

A: I was very surprised that Sadat handled the situation so well with the Security Forces. When I learned that the Security Forces were engaged in battles with the demonstrators, I was positive that was the end of him.

Q: What is the exact opposition to Sadat from the army?

A: As I told you before, there is a great split among the generals in the Security Forces. They are very dissatisfied with Sadat's policies, because they have lost their bargaining power with the Saudis and the IMF. Before Sadat's moves towards the West, the Egyptian army always had the upper hand in Middle East politics, and especially towards Saudi Arabia. From the time that Sadat decided to go along with Kissinger, the Saudis have had Egypt in their pocket. The only bargaining position that Egypt has now is its imminent collapse.

"Sadat Needs External Aid"

The following is a Jan. 27 interview with a professor from the Georgetown University who was a recent visitor to Cairo.

Q: What is next for Egypt?

A: In my estimation, Sadat must work towards a comprehensive program, which will be called a "closed-door-policy" against higher prices. Sadat must now think about a very strategic program as to how he will get external aid. I don't think that he has any more hopes with the IMF; I think his direction will be towards the Arab oil producing countries, but the key country is Saudi Arabia. The question is, are the Saudis ready to bail him out.

Chase Manhattan:

"The Riots Were More Intense Than Anybody Expected"

The following is a Jan. 27 interview with a highly-placed Middle East officer with the Chase Manhattan bank.

Q: Where do things go from here in Egypt?

A: It all depends on what potential lenders to Egypt are going to do. Sadat's room to maneuver has been sorely restricted; the riots were more intense than anybody expected; they were general throughout the country. He will have to put off price rises for a while. Maybe this whole episode has convinced the IMF that he needs help. There is an unconfirmed report that the IMF has lent Egypt money. But Sadat has to do something other than raise prices. What he can do I just don't know. Something has got to give. We have to see if the Gulf States will give him money; this is likely. The Saudis have a lot to lose from a radical takeover. In fact, I could never understand why the Saudis didn't give him more money. Sadat is trying to get the message across.

Q: Do you think this week will lead to a possible moratorium, or rescheduling on debt?

A: Efforts to try to reschedule the debt have so far not been successful, and strangely, this talk has dropped off. It's awfully tight. And what bothers me is how spontaneous the riots were throughout the country.

Q: Do you think Carter is now going to funnel aid into Egypt?

A: I don't look for much from the Carter Administration. Possibilities do exist however from the Gulf countries. It's got to be another \$1 billion at least for Sadat for the short term; he is going to need \$2 billion.

Europe, Arabs, Comecon Seek New Monetary System

The meeting of the Euro-Arab Dialogue, scheduled to convene in Tunis on Feb. 10, will launch "a new period of achievement," in the words of *Events* magazine. The meeting's focus will be economic co-development and it will climax a whole series of meetings and initiatives which have been taking place between Arab, European, and Soviet representatives to clear the way for a new monetary system.

Reflecting the growing momentum away from the dollar, former Egyptian Planning Minister Ismail Sabri Abdalla, currently the director of Egypt's National Planning Institute, issued a call this week for a new monetary system linked to gold, to replace the International Monetary Fund and World Bank, issuing long-term credits for the developing sector. Saudi Arabian King Khalid, in direct opposition to the pro-U.S. faction around Prince Fahd, issued unprecedented recognition this week of the Soviet Union's support for the Arab world, noting that "we cannot ignore" the Soviet Union's greatness.

Khaled's statements (see below) coincides with Soviet overtures to Iraq, Algeria, and Libya to associate themselves with the USSR and Comecon to form a progressive cartel "because OPEC today is being subjected to pressure and trends from within that are not acceptable to the organization's progressive measures." In addition, Kuwait will make an announcement in the near future on its plans to purchase several hundred million dollars worth of arms from the Soviet Union, a deal that is receiving the backing of the Saudis.

Meanwhile, ties between the Arab World and Western Europe are strengthening. Italy's state-owned oil company ENI is in the process of creating a branch company especially designed for comprehensive trade arrangements with the Arabs and Eastern Europe, and recently signed a contract to build chemical fertilizer plants in Saudi Arabia. As part of Italy's drive to broaden ties with the oil-producing states, Montedison representative Ratti arrived this week in Saudi Arabia, to be followed soon by Foreign Trade Minister Ossola.

Japan is forming a state-owned oil company modeled on ENI for dealings with the Arab world. Following talks this week between Japan and Iraq, Japan has agreed to loan Iraq \$1 billion at low interest rates while Mitsubishi has been awarded a \$371 million contract to build a power station in Iraq.

Former Egyptian Minister Calls for Int'l Gold-Backed Reserve Currency

On Jan. 14-17, the French magazine, Political and Parliamentary Review, headed by Jacques Riboud and the Egyptian Society for Political Economy, Statistics and Legislation sponsored a Franco-Egyptian monetary colloquium in Cairo, Egypt. The following excerpts are taken from Le Monde correspondent Paul Fabra's Jan. 25 report on the presentation to the colloquium made by former Egyptian Planning Minister Ismail Sabri Abdalla.

(M. Abdalla's) opening point is the unadaptability of the current monetary system, such as it is applied by the International Monetary Fund, to the needs of the developing countries. ...The International Monetary Fund, from which the Group of 77 developing countries could withdraw without great damage according to M. Abdalla, persists in its desire to apply remedies to the Third World which were conceived for other illnesses. A classical example: to demand a currency devaluation under the pretext that the exchange rate of the national currency is unrealistic. The effects which one anticipates from a devaluation in the developed countries are rarely realized in the developing countries where exports and imports for the most part are fixed in the medium term. On the other hand, the rise in cost of capital and intermediary goods affects production costs and thus hampers exports rather than stimulating them. The same phenomenon affects wages in cases where the country imports a substantial part of its alimentary products.

Another example: to demand the alignment of internal prices with world prices and suppression of any subsidies. In our countries where the trade union movement is still weak and has effectively organized only a very restricted element of the working class, wages will not follow the sudden rise in prices and the most deprived masses will see their misery increase with all that this means in terms of political and social ferment...

...Also in the proposals which (M. Abdalla) made on "a revamping of the international monetary system," he declared himself in line with "a certain number of fundamental principles which seem sufficiently orthodox, if not classical, to have a reasonable chance of being accepted by the international community."...The speaker called for the constitution of an international bank destined to replace the International Monetary Fund and charged with the creation of an international currency which would not be the Special Drawing Rights (SDR). According to the speaker (M. Abdalla), "it is obvious that the SDRs cannot play the role of an international

currency" namely because the terms of their emission result from "a sort of vicious circle" and also because the rules governing emission place the creation of SDRs "at the discretion of great powers."

On the contrary, the currency proposed by M. Sabri Abdalla should have "a minimum gold cover", because he added, "I am persuaded that the complete demonetisation of gold (as proposed by the IMF —ed.) is a little premature with regard to international payments." Another idea worth consideration: the proposed international bank would only grant short term advanced to developed countries "to finance occasional deficits" while the developing countries could benefit from medium term loans. This proposal seems reasonable to us, because if the developed countries are willing to proceed with a true reform of the international monetary system, they should at the same time be able to eliminate the deficits between each other...

'Middle East Checks Out Bullion Market'

The following excerpted article is printed in the Jan. 28, 1977 issue of the Lebanese magazine Events.

The appearance of a representative from the Dubai-based Bank of Oman at a gold auction in Washington last week...further bolstered rumours among Western gold investors and speculators that the Arab financial institutions are considering swapping dollars for large quantities of bullion...

Some forecasters of trends in the gold market...remain convinced that Middle East oil money will soon be used to buy up large amounts of gold. One major reason is that gold is becoming an increasingly attractive investment which Middle East financial institutions will find hard to resist. Between September and December last year the price of gold rose from \$100 to \$135 per ounce.

Also, the options open to investors of oil money are narrowing. Gold could become an attractive alternative to the U.S. dollar. No wonder former U.S. Treasury Secretary William Simon has warned Arab governments that the purchase of gold would be regarded as an unfriendly act.

Khalid In Shift On Soviets

L'Humanite, the newspaper of the French Communists reported the following Jan. 25.

...King Khalid, whose country has no diplomatic relations with the USSR and the Socialist countries, noted "in favor" of the Soviet Union, that it has supplied arms to the Arab countries when the West refused them. "It (the Soviet Union) is a great country, we can't ignore that fact," he said, expressing a current of opinion which wants to be more "realistic" than that led by Prince Fahd, who has been presented by the Western Press as the "strong man" of the regime. Let us recall that, in December, Sheikh Yamani, the oil minister, stated that his country would not tolerate the presence of Communists in the French and Italian governments.

“Kuwait: Diversified Armaments”

The following is a full translation of an article appearing in the Jan. 24 issue of the French-language weekly Afrique-Asie:

Kuwait, following the example of other Arab states, wants, it would seem, to diversify its sources of arms supplies. This is paradoxically translated — at a time when an institutional crisis has reinforced the pro-Saudi pressure groups — by a discrete opening in the direction of the Soviet Union. The Dec. 1974 visit to Moscow of the Kuwaiti Foreign Minister had started this operation. According to certain rumors, the results of these negotiations may soon be made public. In question would be an order worth several hundreds of millions of dollars which would have received the benediction of Saudi Arabia itself.

This ‘turn-around’ is all the more surprising in that Saudi Arabia would have at the last minute aborted, last year, the agreement between Jordania and the USSR for the supply of arms.

Several reasons are being put forward:

- firstly, for Kuwait what is important is the quality of the arms and not their quantity, given the narrowness of its territory. Thus, it is particularly interested in Soviet missiles, in particular the Sam 6 and Sam 7 which showed their efficiency during the 1973 war;
- the second reason would be that the United States has not shown any particular hurry to satisfy the Kuwaiti needs in arms. The initiative towards the USSR is aimed at putting pressure on Washington;
- the third reason, finally, is that the USSR could be called on to play a mediating role in the border conflict which seems again to emerge between Kuwait and Iraq.

New Oil Alliance?

The following was reported in the Jan. 25 Journal of Commerce.

A UPI release reports that the Soviets have approached a number of Arab members of OPEC to form a separate oil cartel with East Europe and Moscow, according to the *Kuwait Times*. Among the countries approached are Algeria, Iraq and Libya. The *Kuwait Times* writes that “the justification for the new oil cartel is that OPEC today (according to the Soviets) is subjected to pressure and trends from within that are not acceptable to the organization’s progressive members...The main objective of the Soviet Union is to bring about a new grouping which could guide the world oil industry into prograssive directions and would place the oil producing countries under direct Soviet influence.” The Soviets reportedly do not object to the “continued membership of the Arab countries in OPEC as it stands today.”

‘A New Phase In Euro-Arab Dialogue’

The following is excerpted from an article which appeared in Events magazine, Jan. 28.

The Euro-Arab dialogue — the link established between the European Community and countries of the Arab League — is approaching a watershed. Whether or not the dialogue moves forward into a major new phase is likely to be determined by the second meeting of the dialogue’s joint negotiating committee. The hope is that the studies will end and a new period of achievement will begin following the meeting due to be held in Tunis on February 10...

...Apart from politics, three major subjects will be discussed in Tunis: the problems of financing joint projects, commercial relations and the transfer of technology.

Among subjects to be discussed is an international joint convention on the protection of foreign investment...In Brussels it is believed that agreement on such a convention could lead to a significant increase in investment by European countries in Arab countries...

So far, the greatest progress within the whole Euro-Arab dialogue has been made in the field of agricultural cooperation. The Tunis meeting will review at least three pilot schemes — in Somalia, Iraq, and Sudan — and the extent to which they can help to reduce the massive agricultural deficit of the Arab world as a whole. Among other matters on the Tunis agenda will be joint projects for the improvement of certain Arab port facilities where bottlenecks are currently causing problems. Two such projects are already under way in Syria and Egypt.

In addition, the European side is interested in discussing the chances of cooperation in oil refining. The Arab side is also interested in talking about the prospects for cooperation in aviation, solar energy and radiation protection...

U.S. ‘Hasn’t Convinced’ Arabs

The following is excerpted from a Frankfurter Rundschau editorial by Karl Grobe Jan. 24 calling for closer Euro-Arab cooperation:

European arrogance once let Britain and France stumble into the Suez war in 1956...And after 1973 European efforts to open up relations with Arab nationalist states dissolved, leaving the field open for the U.S. to establish the illusion of a U.S.-European axis as the only real thing. But the mere propagation of the advantages of the free market economy by the U.S. hasn’t convinced Arabs in the southern Mediterranean...That means that one must keep in view the conflict of interests across the Atlantic going on at this time.”