-tar category as any cigarette with 15 milligrams of tar or less, the real focus of activity of late has been in the so-called ultra-low-tar segment. By contrast, the most potent nonfiltered cigarettes, such as Camel, deliver up to 26 milligrams per cigarette.

Many New Offerings

Besides Barclay, the list of new offerings in the ultra-low group of late include: Cambridge, introduced by Philip Morris Inc., the second-largest cigarette company; Winston Ultra and a new version of Now, by the R.J. Reynolds Tobacco Company, the industry leader, and a lower-tar style of Carlton, by American Brands Inc.

More entries, such as Philip Morris's Merit Ultra-Lites, are being test-marketed or developed in laboratories.

Definitions are somewhat fuzzy as to what constitutes an ultra-low-tar cigarette, but R.J. Reynolds, for one, places any cigarette with 6 milligrams of tar or less in the ultra-low grouping.

At present, by that definition, the ultras represent about 9 percent of cigarette sales, up from 1 percent in 1977. Some industry analysts predict that this segment will grow to more than 11 percent this year.

In the ultra-low-tar market, American Tobacco's Carlton, with 2.7 percent of the total cigarette market, and Reynolds's Now brand, with eight-tenths of 1 percent, are the leaders.

In the broader low-tar grouping, Philip Morris's Merit, with 4 percent, and Reynolds's Vantage, with 3.8 percent, are on top. Merit's 4 percent translated into 24.5 billion cigarettes in 1980, according to Mr. Maxwell's calculations. Lorillard is another major producer, with such low-tar brands as Kent, Golden Lights and True.

Many analysts say the market-share growth for low-tar brands may soon level off, while the quest for still less tar and nicotine has about reached its practical limit, with some brands having tar ratings of less than one-tenth of 1 percent.

Some Failures Cited

Skeptics say that there are still enough die-hard smokers of nonfiltered cigarettes to account for 7 percent of total sales. They also point to certain recent failures of the ultra-low brands.

For example, Some analysts said that Philip Morris made a tactical mistake by featuring its lower-tar boxed version of Cambridge in early promotions, rather than the slightly higher-rate soft pack, which some smokers apparently found more flavorful.

Whatever the reason, Cambridge held a market share of three-tenths of 1 percent at the end of 1980, despite some $50 million in advertising and promotion. A rule-of-thumb in the industry is that a cigarette must get at least one-half of 1 percent of the overall market within a year or so to survive.

In his report released this week, the Surgeon General, Dr. Julius B. Richmond, said that switching to low-tar and low-nicotine cigarettes does seem to result in some "limited" reduction in the risk of lung cancer, compared with higher-rated brands.

But he expressed concern about the possible new health hazards posed by flavor additives used in the low-tar cigarettes, including shellac, caramel, eugenol and other chemicals.