

Phase 2 of the EMS?

Negotiations are underway between the French government and four Arab oil-producing nations which may culminate in the formation of a powerful "Euro-Arab zone of prosperity and cooperation," the French daily *Le Matin de Paris* reported Aug. 1. According to well-informed French officials, the story was "commissioned" by a team of high-level government officials working directly under President Giscard d'Estaing at the Elysée Palace. *Le Matin* reports that the French government, with West German support, has discussed

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possible Euro-Arab economic collaboration with the governments of Iraq, Saudi Arabia, the United Emirates, and Kuwait. The French are seeking guaranteed oil supplies for Western Europe in exchange for the transfer of Europe's advanced technology to the Arab world, including nuclear energy technology, needed to foster industrial development in the region. France is also offering military security for the Arab governments, who recently expressed alarm at U.S. Defense Secretary Harold Brown's threat to invade the Persian Gulf. The Arab countries are, meanwhile, considering whether to price their oil in terms of the European Monetary System's currency unit, the ECU—*Le Matin's* way of saying that a gold-backed monetary system is under consideration.

The *Le Matin* piece is the first clear signal that the long-awaited "second phase of the EMS" is about to begin. As *Executive Intelligence Review* has reported on previous occasions, the EMS is no mere currency stabilization scheme, but is a Franco-German war-avoidance plan which would link Western Europe, OPEC, and the Soviet Union in a common strategy to industrialize the Third World. We suggested that, in the second phase of the EMS, the European Monetary Fund might "capture" the huge petrodollar surplus by selling gold-backed dollar bonds to the oil-producing nations and then recycling these funds into long-term development projects in the Third World.

Until recently, both the French and West German governments have delayed implementation of such a "second phase," fearing to break openly with the Anglo-American-dominated NATO and its economic arm,

the International Monetary Fund. The U.S. Federal Reserve and Bank of England have insisted that the IMF assume full control over the petrodollar recycling process and that IMF austerity conditions be applied to all loans to the developing sector. Last week, however, West Germany's development minister, Rainer Offergeld, while visiting Southeast Asia, hinted that his country's policy of acquiescence to the IMF might be ending. In a speech in Thailand, Offergeld promised that the West German government would not ignore Third World criticisms of IMF conditionality.

Another indication of a possible shift in West German policy was an interview with Deutsche Bank's corporate finance director, Michael von Brentano, in the July issue of *Euromoney*. Brentano proposed that developing countries receive longer-term "bond financing" rather than bank credits to aid them in the present oil-induced financial crunch. This would, he said, facilitate the petrodollar recycling process in the event that Euromarket controls interfere with German banks' ability to expand their direct lending. Brentano also called for "far-reaching international cooperation—similar to that which led to the development of the European Airbus, but more global in its approach—to develop cheaper processes for energy production." He suggested a focus on "nuclear energy, including fast breeders."

The July Bundesbank report is highly optimistic that the West German economy will be able to weather the recent OPEC oil price hikes without a serious recession. The Bundesbank argues that recycling of petrodollars to Europe and the developing sector will permit West German industry to continue its export expansion—an assumption which would not make sense if the IMF were in full control.

Anglo-Israeli counterplan

Terrified at the strategic implications of the impending Euro-Arab rapprochement, London's oligarchist elite has attempted to counter the French initiative with their own "mini-Marshall Plan for the Middle East." According to Australian publisher Rupert Murdoch's *New York Post*, Bank of England Governor Sir Gordon Richardson, former British Prime Minister Harold Wilson, and Bank of Israel Governor Arnon Gafney are heading up talks in London around a proposal to "create a \$30 billion fund to spur economic development in Egypt, Israel and other Middle East countries"

willing to endorse the Camp David agreement. The proposed Marshall Plan, the July 31 *Post* reported, would be funded by the U.S., the European Common Market, Japan, Canada, and British Commonwealth nations. A ludicrous parody of the French plan, the British proposal calls for "long-term, low-interest loans" to lure "moderate governments like those in Jordan and Lebanon" into the Camp David agreement, despite the fact that every Arab nation but Egypt has already denounced Camp David ten times over.

—Alice Roth

Giscard's Arab plan

In a front page article August 1st, the daily Le Matin de Paris confirmed what readers of the Executive Intelligence Review know already: that French President Giscard d'Estaing has a grand design for the Middle East as part of a broader "Euro-Arab-African" alliance to ensure economic prosperity. Below we present excerpts of this article, authored by Henri Lauret and Jean Leclerc du Sablon. The American press thus far has not covered Giscard's initiative, despite heavy reportage in European media including English-language newspapers like the international Herald Tribune.

French diplomacy is setting the basis for political cooperation with the Arab oil states. Its ambition is to create a counterweight to the influence of the "superpowers" in the Middle East. The Elysée, presenting itself as the "spokesmen" of the Nine European countries, is counting on drawing considerable benefit from this new offensive in three key areas: energy, defense and big equipment contracts. This strategy, divulged by Arab diplomatic circles as well as by French political and industrial circles, runs counter to American policy for an Israeli-Egyptian peace.

For several months we have witnessed a deployment of efforts for the constitution of a Paris-Baghdad-Riyadh axis, the beginnings of a possible Euro-Arab "coprosperity zone." Coprosperity based on an objective convergence of interests.

In the energy field first: the oil crisis has put the United States on the bench of the accused ...

While Americans were lining up at the gas stations, Europeans ensured themselves security of supply. Especially Paris, which obtained from Iraq—thanks to the successive trips of Foreign Trade Minister Jean-François Deniau and Prime Minister Raymond Barre—assurances of having Baghdad supply one-third their oil requirements. Three-quarters of these needs will be supplied by three states only: Saudi Arabia, Iraq and

the United Arab Emirates, where Giscard made a stop-over July 16 on his way to the Pacific.

As far as armaments are concerned, France, the world's third largest exporter, offers an ideal solution to countries which are concerned with diversifying their sources of supply. Thus, Saudi Arabia, which until now depended essentially on American military industry, has just decided to increase by a considerable proportion its acquisitions from France, buying several billion francs worth of material, in particular in the naval sector ... and in aerospace ...

Iraq, on its side, is seeking to disengage itself from its Soviet protector. Baghdad has just become the buyer of new Mirage F-1s, tanks, and antitank missiles, as well as naval defense equipment.

In addition, these two countries do not want to depend only on American and Soviet [military] advisors, and are calling for technical and personnel aid from Paris. The accord worked out in Riyadh two weeks ago by Defense Minister Bourges dealt mainly with this point ...

The fear of destabilization (from Iran) becoming contagious brought about an unexpected rapprochement between the feudal regime of Riyadh and the "progressives" of Bagdad. There is probably enough here to feed the dreams of those in the General Staffs who think that France could lead, in the name of the Nine or not, a sort of "collective security pact" in the Middle East.

For all these reasons, Giscard is seeking to institute a Euro-Arab consultation mechanism which would form the first pole of the Euro-Arab-African rapprochement whose concept he launched in the beginning of the year.

On the Arab side, Kuwait seems to be playing the role of "good offices." The oil minister of this emirate was just recently in Paris.

The European countries which, led by France, maintained a chilly reserve towards the Israeli-Egypt peace treaty would take, in this "Giscard plan," a favorable position toward the search for a local settlement on the Middle East crisis.

The Elysée feels it is offering a solution other than the separate peace sponsored by Washington. The only solution which in its opinion is credible with Arab countries other than Egypt ...

At a time when the economic power of America is dwindling and the "dollar king" has become suspect in the eyes of Arabs and Europeans, the Nine are playing their ace cards to sell their nuclear plants and other equipment goods. And why not one day pay their oil bill in ECUs, that currency born out of the constitution of the European Monetary System?