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EXECUTIVE INTELLIGENCE REVIEW

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IN THIS WEEK'S ISSUE —

Spokesmen for Europe and the Third World ... including Italian Premier **Andreotti** and Saudi Oil Minister **Yamani** ... are bent on reviving the stagnating **North-South talks**. Their purpose ... to provide an international negotiating framework for restoring the crippled world economy ... above all by resolving the problem of **debt**. Our **International Report** carries the relevant European dispatches ... unreported on in the U.S.A.

* * *

It's official ... Last week's announcement of a $1.67 billion **U.S. trade deficit** ... **the biggest ever** ... documents the West's plunge into a new **economic tailspin**. See our **Economics** report for a full analysis ... plus a roundup of the latest round of state-to-state trade deals through which the rest of the world is struggling to break the depression cycle.

* * *

The skyrocketing price of **gold to $145 an ounce** shows what the world thinks of the dollar ... and could portend moves toward **remonetization** ... and surgical removal of the wreckage of the dollar monetary system. (See **Economics**)

* * *

An international faction fight has broken out ... spanning both capitalist and socialist countries ... over the Comecon's **transfer ruble**. Many see it as the potential key to a new global monetary system. For documentation of last week's Hungarian proposal to use the t-ruble in **"a new Bretton Woods spirit"** ... as well as British and Italian commentary on the plan ... (See **International Report**)

* * *

With all the talk about **"waste" in Washington**, why has the **Carter Administration** proposed a new energy bureaucracy as its top priority? See for yourself what Carter's would-be "energy czar" **James Schlesinger** is up to ... read excerpts from the **Carter blueprint for an energy super-agency in National Report.**

* * *

U.S. Governors ... overwhelmingly Democratic ... put up **a mighty howl** about the **Carter "conservation"** program at their conference last week. Some thought an **investigation of the environmentalist lobby** was more needed than another round of restrictions and scandalmongering aimed at U.S. energy producers. (See **National Report** for the details)

* * *

Congressmen warned Carter spokesmen their **cutbacks in fusion energy development could have far-reaching international consequences** ... U.S. Labor Party testimony summarized Americans' overwhelming opposition to the Carter program ... The betting now is that Carter will soon find himself in real hot water at the other end of Pennsylvania Avenue ... See **National Report.**

* * *

Is a three-inch fish more important to U.S. national security than a power plant? If

Carter's henchmen **Griffin Bell** and **Warren Burger** are allowed to carry out their plans for **"court reform"** we'll see more such decisions. This week's **Law** section unfolds the Burger-Bell plans to turn the U.S. judiciary from arbiters of truth to **"crisis resolution experts"** ... putting the **U.S. Constitution in permanent cold storage**.

* * *

Only a **massive IMF bailout** can stall disaster for Carter's friends at Chase Manhattan ... they've already taken the first steps in that direction. Our **Economics** section provides an overview of the conspiracy behind these trial balloons for **"banking reform."** Plus coverage on stockpiling, mergers, and the markets ....

* * *

Had enough of the **"new morality" in America's foreign policy?** Many Europeans have ... in article after article in the press last week, they targeted the Brzezinski provocations toward the USSR ... the Bergland plan to bust OPEC with the food weapon ... the U.S. demand that its allies support the dollar by hyperinflation ... For an overview and country-by-country rundown on the status of the opposition. (See **Europe**)

* * *

The so-called leftists at Washington's **Institute for Policy Studies** have come out with their "Good Neighbor Policy" for Latin America... written by the same National Security Council gurus who authored the already notorious **Linowitz Report.** See **Latin America** for an analysis, and excerpts from both documents.

* * *

Japan's Premier **Fukuda,** a staunch Carter ally, **could be out** by summer ... polls show only 20 percent of the population backs his policies ... and the Japanese businessmen who once thought he was an economic wizard, are beginning to view him as the Wizard of Oz. (See **Asia**)

The truth behind the **Amin affair** ... the Brzezinski-Vance team had planned a series of **coups in East Africa.** For the inside story on why it **backfired.** (See **Africa**)

* * *

A weakened President ... a carefully fostered climate of violence and confrontation ... the U.S.A.'s closest southern neighbor, **Mexico, could explode** ... Washington intends to use the crisis to grab control of Mexican oil. (See **Latin America**)

* * *

Our **Middle East Economic Survey** covers the Arab oil producers' plans for maximum expansion of production ... their financial turn toward Europe ... the move into shipping ... Plus detailed reports on the economic prospects for Egypt, Iraq, Iran, Algeria, and the Sudan ... and a blow-by-blow account of **Egyptian President Sadat's private conservations with David Rockefeller.** ('But Dave... I need billions!)

* * *

The book everyone's been using to promote the Kennedy oil company divestiture swindle actually shows the **Rockfellers** are responsible for the sabotage of energy resources. Our **Books** section carries a review of John Blair's **The Control of Oil** which untangles the controversy.

* * *

Now the Rockefellers have turned to **nuclear sabotage**. Read how **Exxon** drove **Bechtel** out of the uranium enrichment field ... in this week's **Energy** report.

* * *

A solution to the problem of drought ... **desalination** of sea water for use in massive irrigation programs ... Our **Science and Technology** section explains how it could be done ... cheaply, effectively.

Support For North-South Dialogue Reemerges

Forceful calls have reemerged for a successful conclusion of the Conference on International Economic Cooperation (CIEC), or North-South talks, after that international forum had all but disintegrated. The political push to reconvene the talks is coming from European leaders who count the Carter Administration as no ally and from leading Arab and other Third World governments. They seek it as the opportunity to see through Third World debt moratoria and the massive programs of technology transfers which can follow that initial step.

Although no date is at present set for the next CIEC session, the Group of Eight, the "north" side of the dialogue, conferred at delegation level in Paris March 2. There the Swedish representative, Mr. Nordenfalk, put his country forward as an appropriate mediator to take the talks forward. Nordenfalk declared that the declaration of unilateral debt moratoria by Third World nations is an inevitable occurrence, towards which the developed capitalist sector nations and OPEC must orient. The U.S., he charged, is the greatest enemy of the Third World demands for debt moratoria—and hence the greatest obstacle to progress at the talks and beyond.

Italian Prime Minister Giulio Andreotti, in a rare interview in the French daily *Le Monde*, called the North-South conference the best available platform for hammering out an international approach to the world economic crisis. (See excerpts, below.)

On the "south" side, an African-Arab summit meeting is scheduled for March 7-9 in Cairo, preceded by a Foreign Ministers meeting there March 3-5. Heralding this event, the Algerian daily *El Moudjahid* announced March 1 that "even if the old order still persists under diverse forms, the bell has tolled for it." The conference will focus on tasks for new world economic relations, as well as the Middle East and Southern African crisis spots. *El Moudjahid* characterized it as a successor-meeting to the August 1976 non-aligned summit in Colombo, Sri Lanka, which declared support for debt moratoria and measures for new international financial institutions to enable development.

In advance of the Cairo summit, the OPEC Finance Ministers have met in Vienna with an agenda likewise focused on the issues of the North-South dialogue and OPEC aid for industrial development of the depressed Third World sector. According to *El Moudjahid*, the OPEC ministers' agenda included:

— relations with developing countries;
— financial aid to poor nations not members of OPEC;
— OPEC participation in a fund for agricultural development;
— use of a fund to finance basic industry;
— the North-South conference.

Andreotti in Le Monde: North-South Talks Crucial

The following are excerpts from an interview with Italian Premier Andreotti which appeared in the French paper Le Monde March 2.

On East-West relations:

I deeply believe in the value of the Helsinki agreements....We are no longer in the cold war era. I believe that present day generations are more open than those who suffered from too frequent periods of war. We know too well what would happen in case of nuclear war not to be inoculated against any attempt to take recourse in force. I would say willingly that detente is an obligation.

On the economic crisis:

The worst disease is inflation. Since inflation does not recognize borders, it must be confronted with a grand international plan. It seems to me that the North-South conference constitutes the most valuable platform, on the world level, for the discussion of a program among industrialized countries, the Third World, and the oil producers — who hold the key to the effectiveness of any plan of this nature.

On the future of Italy:

I would like to say that when I think of the situation from which we emerged after the war, I have great confidence that we can walk towards a happy future. Seeing the Italians work in 1945-1949, allowed me to discover this people's will for reconstruction, its capacity to reach levels of production and of life which would have seemed unthinkable. We haven't changed.

The interviewer interjects: But this effort was inscribed in a broader European and international framework, and it would have been unthinkable without the Marshall plan....

Andreotti answered: That is true, but it is also true that without the spirit of sacrifice of the Italian people, the Marshall plan would not have been worth anything. I don't see why we couldn't take up that path again.

Trade Unionists of 20 Nations Confer On Mediterranean Development

The Algerian daily *El Moudjahid* has reported a gathering of trade unionists from the metals industries of 20 nations, including most of the major Mediterranean littoral states. Held in Rome, the meeting was organized by trade union federations of France (CGT and CFDT), Italy (CGIL and the metalworkers' union FLM), Yugoslavia, Egypt and Algeria. According to the Algerian report, the conference centered on the common interests of the working class in the capitalist sector and the developing nations in establishing a new world economic order, and passed a resolution featuring:

— the state of economic relations at the present time, with special attention to present industrialization programs in the developing countries and shifts in capitalist sector industry;

— ways and means to overcome technological and financial "dependencies" — that is, barriers to development — in the Mediterranean region;

— the interest of workers in the advanced capitalist sector in the progress of developing sector industrialization, and trade union actions in support of that industrialization'

— living and working conditions as issues for trade union mobilization;

— the concrete collaboration of trade unions from the steel industry for developing trade union relations among the Mediterranean countries, especially in sectors affecting emigrant workers;

— the necessity to raise the technological competence of workers in the less developed sector

Yugoslav Sees Integrated Economic Cooperation Emerging

The Yugoslav daily Vjesnik carried an article Feb. 24 under the headline "Fishing in Political Waters," over the signature Mira Hirsl. The commentator anticipated that just-concluded negotiations between the Soviet Union and the European Economic Community (EEC) on fishing territories, being the first time the Soviets would recognize the EEC as an institution competent for negotiations, might open the doors to mutual recognition and new cooperation agreements between the EEC and the socialist countries' Council for Mutual Economic Assistance (CMEA). The implications of these developments for the economic relations of these two sectors and their mutual trade with the Middle East were assessed by Hirsl in the selections which follow.

The economic interests of Western Europe significantly influenced the shift in the nine's policies towards support for a resolution of the crisis in the Mideast within the framework sought by the Arab countries. This political support by the nine has been accompanies by a growing number of agreements concluded between Brussels (the EEC) and the Mediterranean countries of the Middle East, to whose goods the Western European market is now open in exchange for the technology which Western Europe is able to supply.

The presence of the Soviet Union is also marked in business with these countries, especially the oil-producers, but on a different basis than in the past. The CMEA countries are interested in loans from the oil-producers, which might earlier have been sought on the Western European capital markets....The CMEA countries will repay the loans on the basis of aiding the Middle East countries in carrying out economic projects or with deliveries of production financed by these loans. Thus a qualitatively new sort of cooperation has been established, by which income from oil helps, by a circuitous path, the development and economic growth of the Middle East.

Instead of having conflicting interests, Eastern and Western Europe could complement each other in the Middle East and benefit all the countries. Once cooperation between the CMEA and the EEC were established, these projects could be expedited based on the following: capital from oil used for carrying out economic projects in the CMEA countries, technology from the EEC, and benefits from the implemented projects for the developing countries of the Middle East.

But if the barriers are not lowered to mutual recognition of the reality of the existing institutions in Eastern and Western Europe, this sort of East-West-developing countries cooperation will run up against more political barriers.

Britain's Foreign Minister Emphasizes International Cooperation

Britain's new Foreign Minister, Dr. David Owen, has made his first speech in parliament since taking office. Speaking March 1, he outlined his foreign policy outlook and identified himself as spokesman for the approach Prime Minister Callaghan has taken: "national prosperity," or development of British industry, and the international links necessary for that. Excerpts from the March 2 London Times account follow:

(Owen) said that the future (for Britain) lay in Europe as a member of the EEC but the scale of their international interests was not such that they could withdraw from them....There was little yearning, however, for the Imperial past and in the last 10 years Britain had become realistic about their influence in the world. Equally it was time to stop selling themselves short and show more national self-confidence....In today's world they could no longer rely on their insular position to safeguard what they valued. Interdependence had since 1945 transformed the international context of British foreign policy.

The central task of our foreign policy (he said) is to decide how best to realize the fundamental objectives of promoting national prosperity and safeguarding national security....Sound domestic policies had to be complemented with international economic cooperation if efforts at home, particularly the benefits gained from the social contract, were not to be quickly eroded.

Debt Is Moral Issue On Which Carter Will Be Judged

The following is excerpted from "The World's problems keep flying to Carter" by Washington correspondent Mark Frankland, appearing in The Observer of London, Feb. 27:

...But on the other great international moral issue, aid to the poor countries, the new Administration's approach is fairly conventional. There is little sympathy for some of the new ideas about how to help the poor which will be discussed in a number of United Nations and other forums in the coming months. One hears nothing but scepticism about a common commodity fund which could help the world's commodity producers increase their earnings. No one wants to talk about relieving the growing debts of many developing countries.

This is not surprising, for American banks, chiefly a handful of the very biggest, have lent as much as $50 billion to the developing world....Instead the Carter people are thinking of traditional aid-giving either directly or through organizations like the World Bank. At the moment America gives only 0.27 per cent of its gross national product in development aid, which is a far smaller proportion than most West European governments.

What is more, half of America's aid goes to comparatively well-off countries, like Israel....

The Ford Administration did not seem to give a hang about this. But it is surely what the poor people of the world will judge the moral pretensions of Jimmy Carter's foreign policy by."

International Faction Fight Over T-Ruble

Mr. Janos Fekete, vice president of the Hungarian National Bank and a leading economic theoretician for the entire Council for Mutual Economic Assistance (CMEA), has publicly proposed the creation of a new world monetary system based on "a new international standard of value (which) would fulfill the role of a key currency," according to the Feb. 28 *Financial Times*. The standard of value Mr. Fekete is referring to is the CMEA's transfer ruble, backed by gold. In a recent article in the Hungarian weekly *Figyelo*, Mr. Fekete emphasized his international call by noting that "the election of a new U.S. President provides the opportunity for a revival of the Bretton Woods spirit," out of which the now-defunct dollar system was created.

Mr. Fekete's remarks are exemplary of the commitment which has been made, not only in the CMEA, but also in Western Europe's Common Market (EEC) to review in detail during the month of March the outstanding political and monetary questions which need to be solved in order to implement usage of the transfer ruble in long-term trade transactions. In a recent issue of the Czechoslovakian party daily *Rude Pravo*, Deputy Finance Minister Mirko Svoboda reported that the CMEA Currency and Monetary Commission will reach concrete decisions on the t-ruble's parity relations with other currencies, explicitly aimed to extend its usage.

Speaking for the EEC, a senior official at the West German Federal Development Ministry reported March 4 that global usage of the t-ruble will be a leading agenda item during the series of March conference of the EEC's finance and foreign ministers. A key component of the EEC's deliberations he noted will also be working out a compromise on the issue of debt moratorium with Western Europe's trading partners in the Third World, an issue which has provoked intense controversy in all member states.

Italian industrialists are in the forefront of all European forces pushing for a rapid finalization of negotiations both with the Third World and the Soviet bloc, and to that end have just concluded an extended series of negotiations in Moscow in which no less than 180 top-level Italian industry spokesmen participated. On March 4, Vitangeli, correspondent for Italy's financial daily *Il Fiorino*, documented what is presently known to western observers about the heated debate within the CMEA as to how soon the t-ruble should be introduced internationally. Vitangeli himself agreed with the estimation that the present period is indeed comparable to the crisis which lead to the Bretton Woods conventions. Admitting that "There is an extreme difficulty in getting clarifications from official (Soviet) sources," on the time scale they are discussing, he summed up the underlying conflict in the CMEA as "two primary attitudes... one which would like to undertake the road of transferability... without hesitation, and the other which is instead conscious that by doing so the Communist countries would be directly hitting the most exposed raw nerve of the United States, and fear the consequences of such a frontal attack."

Il Fiorino, March 4:

There is a political desire to extend the use of the transfer ruble to enable it to play a greater role in international monetary affairs. What is now being sought is the best road for reaching such a goal. This was confided to me by an authoritative Russian economic journalist... There is an extreme difficulty in getting clarifications from official sources, while among experts and bankers there are very contradictory views. ... The *Financial Times* has raised the issue anew, stressing the interested ferment in the City (of London) and signalling rumors of an intensification of gold mining activities on the part of the Russians as a means of creating a stock of (gold) reserves which could make more credible an extension of the role of the Euroruble in international trade.

If the evaluations among Western sources appear contradictory, positions among the Communist countries themselves do not appear to be harmonious. A recent example? In Rome the other day the Deputy Prime Minister of Hungary Ference Havasi responded to a question from journalists by stressing the fact that "it would be good to create an international monetary system. Fekete has been dealing with this issue for many years and often writes about it. But these are problems which are too big for him and for the rest of us. We will still have to wait a very long time..." This is an attitude... which clearly pours water on the fire. But in *Rude Pravo*, the organ of the Czechoslovak party, Deputy Finance Minister Mirko Svoboda had written an article a few days previously in which he instead said that the international monetary system of the capitalist countries has completely collapsed, and that any plans for developing a new monetary system based on those same principles, — i.e. (principles) slanted toward the capitalist countries, and in particular the United States — are utopian. In the socialist countries, Svoboda continued, there exists a multilateral system of transfer ruble arrangements which comprehends (i.e., subsumes) within itself all other commercial payments and a part of non-commercial payments. This year, the Czech Minister emphasized, the Permanent Currency and Monetary Commission will be deciding some issues of great importance. Laying out some of these issues, Svoboda concluded, particular importance will be given to the strengthening of the role of the collective currency — that is, the transfer ruble — and the extension of its use. Furthermore, an analysis will be carried out on the real correspondence between (ruble) quotations and its gold content, taking into consideration among other things contractual prices between the years 1976-1980 and the dynamic of prices on the world markets. ... Svoboda's statements are a preannouncement of the imminent realization of decisions already taken, at least at a general level.

There are a labyrinth of hypotheses, and it is difficult to orient oneself without a political compass. During the course of my recent sojourn in Moscow I attempted to penetrate as much as possible the curtain of official reserve. I talked at length with political observers, political spokesmen and with economic experts, and with dozens of persons involved in exchanges between the capitalist and socialist areas.

(Here he explains the differences between transferability and convertibility, then goes on to talk about how the present situation is not unlike the period in which the Bretton Woods system was drawn up. The problem since that time, he says, is the massive progressive inflation of the dollar which was masked for a time, but which is now obvious to everyone).

At this point, the monetary problem poses itself for the Russians at a number of levels. On the one side there is the issue of safeguarding themselves as much as possible from inflationary contagion... (and) the aspiration to create a credit structure which would allow for the multiplication of trade with the outside.

The extension of the use of the transfer ruble would only be a first step. The second would be the creation of a vaster credit system based on this currency and managed presumeably by the already-existing Comecon bank. But the allusion to gold made by Svoboda himself and the rumors of intensified gold-mining activity would imply that the third step would be the convertibility of the Euroruble...

It must be added that there are two primary attitudes which confront one another among the Communist countries: one which would like to undertake the road of transferability and convertibility of the Euroruble without hesitation, and the other which is instead conscious that by doing so the Communist countries would be directly hitting the most exposed raw nerve of the United States, and fear the consequences of such a frontal attack.

In conclusion: to talk about a larger role for the Euroruble is perhaps premature. But, however, to say that the question cannot even be posed is to want to close one's eyes to a reality which is undergoing evolution.

La Stampa, Feb. 25

Interview with Niccolo Gioia, member of the FIAT executive committee and president of the Italo-Soviet Chamber of Commerce. The interview was given immediately on his return from Moscow where he accompanied a group of approximately 200 Italian industrialists "in search of trade with the Soviet Union." Asked for his views on the subject of East-West trade, and in particular the means for financing such trade, Gioia responds: "... Another way of carrying out trade with Russia could be through the use of ruble convertibility within the Comecon area. We could sell goods in the USSR, obtain payment in rubles, then go to the other Comecon countries and buy whichever of their products we are interested in with these rubles. ... Cases of such activity already exists, in particular with small producers.

The Financial Times. Feb. 28

"Hungerian Currency Proposals," by David Lascelles:

A leading Comecon banker has called for a new world money system based on gold in which both Communist and non-Communist countries could participate. He believes it would bring order to the international monetary system and help stimulate the world economy.

The call is made by Mr. Janos Fekete, vice-president of the Hungarian National Bank, one of East Europe's best known bankers and a man widely respected in Western banking circles.

Writing in the Hungarian weekly *Figyelo*, Fekete says that the election of a new U.S. President provides the opportunity for a revival of the Bretton Woods spirit which led to the creation of an international monetary system.

He proposes that East and West get together to create a new international standard which would fulfil the role of a key currency in the international monetary system.

The Financial Times, Feb. 25

"Transferable Roubles: Soviet Optimism for the Future":

IBEC was established in Moscow 13 years ago, mainly to help finance Comecon members' trade on the basis of transferable roubles (TR), the grouping's unit of account. But according to figures supplied by the bank, its convertible currency operations are growing fast, bank officials even say "spectacularly."

Half of the bank's paid-up capital is in hard currency (the rest is in TRs); the bank has also developed a special department to deal in these currencies...

IBEC also accepts hard currency deposits. This side of its operations has also been growing fast, by 16 percent in 1974 and 30 percent in 1975. This has enabled the bank to make placements, whose volume rose some 22 percent in 1975.

Just who benefits from these placements is determined to some extent, the bank admits, by political considerations. Some go to other banks in Comecon, but a volume also goes outside. Recent beneficiaries include the African Development Bank, Banque Nationale d'Algérie and the Banque Extérieure d'Algérie...

And though IBEC's loans so far have been in dollars, it is open to other currencies like DM. However its officials rule out the possibility of a Eurobond issue. The bank also says it has no set ideas on who should manage its loans. It corresponds with most western banks, and can therefore pick and choose; but it also welcomes approaches by other banks.

Alongside its hard currency operations, IBEC has also been charged with the task of encouraging the non-Comecon members to use the TR... It is still too early to say for sure how these measures will affect East-West financial relations. IBEC admits that no trade deal has yet been negotiated in TRs. But it points out that one of the TR's advantages is that it is quite cheap. Interest rates are only 3-5 per cent on term credits, reflecting the comparative price stability of Comecon markets.

Il Fiorino, February 25:

Until now, there is no agreement on full cooperation between IBEC and western credit institutions. What is thought about, however, is using the TR in accounts for limited contracts — a "clearing" currency which could be used for commercial transactions, i.e., in TR instead of dollars, including the possibility of transferring possible surpluses to third parties.

Giovanni Magnifico, top official at the Banca d'Italia
Address at meeting of the Institute for Relations with Africa, Mideast and Latin America (IPALMO), Feb. 25:

... It might be possible to recycle petrodollars, possibly through the necessary creation of a new bank, there the oil producing countries could play a major role. It will then be necessary to introduce an element of multilaterality into East-West relations.

Eugenio Grannelli, spokesman for the Democratis Christiana
Address at meeting of the Institute for Relations With Africa, Mideast and Latin America (IPAIMO), Feb. 25:

New instruments are needed to handle raw materials and indebtedness. Europe and Italy have the same interests. Raw materials and debt recycling are no longer sufficient... Some countries can develop themselves only if they are financed, and debt moratoria can not be limited to interest payments. The developing countries not only have to freeze their debt, but also develop themselves. Italy's voice fully supports these requests. The EEC meeting to be held at Rome on March 25 can serve to make this into a common voice of European support. There are two other problems which must not be overlooked: (1) reform of the international monetary system... cooperation must be launched from a different monetary system; (2) transfer of technology... (The development of the Third-World) is an interesting problem which concerns the East-West dialogue. The EEC has very often held back from cooperating more openly, at the North-South talks, for example. It is here that one must talk about "partnership" with the USA, since this is now excellent testing ground. Italy has an excellent opportunity for helping to transform the New World Economic Order from words into reality... We would be in a position to take further steps if we passed from the idea of a general debt moratorium to a more analytical examination of the debt problem... I think creditors are interested in being more realistic. Is it better to finance chronic debt or to finance development? This is the same problem which we have with the East. A consolidation would be useful here. The debt will not be paid just because somebody demands it be paid.

Jimmy Carter Demands Energy Czardom From Congress

Jimmy Carter sent to Congress March 1 legislation to establish a Department of Energy which will function as an extra-constitutional superagency to carry out the zero-growth energy programs put forward by Carter and the Administration's energy czar James Schlesinger. If passed by the House of Representatives and the Senate, Carter's bill will put Schlesinger — leading spokesman of the concept of "limited nuclear warfare" — in charge of the cabinet-level Department.

"This legislation is a major step in my Administration's program for a comprehensive reorganization of the Executive Branch," Carter announced in his message to Congress (see below). "Nowhere is the need for reorganization and consolidation greater than in energy policy."

Schlesinger, once established as Energy Department Secretary, will gain nearly total control over electrical power generation. Schlesinger will control regional marketing functions for electric power as well as the rate of public land leasing and energy production on federal lands. With Security and Exchange authority to regulate utility mergers rounding out the package, Schlesinger can phase out the bulk of high-technology energy generation and other so-called "soft energies."

The new "conservation-oriented" superagency will entirely eliminate the Federal Power Commission, the Federal Energy Administration, and the Energy Research and Development Administration. At the same time, it will usurp key functions from the Interior Department. The consolidation will permit Schlesinger to weed out pro-nuclear energy bureaucrats 'and scientists.

Schlesinger has hired 750 so-called managers, doing so outside of ordinary U.S. Civil Service rules, grades, tests, and appointment lists, the *Baltimore Sun* reports. The legislation also leaves to Schlesinger rather than Congress the deployment of five out of eight assistant secretaries in the new department.

Schlesinger's first assignment, Carter said at a Feb. 23 press conference, will be commandeering Interior Secretary Cecil Andrus' "admittedly superficial studies" on alleged natural gas withholding of largely independent Gulf Coast natural gas producers. Schlesinger will then use his allegedly more detailed studies to shift blame away from his energy sabotage by targeting independent oil companies for largely trumped-up withholding charges.

The Energy Department is only the first stage in Carter's reorganization plans, a spokesman for Common Cause said recently. "After we get an Energy Department, we will make a big push for a Department of the Environment," he said, adding that Common Cause has started a major lobbying effort to insure passage of the energy legislation.

Proposed Legislation To Create New Cabinet Department Of Energy

Message From The President Of The United States

(H. DOC. No. 95-91)

To the Congress of the United States

I hereby transmit to the Congress proposed legislation which will create a new Cabinet Department of Energy.

This legislation is a major step in my Administration's program for a comprehensive reorganization of the Executive Branch.

Nowhere is the need for reorganization and consolidation greater than in energy policy. All but two of the Executive Branch's Cabinet departments now have some responsibility for energy policy, but no agency, anywhere in the Federal Government, has the broad authority needed to deal with our energy problems in a comprehensive way.

The legislation I am submitting today will bring immediate order to this fragmented system:

— It will abolish the Federal Energy Administration, the Energy Research and Development Administration, and the Federal Power Commission, thereby eliminating three agencies whose missions overlap and sometimes conflict, and whose specialized perspectives have impeded progress toward a unified energy policy.

— It will allow us, for the first time, to match our overall energy policies and needs. This is particularly important if we are to make use of renewable energy sources such as solar power.

— It will enable us to move more quickly toward effective energy policies and needs. This is particularly important if we are to make use of renewable energy sources such as solar power.

— It will enable us to move more quickly toward effective energy conservation by combining conservation programs which are now split between FEA and ERDA. And, to make certain that we will see results, the legislation creates an Assistant Secretary for Conservation, who will be personally responsible for seeing that the conservation program is carried out.

— It will place under one roof the powers to regulate fuels and fuel distribution systems, powers which are now shared by the FEA and the FPC along with the Securities and Exchange Commission and the Interstate Commerce Commission. An institutional structure built on the premise that fossil fuels are abundant and cheap no longer serves well in an era of fuel scarcity.

As this winter has shown us, uncoordinated regulatory policies can have serious impacts on our economic and social well-being. This reorganization can help us bring currently fragmented policies into a structure capable of both developing and implementing an over-all national energy plan. At the same time, we must guard the quasi-judicial aspects of the regulatory process against improper influence. The legislation meets this concern by establishing a Board of Hearings and Appeals within the Department which is free from the control of the Secretary of Energy.

In addition to abolishing the FEA, ERDA, and the FPC, the legislation submitted today will transfer into the new Department several significant energy-related authorities and programs which now belong to other departments. These include the building thermal efficiency standards from Housing and Urban Development, the voluntary industrial compliance program from Commerce, and the Navy petroleum and oil shale reserves from Defense. The legislation provides for consultation between the Energy Department and the Department of Transportation on auto fuel efficiency standards, and establishes a role for the Energy Secretary in the REA loan program at Agriculture. Where it is appropriate, these departments will still carry out the program, but the new Energy Department will give them the policy guidance needed to bring unity and rational order to our energy program.

Finally, this legislation transfers certain parts of the Interior Department — those concerning fuel data collection and analysis, and coal mine research and development — into the new Department. Coal mine health and safety research will not be transferred. This will leave the Department of Interior still in charge of leasing energy resources under Federal control. We are leaving those functions in Interior because we believe that the responsibility for multiple-use of public lands, and for their environmental protection, belongs in one department — Interior — that can reflect a broad spectrum of concern. The Energy Department, however, will set long-term production goals and will have policy control over economic aspects of the leases. This will help us foster competition within the energy industries and encourage production of leased resources as expeditiously as possible.

This reorganization will also bring together our energy data gathering and analysis capabilities. More than twenty executive departments and agencies now operate more than 250 energy data programs. The FEA, ERDA, FPC and the Interior Department's Bureau of Mines together have more than 100 such programs. This fragmentation is not only uneconomical and frustrating: it can also have serious consequences. We have seen in recent weeks that, under our present system, we have no single source of information about where natural gas shortages were greatest and where supplies were still available to help make up those shortages. Consolidating these major data programs in an Energy Information Administration within the new department will now give us the ability to compile information which is complete, accurate and believable.

There are many things this legislation does not try to do. I believe that health, safety and environmental regulation relating to energy — unlike economic regulation — should not be brought into the new Energy Department. Because public concerns about the safety of nuclear power are so serious, we must have a strong independent voice to ensure that safety does not yield to energy supply pressures. Therefore, the Nuclear Regulatory Commission will remain as an independent body. For similar reasons, the Environmental Protection Agency should remain independent to voice environmental concern.

Even with a new Department of Energy, problems of interdepartmental coordination will remain, since virtually all government activity affects energy to some extent. Establishing this department, however, will give us one government body with sufficient scope and authority to do the massive job that remains to be done. Thus this legislation will abolish the Energy Resources Council. I intend to establish by Executive Order a non-statutory interdepartmental coordinating body, with the Secretary of Energy as its chairman to manage government-wide concerns involving energy.

This legislation contains no new substantive authorities. Instead, by eliminating three agencies and uniting a variety of existing energy authorities, the legislation I am submitting today will help reorganize the Executive Branch in a rational, orderly way. It is long over-due. I hope to work with the Congress to achieve our initial goal of a realistic and effective energy policy.

Jimmy Carter.
THE WHITE HOUSE, *March 1, 1977.*

Governors Blast Energy Program, Demand Energy Development

The mid-winter meeting of the National Governor's Conference, held in Washington Feb. 28 - March 2, concluded with the adoption of a resolution opposing the Carter Administration's plan for a cabinet-level Energy Department which would incorporate existing federal energy agencies, and instead adopted a four-point proposal for energy use expansion by New Hampshire Republican Governor Meldrim Thomson. The Thomson proposal put the governors on record demanding that Congress enact legislation for expanded development of fossil fuels and nuclear energy programs, for expansion of electricity generating facilities, and for expansion of research and development of new energy resources.

Although the resolution included a section on energy conservation, the governors stressed that conservation must not hinder ensuring that energy supplies keep pace with demand. And they also called for an amendment to the Clean Air Act which would have Congress — not the courts — set U.S. energy policy, and make further industrial progress the basis for implementing the Act.

The conference was a stinging rebuke to the Administration, which made a major effort to use the meeting to rally the governors behind its energy program of enforced 30 percent cutbacks in U.S. energy consumption, and slashes in the development of all energy sources except coal.

Virtually every cabinet official attended or spoke, and, as a special treat, the governors were given a two-and-a-half hour session with Carter at the White House.

Carter ally, Senator Henry Jackson (D-Wash), delivered the keynote. Declaring that he was outlining White House policy, Jackson called for a "massive conservation effort that strikes at every waste of energy" backed by penalties for "waste." He debunked development of oil and gas reserves, stressing coal as the main energy source. Only days after pro-growth members of the House Science and Technology Committee had assailed the Administration's proposed cutbacks in fission and fusion programs, Jackson delivered a sneering attack on fusion development: "the glamorous thing is to talk about solar, fusion and all these esoteric things."

In the question and answer period which followed, Jackson was countered by the Democratic Governor of his own state, former Atomic Energy Commissioner Dixy Lee Ray. "We all believe in the trade-off between environmental concerns and economic concerns," declared Gov. Ray, "but if we are prevented from using things for environmental requirements, well, we need the jobs and we need the energy. There are requirements for environmental impact statements, but not for economic impact statements, and that is more important. Environmentalists can stop a project after it is very far along. We must have a better balance with economics."

Governor Judge of Montana (D) demanded to know from Jackson how long the American people would have to wait for the vital Alsaka pipeline, which is being held up by Washington State because of "environmental concerns." Gov. Ray interjected that it was not Washington State that is holding up the pipeline, but "our problem is environmentalists who oppose the transportation of oil."

Jackson's major supporter was Gov. John D. Rockefeller IV of West Virginia. Supporting Jackson's stress on coal, Rockefeller called on the coal producing states to levy a 20 percent tax on coal, earmarking the new revenues for low-wage, make-work projects.

The afternoon of the first day was highlighted by a luncheon on energy for a selection of governors, attended by Andrus and Carter's intended Energy Department head, James Schlesinger. The luncheon turned into a running debate between the Carter spokesmen and, especially, Governors Dolph Briscoe of Texas, Edwin Edwards of Louisiana, and Thomson of New Hampshire.

Gov. Edwards demanded of the two, "The federal government owns most of the land with fuel resources. The government should develop these resources, but who is going to do something about all the environmental constraints which are the problem? I want to know if either of you are going to have the commitment to energy development to face off the environmentalists and begin producing coal and oil and gas fully, at least until we are back on our feet. Will you deal with the environmentalists'" Andrus responded, "You are correct. We have to proceed with a plan for development, but we cannot turn our back on environmental concerns." Edwards retorted, "I say many of those environmental fears are fiction. Everytime we try to increase production in the Gulf of Mexico because we have an enlightened view, someone tries to stop us."

Schlesinger finally piped up, responding to Edwards with a reiteration of the Administration's support for the environmentalists. "We must balance energy problems against environmental concerns. There is no intention to use our energy problem as a way of rolling back environmental safeguards." Schlesinger's statements sparked open support for Edwards from Texas Governor Briscoe. "I agree with Governor Edwards. We are moving ahead with production, and I think other parts of this nation must also move ahead with production."

Andrus claimed agreement, but again stressed environmental concerns. New Hampshire's Thomson, who recently sponsored a petition drive that garnered 100,000 signatures in support of nuclear energy from New Hampshire residents, then attacked the Administration for not fostering nuclear energy production. "I see that nuclear energy is given a very low priority by this Administration. But nuclear energy is vitally important if we are to become independent, and we must expand oil and gas production also."

Schlesinger responded with clear statements that Carter intended to destroy nuclear power development and to use the courts in his assault. "With respect to nuclear power, Carter, when campaigning, indicated that he preferred to move rapidly with coal and solar and that nuclear energy should fill the gap that remains. But this gap will be large. We have problems with the licensing process, but these should not be settled by legislation but fought out for each separate case."

The governors delivered their answer to the two Carter officials the next morning, when the conference Committee on Natural Resources and Environmental Management responded to a telegram from Andrus urging the governors to cooperate with his investigation into delays in gas production from Gulf of Mexico fields by Southwest gas producers. The response was a resolution recommending an investigation of government support for environmentalist sabotage of energy production. Governors Briscoe and Edwards (La.) proposed that the nation's governors would indeed favor a panel to investigate the problems of bringing gas into production, noting that:

1. such a blue-ribbon panel should be composed primarily of the governors of the gas-producing states;
2. that there is cause to investigate the sabotage of gas production;
3. that such sabotage in all probability exists; and
4. those to blame include environmentalists, and such government representatives as New York judges who block offshore drilling in the courts.

The day before, Edwards had singled out New York federal judge Jack Weinstein, who recently barred a $1 billion offshore drilling program on the Atlantic Seaboard as typical of those judges "who don't know a dipstick from a drillpipe." Edward's office hailed the passage of the resolution by the conference committee —which in effect makes it conference policy — as a major victory for energy producers nationwide.

Carter Faces Revolt In Congress

A revolt against the six-week old Carter Administration broke out in Congress this week, provoked by the zero-growth policies of the President and his Trilateral Commission Cabinet.

At March 1 hearings of the House Budget Committee on the Administration's proposed fiscal 1978 budget, U.S. Labor Party National Committeeman Richard Cohen sharply contrasted the necessary short-term priorities for the next fiscal year — immediate measures to maintain and develop existing research and development capabilities, fission and fusion energy programs, industrial and agricultural infrastructure — to the draconian cuts in these areas contained in the Carter budget. In the long run, Cohen continued, intensive capital formation is necessary for the development and expansion of American industry and agriculture, to be realized through the establishment of a Third National Bank modeled on Alexander Hamilton's First National Bank. Cohen's testimony prompted intense questioning from committee chairman Rep. Robert Giamo (D-Conn) and ranking minority member Rep. Delbert L. Latta (Ohio) on how the Third National Bank would function to promote international development and trade.

Congressional opposition to Carter was led this week by the House Science and Technology subcommittee on Fossil Fuels and Nuclear Research, Development and Demonstration, chaired by Rep. Walter Flowers (D-Ala). At hearings March 3 and 4 committee members Flowers, Marilyn Lloyd (D-Tenn) and Gary A. Myers (R-Pa) charged that Carter's proposed budget cuts for nuclear power would cause devastating and irrevocable harm to Europe and the Third World and would rupture U.S. relations with those areas of the globe. In order to raise living standards both at home and abroad, the Committee concluded, an aggressive nuclear power development program is necessary.

During the two days of testimony, the committee invited industrial representatives and spokesmen for the Fusion Energy Foundation and U.S. Labor Party to present testimony on the progress and feasibility of fusion power by the mid-1980s. Privately, Committee members volunteered that the series of public hearings was designed to stop Carter's energy budget cuts cold. Already the Committee has voted to restore $10 million in proposed cuts to the Energy Research and Development Administration budget for fusion power.

Flowers took time off from the Congressional hearings to address the American Nuclear Association Conference in Washington, D. C. March 2, where he told the assembled scientists and industrialists that the U.S. must make a commitment to long-range energy development, both coal and nuclear power. Flowers attacked Carter's repeated assertion that nuclear energy is a "last resort" and declared, "The ERDA budget does not do what needs to be done; what is needed is an aggressive program for nuclear power." Citing a recent poll which showed overwhelming support in the U.S. population for nuclear power development, Flowers charged, "Government leaders don't recognize the mandate they have received. Nuclear power is necessary for our economic stability and national security."

Former Massachusetts Governor Endicott Peabody followed up Flowers' remarks by calling on pro-growth industrialists, businessmen, trade unionists, and scientists to undertake a sweeping grassroots organizing drive and lobbying effort" to transform the 80 percent support for nuclear power of the population into an 80 percent vote in Congress." Peabody charged, "People who are opposed to us are anti-energy, anti-growth, and anti-the future of America." The conference adjourned early so that its 450 participants, representing businesses linked to the nuclear industry, could lobby for nuclear energy programs on Capital Hill.

The day before Senator Abraham Ribicoff (D-Conn), chairman of the Senate Government Operations Committee, reluctantly announced he had been forced by mounting opposition to Carter's Energy Department proposal to extend hearings on the legislation from one day to at least a full week. Earlier in the day, both Ribicoff and Senator Jackson (D-Wash), one of the architects of the Schlesinger energy czar scheme, had predicted the bill would pass quickly and easily.

The following day, the *Baltimore Sun* reported that major opposition is emerging to Carter's Energy Department, and admitted that behind that opposition is opposition to the Carter energy policy. "The proposal," the *Sun* noted, "may become bogged down in the controversy over the policies themselves and fail to be passed" in "the major controversy of the year on Capitol Hill." Both Reps. John Dingell (D-Mich) and Morris Udall (D-Az) object to the Energy Department as a "superagency," according to the *Sun*, but "their objection is intrinsically related to the Carter policy."

In the *Washington Post*, columnist David Broder predicted that a major fight is shaping up between Democrats in Congress and Carter and commented that Republicans are rejoicing at the growing opposition among the Democrats.

By the end of the week, sources close to Rep. Jack Brooks (D-Tex), chairman of the House Government Operations Committee, were reporting that the Carter-Schlesinger energy reorganization package would be "indefinitely sandbagged," allowing it to be buried under the avalanche of opposition to Carter's energy programs.

The growing revolt against Carter's deindustrialization dictatorship, while primarily focused on the energy issue, spilled over into other related areas during the course of the week. The nomination of Carter's personal psychiatrist, Dr. Peter Bourne, to become the nation's chief coordinator of drug addiction as director of the Office of Drug Abuse Policy suffered a potentially terminal setback March 1, when the Senate Committee on Human Resources abruptly called off the scheduled March 2 hearings on his confirmation. The eleventh-hour postponement was necessitated when several opposition witnesses, including church groups and prominent anti-drug medical researchers, asked to join the list of hostile witnesses which already included the U.S. Labor Party and the International Association of Chiefs of Police.

A nationwide outpouring against the Bourne policy of classifying the use of psychotropic drugs as "recreational activity" broke through a White House strongarm job in the committee to keep all witnesses against Bourne out of the hearings. The original schedule for the hearings provided for a two-hour rubber stamp session to approve Bourne. Over the last several weeks, Bourne had been holding private briefing sessions with committee members to soften them up for a show of "unanimous support."

House Hears Testimony On Creating Third National Bank

Following are excerpts from questions by Reps. Robert Giamo (D-Conn) and Delbert Latta (R-Ohio) directed to U.S. Labor Party National Committee member Richard Cohen at hearings of the House Budget Committee March 1. The questions concern the USLP's proposal for creation of a Third National Bank — along lines similar to the First National Bank established by Alexander Hamilton — to fund U.S. and international industrial development projects. Rep. Giamo is the chairman of the committee, and Rep. Latta is the ranking Republican.

Chairman Giamo: What you are really advocating is the creation of a new central bank, aren't you, and I take in place of the Fed. What would be the advantage in having a new central bank?
Cohen: If expanded to the international sphere, and plugged into a new international bank, aimed at securing for the developing sector countries exports from the advanced sector countries, we would generate a non-inflationary expansion because the kind and level of exports obtained in the developing sector would produce a level of real wealth to be recirculated on the world market to match the credit generated to initiate the process.

Giamo: And we can't do that now with our present banking system?
Cohen: Well, the present banking system is not based on issuing credit for the purpose of supporting exports in the advanced sector. It is basically a refinancing operation for outstanding developing sector debt.

Latta: ...Well, with the establishment of a Third National Bank, how is that going to help that situation?
Cohen: Well, as I said before, a Third National Bank, because of the development of international economy since the development of the First National Bank, can have its most serious effect in the United States and elsewhere if it is charged to be connected to a new international bank, an international bank essentially aimed at issuing credit to developing sector countries for targeted purposes.

These loans will be targeted. They will be targeted to purchase particular exports in the form of technology, agricultural equipment and fertilizer from the advanced sector for the purpose of engaging multilateral development programs in various regions and sectors, particularly the Ganges-Bramaputra area, the Rio de la Plata area and the Sahel. There are many areas that could be made the bread basket of the world if adequately supplied with the kind of technology required to make it so.

This program would not be inflationary and that is a significant point. And it would create full employment in the advanced sector.

Flowers Subcommittee Continues Attack On ERDA Funding Cuts

The March 3 hearings on the Energy Research and Development Administration budget by the House Fossil Fuels and Nuclear Research, Development and Demonstration subcommittee continued its attack on the Carter Administration's proposed cuts in the ERDA fusion and fission research and development funding. The subcommittee took testimony from W.W. Finley, Jr., President of General Atomic Company, which is heavily involved in both fusion and fission development, George

Gleason, Executive Vice President and General Counsel of the American Nuclear Energy Council, a membership association representing more than 100 organizations having an interest in nuclear power, and two representatives of Exxon Nuclear. S. Burstein, Executive Vice President of Wisconsin Electric Power Company and a representative of the Edison Electric Institute. All witnesses opposed the Administration's cuts. Following are excerpts from the testimony and questions by subcommittee chairman Rep. Walter Flowers (D-Ala), and subcommitte members Manuel Lujan (R-NM), Hamilton Fish, Jr. (R-Ny), and Marilyn Lloyd (D-Tenn).

Excerpts from statement by W.W. Finley

Now let me turn to fusion energy — a subject of great importance for the nation's future. Since its founding in 1956, General Atomic has engaged in fusion research and development. The fusion process offers an exceptionally clean energy source without wastes, from the virtually inexhaustible supply of deuterium from water. For many years magnetic fusion, the path General Atomic elected to follow in the 1950s, remained a tough scientific research problem. Since about 1970, however, significant advancements based on the knowledge accumulated over the past 20 years have been achieved, and the national program is proceeding rapidly toward the goal of a power producing fusion system.

We are proud that the fusion program at General Atomic is a major element of the ERDA plan. The Doublet approach, conceived and developed at General Atomic, utilizes a very efficient magnetic confinement system.

Doublet is a Tokamak-type of device, but with a noncircular cross section.... Today, the Doublet III Project is on schedule and on cost. It is designed to achieve the plasma physics conditions of time, temperature and density necessary for a power producing fusion reaction.

In addition to the experimental program, General Atomic with Argonne National Lab, is one of two teams presently designing "the next step," which, in fusion R and D circles, is called TNS. The aim of TNS is to achieve ignition of a deuterium-tritium plasma and to control the fusion burn and produce power.

Complementary to the program that General Atomic has been carrying out for ERDA, there has always been an important involvement on the part of the utility industry in the overall fusion program at General Atomic ... General Atomic's effort, staff and facilities are probably unique in being the largest in industry in the United States Fusion program.

Results to date encourage us to believe that with the planned program of ERDA and with the continued support of the Electric Power Research Institute, the utilities, and industry, the goal of fusion energy release in the 1980s can be achieved.

Our recommendation to this subcommittee is to continue to support the Division of Magnetic Fusion Energy's plan and budget authorization needs. The potential of fusion energy for the world is so great that we must succeed.

QUESTIONS

Flowers: Mr. Finley, you certainly made a good case for fusion — in fact, so good that I assume there must be some faults in the HTGR (gas cooled fast breeder reactor, which was highlighted in other parts of Finley's testimony -ed). What are they?
Finley: We have found no problems with HTGR. The basic difficulty is not a problem of technology, but that it has been a program supported by industry with only limited government support.

Fish: Regarding fusion, are you the principal ERDA contracting firm for magnetic fusion.
Finley: We are one of many, but the largest in private industry.

Fish: We heard from Robert Hirsch (outgoing ERDA advanced systems chief -ed.) last week that magnetic fusion would be ready for demonstration plants in the 1990s. But under questioning from this subcommittee, Dr. Hirsch said that increased funding could accelerate this. Are you involved in this?
Finley: There is an extensive national program which we have one part of. I agree with Hirsch that some additional funding could reduce the time, but there are definite times required to achieve these goals.

Fish: I am wondering if you agree we could move the timetable up to the 1980s, as Hirsch suggests. That would indeed be good news for this committee. What is your technical opinion?
Finley: I agree with that.

Lloyd: Regarding fusion. If we go ahead with the full funding as requested last week, how many fusion commercial plants would we have by the year 2000?
Finley: We would have demonstration plants by 2000. But not commercial plants by then. We will see that in the first quarter of the next century.

Lujan: As a participant in the fusion program. You did not mention putting more money into fusion. Why not? You have enough? (Lujan proceeded to ask about the Administration's proposed $80 million cut in the fusion budget).
Finley: Oh, No. We certainly do not support the $80 million cut.

Fish: Would you clarify something? You before agreed that with more money, the fusion demonstration plant could be demonstrated in the 1980s. Then you told Mrs. Lloyd that we cannot have working commercial plants until well into the next century. Why?
Finley: Well, The Next Step will give us real fusion. A demonstration plant could be moved up in time table to 1990 with full funding. But there are commercial aspects, and other complex problems, to getting commercial fusion. When I say the next century, I mean in terms of affecting our actual energy usage.

Excerpts from statement of George L. Gleason

The "No-Growth" Syndrome

Before commenting specifically on the nuclear portion of the ERDA budget, there is a threshold issue which I would like to bring to the subcommittee's attention. I am referring to the idea that we can get by without more energy — the zero growth concept — the idea that somehow "less is more." While there are a number of people advocating this in one form or another, the thesis has been recently restated by Amory Lovins, British Friends of the Earth representative in an article in Foreign Affairs magazine (October 1976)...

... Historically, there is a direct relationship between the health of the economy and the use of energy. When gross national product is up, energy use is up, and vice versa. It may be possible to tinker with that relationship over a period of time and, indeed, if we don't soon start making the right energy decision, the situation may be beyond our control. But basically the relationship betwen GNP and and energy will continue to exist so long as this nation is committed to provide an adequate standard of living for each citizen...

Without this energy, what are we going to do with the million and a half new workers coming into the job market each year? What are we going to do to adequately provide for the one-third increase in households projected for 1985? Who wants to be the one to tell people they can't work, get married, procreate and have a house because we don't have enough energy?

That is why the work of this subcommittee is so important. The decisions that you gentlemen make will in due course determine whether future generations will have enough energy to keep this country running.

The Breeder Program

The program which suffered the largest cut in the revised ERDA budget is the breeder. Almost $200 million was cut, including some $85 million for the Clinch River Demonstration Project.

Anyone who is in favor of conservation should support the breeder, since it produces more fuel than it consumes. It will extend our precious supply of uranium resources 50-60 times to serve dozens of generations to come.

The primary reason for pursuing the breeder — access to an essentially inexhaustible energy source — must continue to remain the highest priority. The solutions — or lack thereof — to concerns such as safeguards and proliferation risk must be examined in the real world — through demonstration. If we fail to maintain an aggressive R and D program, we may never know the answer. If critical funds are not made available to get these answers as soon as possible, we may be gambling with the security of this nation.

How do the potential economic "fruits" stack up against the projected "seed" dollars required for federal R and D on a total LMFBR program? The benfits would outweight the federal costs money times over within the first two decades of successful demonstration.

Here are some revealing numbers to indicate the economics of the LMFBR, under development in the U.S. since the late 1940s:

- Total U.S. demonstration project cost — approximately $7 billion (1975 dollars), of which about $2.5 billion already has been expended.
- Benefits to consumers through the year 2010 in 1975 dollars — $75 billion on their electricity bills, money which otherwise would be drained away from other economic uses.
- An infusion of approximately $200 billion into the U.S. economy over the same period in direct capital investment, construction and operating funds for commercial facilities — not to mention the dynamics of capital formation, production and employment, all of which depend directly on adequate energy supply....

In short, a budget cut would be a *false economy.* Since the breeder is necessary to meet future energy demands, delays now — because of inflation — will only add to future costs. For this, and the foregoing reasons, it is strongly urged that the subcommittee restore in full the funds which have been cut from the breeder program in the revised budget...

U.S. Labor Party: Nation Overwhelmingly Favors Progress

Following are excerpts from the U.S. Labor Party's testimony to the Flowers subcommittee on the House Science and Technology Committee, March 3, on the proposed ERDA budget.

The sentiment of the U.S. population is overwhelmingly on the side of scientific development and capital-intensive jobs. Aside from the Naderite outlook of the major national press, most Americans want a better future for their children not more primitive conditions. In the past 60 days, U.S. industrial workers have purchased approximately 65,000 copies of the U.S. Labor Party proposals outlining the necessary economic steps to achieve high-energy nuclear power in the U.S. The Labor Party energy program, containing the Fusion Energy Act of 1977, was sold out in its first printing of 32,000 in January. Another 26,000 copies of the pamphlet "Stop Ralph Nader — Nuclear Saboteur," a pamphlet that exposed the fraud of the environmentalist movement, sold out in February. The main buyers of this material included teamster, steel, auto, and building trades workers.

There are many other examples of the sentiment among union workers for industrial development. United Steel Workers of America presidential candidate Ed Sadlowski — who campaigned on a program of reducing the workforce in basic steel by 75 percent and shifting it to environmental makework — was overwhelmingly defeated.

In Charlotte, North Carolina Teamster local 391 recently passed a resolution calling for fusion power development.

In Indiana, the coalition of building trades and industry groupings, Help Implement Regional Employment (HIRE), endorsed a resolution calling for the immediate funding necessary to achieve a fusion economy in opposition to the Carter Administration's proposed 20 percent cuts in fusion. Other labor-industry coalitions, bringing together Republican, American Independent Party, and U.S. Labor Party forces have been formed — such as the Three Rivers Coalition in Pittsburgh — to promote capital-intensive energy development.

In New Hampshite, Gov. Meldrim Thomson, the New Hampshire AFL-CIO, and the State Public Service Company collected 100,000 signatures on a petition to Carter calling for the approval of the Seabrook nuclear plant, a plant essential to the continuation of the entire high-technology New England region.

More than 50,000 signatures have been collected on a U.S. Labor Party petition calling on Congress to stop the treasonous conservation policy and ensure that the U.S. achieves fusion power.

Another indication of the broad support for fusion energy across the nation is the fact that memorial resolutions calling on the U.S. Congress to develop fusion were initiated by the Labor Party and have been introduced into the Washington, Oregon, Connecticut, and Maryland legislatures, and are now being drafted in legislatures in Wisconsin, Vermont, and Colorado.

In short, when given the facts, the U.S. population votes for more energy and technology, not less.

Popular Mandate

The U.S. Labor Party therefore calls on Congress to exercise its constitutional responsibility and act to promote the development of fusion power as a necessity for the transition to the next phase of industrial progress in the U.S.Acting on its overwhelming popular mandate, Congress must foster the scientific education of the entire U.S. workforce to keep our nation on the road of Progress. The alternative is a collapse of the U.S. as an industrial nation—and a return to the horrors of the Dark Ages.

Fusion Energy Foundation: $50 Billion Needed For Proper Fusion Effort

Following are excerpts from the testimony of Dr. Morris Levitt, Director of the Fusion Energy Foundation, before the Flowers subcommittee of the House Science and Technology Committee, March 4.

... In terms of our present situation, the only technology that can provide an expanded resource and energy base into the far future is fusion, not just because of the large amount of total potentially available output, but because of the energy-dense plasma technologies for material extraction and processing it would make possible. But we have to maintain an energy and economic growth rate that puts us in proper shape to fit into a fusion-based economy in the future in terms of amount and quality of capital and labor. Conservation does not merely defer needed solutions to some future date, it makes the solution much more difficult by disrupting the needed tempo of the development process.

Given that general summary analysis, the following policy and budgetary guidelines follow.

1) *Fusion:* To assure continued development appropriate to a transition to fusion before existing resources are seriously depleted, the target date for onset of fusion reactors is about a decade. That requires restoration of all $80 million in magnetic confinement and laser fusion funds cut by the Administration and the opening of immediate hearings on the requirements for an all-out fusion research and development program. The program proposed by the FEF to that end has three basic components. First, full testing of all long-standing approaches in addition to the Tokamak; second, the setting up of ten National Fundamental Research Centers to expand to the utmost basic research and training of plasma scientists; third, initiation of all necessary engineering and fabrication development in conjunction with our most technologically advanced industries. We estimate the budget for this scale of effort to be about $5 billion a year initially and about $50 billion over a five-year period...

2) *Fission*: There can be no interruption of basic Research and Development to complete and expand the nuclear fuel cycle while a final determination is made on what mix of devices to develop. Fission is clearly necessary to bridge the energy gap and as a transitional technology to fusion. Deliberations as to what type of breeder to develop or buy must not be permitted to be used as a disingenuous cover for destroying nuclear power. That is precisely the intention behind the Administration's massive cuts in the Liquid Metal Fast Breeder Reactor and nuclear fuel cycle activities, which should be reversed.

3) *Conservation and solar*: The doubling of the conservation budget line and preservation of the solar line are totally incompetent for the reasons cited earlier. A unit of energy not consumed is absolutely not equivalent to a unit used productively, whether measured by effect on present standard of living and skill levels or our concern for future development. With adequate development of remaining fossil and nuclear energy sources in the transition to fusion, there is not a single solar application that is cost competitive. When present fuels are gone, we better have something other than solar energy! Conservation and solar are projects of zero growth ideology, which should be given no credence as an "alternative" by anyone who shares our Constitutional commitment to the idea of progress and the unlimited perfectability of man's role in the universe. ...

The objective of our national Research and Development efforts in energy should be to ensure the smoothest possible transition to a more advanced and expanded resource and technology base. We cannot afford to gamble with the very continued existence of humanity. With the proper research effort, the onset of fusion power will initiate the most sweeping technological revolution in human history.

Congressmen Rip Rockefeller–Allied Environmentalist

Following are excerpts from the questioning of Thomas B. Cochran, a spokesman for the Natural Resources Defense Council, by members of the House Science and Technology subcommittee on Fossil Fuels and Nuclear Research, Development and Demonstration, during March 4 hearings on the federal Energy Research and Development Administration (ERDA) budget. The Natural Resources Defense Council is headed by Laurance Rockefeller and funded by the Rockefeller Brothers Fund. Questions were asked by Rep. Walter Flowers (D-Ala), the subcommittee chairman, Gary Myers (R-Pa), and Marilyn Lloyd (D-Tenn).

Flowers: How can we expect Europe to cut back nuclear power development when they have no other energy resources and are totally dependent on the Mideast for oil?
Cochran: Denmark and France, they've cut back on energy consumption and are not dependent on nuclear power.

Flowers: France has the most sophisticated nuclear power plant in the world.
Cochran: Uh....

Flowers: Do you agree we face a shortage of resources in the world?
Cochran: Yes.

Flowers: Then do we suffer from the cold or decide to go ahead and develop nuclear sources, even though some people have said its risky, although others have said it is not.
Cochran: Court suits are currently deciding if it's risky.

Flowers: Court suits have as much to do with the current energy shortage as did the Mideast embargo.
Cochran: But court suits represent public opinion.

Flowers: Doesn't take many people to start a court suit.
Lloyd: There's a tremendous potential for increased fuel in reprocessing uranium.
Cochran: Do you realize that that amount of fuel if put into circulation would represent 800,000 atomic bombs?

Lloyd: Has there ever been a nuclear accident?
Cochran: Uh....Yes.

Lloyd: I'd appreciate it if you would submit for the record where there has ever been an accident.
Cochran: Uh....

Lloyd: If we don't develop nuclear energy, our energy costs will go up in comparison to other countries that are developing nuclear power. (Lloyd sites figures.)
Cochran: Uh. I don't know where you got those figures.

Lloyd: Can you site any other reference for your figures other than you own staff?
Cochran: Uh...ERDA.

Myers: Am I to assume you are in favor of the light water reactor?
Cochran: I agree with President Carter that nuclear energy should be a last resort. We should depend on conservation, biomass, solar....

Myers: Are you aware that there are other uses for nuclear power than electricial generation?
Cochran: Uh....

Myers: The less developed countries are dependent on the advanced sector for the capital to develop their economies. They want the same level of economy that we have now and they can't do that with fossil fuels and solar. Don't you think it will cause tensions between us and the LDC's if we don't develop nuclear power?
Cochran: We should be giving them solar cookers and biomass.

Myers: Do you realize there's a direct relationship between the soundness of their economies and our ability to produce agricultural goods?
Cochran: (no answer).

Myers: Have you calculated how many square miles of solar equipment it would take to heat New York City compared to a nuclear plant.
Cochran: Uh, no.

USLP Fusion Call Backed By Midwest Trade Unionists

The president of the powerful Northwest Indiana Building and Construction Trades Council, G. Russell Bassett, and Harold Hagburg, business agent of the region's largest International Brotherhood of Electrical Workers local, Local 697 in Hammond, Ind., this week joined in an emphatic endorsement of the U.S. Labor Party's call for a crash program of nuclear fusion development. The two, leaders of the nation's largest and most active pro-growth labor-industry coalition, Indiana's Help Implement Regional Employment (HIRE), also pledged a general mobilization of the 25,000 union members they represent to push for adoption of the call by the U.S. Congress, and are seeking an immediate 5000 signatures in support of the call.

The call signed by the two, which is being circulated nationwide by the Labor Party, states:

We, the undersigned, recognizing that:

1) Nuclear fusion energy is the only long-term solution to the energy needs of an advanced, industrial society;

2) An intense, on-going research and development program for energy is of the highest priority in maintaining the economic, social, and military health of the United States;

3) The proposed budget for fusion development in the United States, representing a 20 percent cut in funds, is insufficient to achieve fusion energy in any time scale;

Call for the following steps to be taken:

1) A "crash" program for fusion research be undertaken immediately;

2) Cheap credit and financial assistance be made available immediately for capital investment required in industry and education needed for such a crash program.

The two union leaders also called for emergency licensing to clear the way for expanded fission power plant construction.

In addition, Bassett and Hagburg have targeted key area Democratic congressmen, including Reps. Floyd Fithian (D-Ind.) and Adam Benjamin (D-Ind.) as lawmakers to push to sponsor the program in Congress. Plans are currently being worked out with the U.S. Labor Party to hold an all-day town meeting to promote the program featuring leading representatives of the Fusion Energy Foundation and the Labor Party.

Bergland's Balloon Gets Shot Down

U.S. Agriculture Secretary Robert Bergland called for a U.S.-Canadian wheat cartel last week which elicited a rapid flurry of attacks in the U.S. and European press, strong disavowal on the part of Canadian government officials, and a hasty retreat on the part of the U.S. Department of Agriculture in the intervening five days since its announcement.

Announced following a meeting with Canadian Transportation Minister Otto Lang, Bergland's proposal called for the establishment of a U.S.-Canadian agreement on an artificially high 'floor' price for wheat, to then be used as a political weapon against the OPEC alliance.

Bergland told reporters, "If we can do something about the oil cartel, fine. I'd be willing to drop these talks with anyone when the oil cartel is dissolved. But until such time as that occurs I'm not going to back down." Bergland added, "It is impossible for the United States to develop a wheat policy without taking into account Canadian problems." Together, the U.S. and Canada produce 75 percent of the world's commercial wheat exports.

The international response to Bergland's proposal was immediate and unambiguously negative. Within days, queries to Canadian governmental sources on the extent to which Bergland's pronouncement reflected an actual working agreement with the Canadian Transportation Minister elicited hasty official denials. An agricultural policy spokesman at Canada's embassy in Washington emphasized, although Canada is in fact seekin a means of stabilizing the international wheat price, it would not enter a bilateral cartel arrangement with the U.S. alone, but was seeking to make arrangements through the International Wheat Council. Bergland's proposals "were not the terms used in the discussions with Lang," said the official. The consequences of a U.S. embargo on the soybean market some time ago amounted in the long run to an effective 'reverse boycott' internationally of the U.S. soybean trade, he added. The upshot was a strengthened alliance between Japan and Brazil among others.

Queries to Bergland's office, the U.S. State Department, and other Washington offices indicate an at least temporary back-off on the proposal. As one USDA spokesman put it, "This proposal was purely exploratory; no specific agreements were reached in the meeting (between Bergland and Lang) on where to proceed, it is now in limbo and not being pressed forward." Another State Department official commented, "We mainly wanted to see what the response would be to this kind of proposal."

Although Bergland's trial balloon around "food weapons" has sprung multiple leaks, it may continue to be floated for some time. One Washington think-tanker who insisted that the policy could not work, nevertheless reported that Bergland can be expected to make a major pitch for the proposal when he testifies before congressional agricultural committee hearings next week.

Food Control: The View Of The Overseas Development Council

The following is an exclusive interview conducted this week with an Overseas Development Council Agricultural specialist.

Q: We are interested in your assessment of agricultural secretary Bergland's proposal for a joint U.S.-Canadian grain pricing arrangement.
A: Personally, I find the proposal unpleasantly Butzian. I don't think that much clout can be developed from the agricultural angle. Putting aside the ethical considerations of food control, it is simply not effective. For one thing, the Arab nations will not be effected since their populations are not very large to begin with. Then there is the question of Israel which comes in as well. Mainly, agripower is not a strong lever; it's not good against the Soviets — they will back down in the end, or if they don't they can eat less. The Ethiopians can buy elsewhere; it's simply not effective.

Q: Are the Canadians likely to adopt such a policy?
A: No. The Canadians will not go with any anti-OPEC cartel.

Q: Then what do you expect could serve to strengthen ties between the U.S. and Canada in a way which could be effective in relation to the OPEC alliance?
A: Possibly a buffer stock arrangement without the threat factor might be interesting. This could lead to a basis of stronger ties in the future.

Carter Administration Plans Bailout Of Endangered New York Banks

BANKING

Expecting the near-term outbreak of financial trouble at several large New York City-based international banks, the Carter Administration has taken emergency measures to bail them out. These measures, whose implementation is far from guaranteed, include the proposed creation of an International Monetary Fund facility to tide over heavy international debtors, and a program for top-down centralization of the banking regulatory agencies in the United States.

Wary of Congressional opposition, the Administration is "seeding" these plans into the press, Congress, and international organizations furtively, rather than taking a direct public stand. A key signal was the appearance this week of a series of articles on offshore banking by *The New York Times'* Ann Crittenden, summarizing the least embarrassing information in circulation on the New York banks' operations in the Bahamas and the Cayman Islands (see EIR Vol. IV no. 8). Crittenden's articles included statements by House Banking and Currency Committee chairman Henry Reuss (D-Wisc) on the negative effect of banking offshore operations on U.S. interest rates and investment, and a complaint by Rep. Fernand St. Germain (D-RI) that insufficient information is available on the banks' foreign activities. Additionally, the *Times* series quotes New York state and city officials' complaints that the offshore operations of Citibank cost them $10.8 million annually in taxes that would have been collected if the banking business had been done at its New York headquarters.

Not coincidentally, an exchange of letters had already taken place proposing hearings on banks' offshore operations between the offices of Rep. August Hawkins (D-Cal.), the co-author of the Humphrey-Hawkins bill, and Parren Mitchell (D-Md.), chairman of the House's Subcommittee on Domestic Monetary Policy. A spokesman for Rep. Hawkins described the Hawkins-Mitchell hearings as a pepper operation for other legislation on "banking reform," put forward by Reuss, Sen. William Proxmire, the chairman of the Senate Banking Committee, and Rep. Benjamin Rosenthal (D-N.Y.), chairman of the House Oversight Committee.

In Paris, meanwhile, Carter's chief economic advisor Charles Schultze, the Chairman of the Council of Economic Advisors, proposed to a 20-nation meeting of the Organization for Economic Cooperation and Development the formation of a $20 billion international facility through the Group of 10 leading industrial countries and the International Monetary Fund, with major participation by Saudi Arabia.

Back in Washington, Rep. Rosenthal concluded hearings on HR 2167, his bill to give Congress' General Accounting Office extraordinatry subpeona and oversight powers over the bank regulatory agencies, while Sen. Proxmire prepared for hearings to begin March 10 on the general condition of the banking system.

This little conspiracy is motivated by fairly general recognition that the international banks' precarious position is about to become critical. "There are only two possibilities. If everyone remains cool, calm, and collected, and no-one panics, then there is a chance — a slim chance — that we can get by this situation and muddle through once again. But that's a lot to hope for. The other possibility is that everything will blow sky-high," a leading Wall Street bank analyst said.

At present between $50 and $100 billion in uncollectable and non-accruing loans to lesser-developed countries (LDCs) and other international borrowers are being rolled over, mainly by a handful of international banks. The per-bank total of such loans is not known, since the banks are not compelled to report loans issued by non-consolidated subsidiaries, such as Chase Manhattan's part-owned Orion Bank and other London-based consortia. Typically, the parent banks channel funds to their Bahamas or Cayman Islands outlets, which are "multiplied" through deposits and re-deposits on the interbank market by a factor of twenty times the original input. This artifical liquidity is then used to "lend" the equivalent of principal and interest due from borrowers like Brazil, Mexico, Zaire, Egypt, and Turkey. On paper, these $50 to $100 billion of defaulted loans continue to accrue interest — as *The New York Times* series noted, without mentioning how the trick is done.

A number of factors have combined to intensify the problems in this operation, which has been running since commodity prices broke and destroyed the CLDs export earnings in early 1974.

1) The "bunching of maturities" on principal repayment from Third World lenders, estimated at $17 billion in 1977 for the LDCs as a group by Swiss Bank Corporation.

2) A new ratchet-decline in world trade, further eroding Third World countries'earnings.

3) The likelihood of a sharp rise in U.S. dollar short-term interest rates, already anticipated in the expanding yield-curve spread, due to the danger that the $85 billion Federal government and agency borrowing requirement this calendar year may have to be financed on the short-term side of the market.

4) The possibility that the Europeans and Third World

countries may agree to some form of a debt moratorium at the next round of the "North-South" negotiations in Paris, over the objections of the United States.

5) Persistent reports that U.S. regional and European banks may quarantine Chase Manhattan and other New York institutions on the $200 billion interbank lending market, partly due to solvency fears, and partly as a jab against the Carter Administration (see EIR Vol. IV no. 6).

State Department, Treasury Department, Council of Economic Advisors and Federal Reserve Board officials are in a state of confusion over the $20 billion bailout proposal made at the OECD, although several officials corroborated the contents of a March 4 Wall Street Journal dispatch from Paris describing the plan. This confusion indicates hurry and bypassing of normal channels by the White House. According to the Journal, the U.S. delegation to the OECD gathering in Paris asked for doubling of the current $6 billion Group of 10 emergency fund, the General Arrangement to Borrow of the International Monetary Fund; soliciting a further $8 billion from Saudi Arabia; and bringing Saudi Arabia into the Group of 10. U.S. officials, whose demand that the West Germans and Japanese reflate in tandem with the United States met with a solid rebuff, gave no indication of what they thought the prospects for this plan were. Private bankers are skeptical. "The International Monetary Fund will get zero, zilch new money this year," says Bank of America's Senior Vice-President for Research Carlos di Origunaga.

This plan follows similar proposals made by Chase Manhattan's David Rockefeller, Morgan Guaranty's monthly World Financial Markets, and Fed Chairman Arthur Burns, during the past two weeks. Leading U.S. bankers outside New York City are furious over these plans. One leading banker, who asked not to be quoted by name, said, "David Rockefeller is an idiot for saying that the banks can't handle LDC loans. Some banks may have been mismanaged, but not all of them."

The supporting battery of legislation in Congress breaks down as follows:

Rep. Rosenthal's legislation would give the Democratic-controlled GAO Watergating powers, in effect, over the three regulatory agencies responsible for the national banks. Reportedly, Rosenthal, who is in close touch with a group of New York investment houses, is upset at a recent move by the Treasury's Controller of the Currency to obtain more detailed information on the international loan status of U.S. banks.

Sen. Proxmire's legislation would create a National Bank Commission, and collapse the regulatory powers of the Federal Reserve Board, the Controller of the Currency, and the Federal Deposit Insurance Corporation into a single super-agency. Proxmire's bill is motivated by a recent GAO report, leaked to the press several weeks in advance of its publication, warning that public confidence in the banking system had waned to a low not seen since the 1930s.

Sen. Adlai Stevenson (D-Ill), a prominent member of Proxmire's Senate Banking Committee, has fielded a "Tweedledum" version of the Proxmire bill, which would create a "coordinating council" among the three regulatory agencies while retaining their nominal independence. Fed Chairman Burns supports the Stevenson bill, a Federal Reserve aide says, because — unlike the Proxmire bill — it would give the Fed a "mediating" role among the three agencies.

In the murkier background, Rep. Parren Mitchell is designing hearings for purposes of atmosphere, to create pressure in support of the Reuss-Proxmire-Stevenson-Rosenthal operation. Rep. Mitchell is both Chairman of the House Subcommittee on Monetary Policy and head of the Congressional Black Caucus. "With a black face running the show, there's no way that Reuss and Proxmire could keep the lid on it," a Congressional staffer involved with the projected hearings predicted.

Proxmire's and Reuss' broader objective is to bring back Reuss' Financial Institutions legislation of 1975, the so-called FINE bill, which died in committee 18 months ago. the FINE proposal would place trade-unionists of the Leonard Woodcock variety and "consumer advocates" like Ralph Nader on the Federal Reserve Board and on the boards of the 12 regional Federal Reserve Banks. FINE would give Congress powers to direct the nation's banking system top-down on behalf of the Carter de-industrialization program.

Although Proxmire and Reuss, leery of the opposition that faced their legislation last time round, have not put a comprehensive legislative package on the table, Proxmire has kept an "Urban Development Bank" proposal on the back burner. Treasury Secretary Michael Blumenthal indicated in a talk with reporters Wednesday that he favored such a program. The Urban Development Bank concept was first proposed by Lazard Freres' Felix Rohatyn, the director of New York's Municipal Assistance Corporation, as a means of issuing Federally-backed short-term securities to fund labor-intensive public works schemes in localities. The proposal mimics Hjalmar Schacht's Mefo-Institute of the 1930s, which issued short-term bills to finance the Nazi armaments industry. This legislation interfaces with more short-term plans to provide Congressional backing for a bailout of some of the leading New York commercial banks.

Broad Dollar Sector Slump Accompanies Record U.S. Monthly Deficit

WORLD TRADE

The announcement of the largest U.S. merchandise trade deficit ever recorded — $1.67 billion — in January, provoked by an 8 percent fall in exports, was accompanied by a downturn in trade in the dollar sector as a whole — including a drop in West German exports and imports between December and January of 18 and 15.7 percent respectively. The front-page headline in the March 1 issue of the *Journal of Commerce* warned: "Premature Recession in World Trade Feared."

It is widely understood abroad that the U.S. trade balance looks considerably worse if imports are measured on the cost, insurance, and freight basis which most other countries use. On that basis, the U.S. deficit was over $2.5 billion in January, which at a yearly rate would mean a $30 billion trade gap for 1977. The 1976 deficit was $9.6 billion, or, using the c.i.f. metric, $14 billion.

The U.S. Commerce Department has emphasized the effect of rigid January weather on exports, and it is true that shipments of corn and wheat were blocked on the semi-frozen Mississippi River, while plant shutdowns and movement of goods from inland factories to East Coast ports must be taken into account. In addition, imports are accounted for when they reach U.S. ports, exports when they leave the country after having directly suffered from delays.

In an interview, a Commerce Department spokesman commented that "some other reasons may be more important" regarding the deficit. He mentioned "sizeable increases in speculative oil imports after a decline in December." On the export side, there was a sharp decrease not only in aircraft equipment — which is subject to wide short-term fluctuations — but, significantly in terms of world productive activity, in chemical products and heavy equipment.

U.S. imports as a whole rose by only 2 percent. Irving Trust describes a bankers' consensus that the Carter Administration's policies will stimulate imports for some time, "but to talk about investments in capital equipment is another story." Asked about the relation between the trade deficit and the Carter budget, Irving commented, "If the Carter budget was the only problem, we could thank God."

The general absence of sustained recovery in U.S. industry and the corresponding slack in capital investment are reflected in the situation of steel imports, which still have a long way to go to approach the 15-18 million ton annual level of the 1971-1974 period. Charles Stern, president of the American Institute for Imported Steel, recently expressed doubt that such levels could be regained in 1977, citing "the present soft and spotty level of order bookings — a direct result of the less than brisk pace so far of economic recovery in the U.S."

Europe in Limbo

The other "strong men" of the West, Japan and West Germany, fared ill in January, too. The rate of growth of letters of credit in February slacked off significantly; specialists consider this more significant than the 35 percent January drop in export payments, which occurs seasonally.

The West German trade surplus fell from $2 billion in December to $1.36 billion in January. A central bank official discounted the seasonal explanation — "There is no such thing as seasonal phenomena for German exports" — but pointed out that December had a higher accumulation of big-order shipments, and exports orders are still running well ahead of deliveries. Most significant is the weakened demand for capital equipment goods; the production level has been cut back by 20 percent at companies polled. The consumer sector is the only one performing respectably, and this is due chiefly to the extremely vulnerable auto sector, without which the West German export drop-off would have been still more severe.

This is also the case in France, where the seasonally adjusted trade deficit reached 2.38 billion francs in January, after 1.36 billion in December. Both officials and press claim, with good grounds, that January was "exceptional," imports having been inflated by speculative purchases of oil, in anticipation of OPEC price increases and possible government controls, as well as usual purchases of foodstuffs resulting from last summer's drought.

The British £545 million deficit in January was a record; exports rose by only £36 million, as against an import increase of £365 million. Again, there is truth in the British assertion of "distorting effects," reflecting precautionary orders made last fall when sterling was weak, plus speculative oil purchases. However, the underlying trends show that British industry is importing to build up its depleted inventories at a time when compensatory exports have not really gotten off the ground. The Callaghan government is trying both to build up the base for industrial recovery and protect sterling with high interest rates; the result of the first policy is the stiff trade deficit, and the result of the second is to make credit formidably expensive for industrial firms and to squeeze real pre-tax incomes, setting up the economy for a new round of both recession and inflation.

Both France and Britain aim at improving their export positions through long-term oil-for-technology and commodities-for-technology agreements with the Arab sector and the Comecon economies. But this current bind — sales on the advanced-sector markets being unable to develop at a sufficient pace to finance the increase in imports required to supply the national sectors — is taking a toll on both the corporate level and the national payments level. This accounts for the manifest interest in new modes of trade financing. The European Economic Community (EEC) is now discussing unified guidelines on export credit to the Comecon and the Third World, after France agreed that trans-national measures in this area are possible. More broadly, the ongoing discussion of an EEC gold-based system for payments among members, and of transfer ruble credit mechanisms and of "joint ventures" with Arab and Comecon investors, reflects an attempt to remove the present ceilings on expanded trade.

Major Trade Agreements Feb. 1—March 4

The last month has seen a continuation of the pattern of state-to-state deals and related large-scale agreements by which Europe and the Third World are seeking to break out of the cycle of collapsing world trade. Below is a listing of the major deals since Feb. 1, compiled from international press reports.

DATE *DEAL*

Feb. 2: VFW-Fokker of West Germany signs $1 billion deal to build an assembly plant in Rumania for production of 100 VFW-624 Transport planes over 10 years.

W. German Economics Minister signs agreement with Saudi Arabia on steel, petrochemicals and desalination plants.

W. Germany signs $625 mil. deal with Turkey and Indonesia for sale of submarines, missiles, and tanks. First government credit guarantee to non-NATO member for arms.

Sudan signs export agreement with South Korea to swap cotton and other raw goods for textiles and synthetic fibers, electronics. Canada agrees to make $100 million 50-year interest-free loan to finance agriculture projects.

Saudi Arabia signs $70 million contract with Italian Siderexport trading company to supply wide-diameter steel piping to Saudis' Petromin.

Feb. 6: European Economic Community science and Technology delegation signs protocol on collaboration for development of "new energy sources."

Feb. 10: KWU of West Germany and Nuclear Fuels Development Corp. of Japan have signed an agreement for development of a new boiling water reactor.

Italy signs industrial cooperation deal with Morocco for $2 billion involving IRI and Fiat.

West German Salzgitter steel will build a polyvinylchloride plant in Libya for $500 million.

Feb. 16: Italian engineering group, SIR, signs deal with Libya to build 5 refrigeration plants for 20 million lira.

DATE *DEAL*

India announces participation in Vietnam reconstruction program with aid in agricultural technology.

Iran NIOC purchases 25 percent share of Krupp foundaries of W. Germany with 4.5 million tons of oil to be marketed through Belgian Petrofina.

Saudi Arabia signs $800 million contract with Dow Chemical Co. (U.S.) to build first stage of Saudi chemical complex.

Feb. 20: India signs multimillion dollar deal to build steel plants in Libya, Algeria and Kuwait.

Feb. 24: Indian Atomic Energy Commission signs energy cooperation pact with Iran to involve exchange of nuclear energy information and joint development of peaceful nuclear energy.

Saudi Arabia signs deal with Pakistan for $50 million electrification and power plants.

Italian gas consortium headed by Gerghini signs $300 million contract to supply utilities installation for technological university at Riyadh.

Iran signs $425 million barter deal with Italy for sale of 50 "chinook" helicopters from Agusta-Efim in exchange for 5 million tons Iranian crude during 1977-78.

Feb. 25: Saudi Arabia signs $60 million contract to build 50 megawatt gas turbine plant and high tension transmission lines with Saudi indications of more in the works as part of Saudi $142 billion development plan.

Feb. 27: Iran signs L 100 million barter deal with GEC of Britain of oil for first stage of railway project in Iran.

March 1: French DFP and Abu Dhabi sign 50-50 deal to develop oil fields in Abu Dhabi.

Cuba and Britain sign agreements for zinc and copper mining.

March 4: Turkish Motor Co., Tumosan, signs contract with Swedish Volvo Co. for plant near Anatolia with 8,000 diesel engine per year capacity.

Gold Boom Stems From Euromarket Crisis

GOLD

This week's spectacular gold boom — with the price of an ounce of gold jumping to a 16-month high of $145 in London March 2 just before an International Monetary Fund (IMF) auction — represents merely the beginning of a panicky mass flight from U.S. dollar-denominated paper. The flight is caused by higher U.S. inflation rates, Jimmy Carter's $68 billion budget deficit, and heavy Third World and European roll-over requirements which are swamping the international credit markets. Only a few months ago IMF sales and U.S. manipulations of the market had driven gold prices down to nearly $100 an ounce. This week, a beleagured IMF received bids for 1.6 million ounces — with only 524,000 ounces available for auction — and the winning bids were in the $145.55 to $148 range!

A headline in the March 2 *Journal of Commerce*, "Eurobond Investors Now Disenchanted; Gold Seen Next Major Bull Market," tells the story.

According to the *Financial Times*, Arab investors lead the way late last week with substantial sales of their holdings of dollar-denominated Eurobonds (that is, the "safer" long-term sector of the Eurocurrency markets) in favor of gold. "There must be not a few investors," the *Financial Times* commented, "who see gold at U.S. $140 an ounce as a better hedge against inflation and currency depreciation than dollar-denominated paper. The Eurobond market has, in the past, attracted investment funds from precisely this kind of investor and therefore we ought not to be too surprised to discover that some of this money is reverting to what might be termed its traditional home."

The fact that the dollar sector of the Eurobond market is no longer considered a secure enough haven in which to squirrel away one's money is an important watershed, symptomatic of the general "crisis of the confidence" breaking in the Eurocurrency markets as a whole. The basic issue is the bankrupt condition of the leading New York commercial banks, a subject which the U.S. press has only begun to broach — eg., *The New York Times* March 3 exposé of the Bahamas offshore banking practices — so as to keep the crisis under control.

The flight into gold intersects with the ongoing British-Soviet and Italian-Soviet negotiations concerning expanded international use of the gold-backed Comecon transfer ruble, and a growing European consensus that a return to gold-backed parities is immediately necessary to avoid a breakdown of world trade. The vice-president of the Hungarian National Bank, Janos Fekete, this week reiterated his call for a gold-backed monetary system as a precondition for closer integration of the Western European and Comecon economies.

Reflecting the key role which some City of London banks have played in the transfer ruble negotiations, the British press has featured some of the most bullish gold price projections, including the conservative *Daily Telegraph*'s forecast of $170 an ounce by year's end. Samuel Montagu, one of the five major London bullion dealers, expects heavy European central bank buying of gold in 1977, according to the firm's annual report, despite International Monetary Fund efforts to end gold's role as a reserve holding in the international monetary system.

The French financial press is also following the gold boom with undisguised gratification. The daily *Les Echos*, which on Feb. 25 announced that "the franc is about to regain its old ally, gold," published an extensive front-page rundown of the markets March 3, headlined "41 Percent in Five Months," a reference to the price climb since August. Stressing that the Swiss franc, much less the dollar, is no longer the investor's "refuge par excellence," *Les Echos* projects a price increase nearing $160 — at which point, it adds, the U.S. Treasury would doubtless try to sell gold to pre-empt further increases. The newspaper describes the Chicago gold market as far outstripping London and Zurich, where trading is more oriented to industrial use and central bank exchanges, as in contrast to the commodity-speculation character Chicago shares with New York. As much as thirty-three tons a day are traded in Chicago.

Les Echos confirms that since September, Arab investors are turning in "the dollar surplus they are unable to invest in their own economies" for gold; they bought 400 tons in 1976, a quarter of world demand including industrial purchases, and the pace is apparently quickening this year. In 1975, Arab purchases were 100 tons.

The fear of a U.S. Treasury intervention was characterized as somewhat overdrawn by other specialists, in view of the IMF's inability to dampen gold bullishness by sales, and more importantly in view of the European Economic Community's increasing discussions of using gold as a payments settlements device among the members.

Stockpiling — Waiting For War

RAW MATERIALS

The present glut of raw materials stockpiled by U.S. industry, particularly those of strategic value, such as copper, manganese, and chromium, has created a situation where metals industry insiders and their bankers are privately mooting regional wars in Africa or Latin America as the only way to restore some semblance of market equilibrium. While the recently released "Report of the National Commission on Supplies and Shortages" calls for the establishment of more stockpiles for precisely this reason, the situation has actually been brewing since 1974.

Faced with falling real demand as a result of the world industrial downturn and rampant international inflation, bankers and the industry have since 1974 been urging U.S. industry to build up their stocks of primary raw materials, using the threat of possible wars and hedging against further inflation as their rationale. This policy kept some demand up despite declining usage, enabling such Third World producers as Zambia and Chile to maintain a semblance of their debt repayment schedules to New York. But now the glut of stocks is so severe, that regional wars are seen in Wall Street circles as the only way to revive collapsed demand and prices.

During 1976, U.S. imports of copper rose to 520,000 tons from 324,000 tons in 1975, while exports were decreasing from 234,000 tons to 170,000 tons. Part of this increase in imports was an unusual shipment from Zambia during the first ten months. Domestic production increased 14 percent to 1.61 million tons.

While consumption also rose somewhat, it in no way equaled the increase in imports and domestic production. As a result stocks soared. Stocks at Commodity Exchange, Inc., warehouses rose from 100,000 tons at the end of 1975 to 193,000 tons as of Dec. 10, 1976, while American Bureau of Metal Statistics figures reveal that inventories at domestic refineries are 260,000 tons, just a shade below the record figure of 272,800 tons reached during 1975. Total world stocks are estimated at 2 million tons.

Copper prices, which reached an all-time high on the London Metal Exchange of 152 cents per pound in April, 1974, began 1976 at 56 cents, and, although they reached 76 cents in July, fell back to 56 cents by November. While the present price is in the 65 to 70 cent range it is still substantially below the estimated minimum price of $1.00 per lb. needed to justify new investments, except in underdeveloped countries, where the exploitation of labor and the necessity of foreign exchange (i.e. debt payments to Chase Manhattan) have made it possible.

At present there are only two ways of alleviating the situation. One is war, being mooted for southern Africa and also South America (Chile is the second largest producer in the world behind the U.S. and Peru is also a large producer). Of lesser value, as it would have to last a minimum of three months to begin to be effective, is a copper strike. This, in fact, is now being pushed by the industry. According to John R. Bogert, vice president of Paine Weber Jackson and Curtis, copperworkers have been told by United Steel Workers of America officials to "prepare for a long strike." Copper producers are also offering customers the option of pre-shipments before the expiration of labor contracts, most of which expire on July 1.

The glut in U.S. manganese ore and ferro manganese stocks is even worse than that of copper, extending from consumers clear back to the mines. In fact all available storage space is filled at or near capacity. Still, and in spite of the fact that the main user of manganese, the steel industry, has been in a period of collapse since late 1974, shipments of this material continue to arrive here. While the U.S. published price has been reduced from $440.00 per ton to $425.00, foreign material, especially from southern Africa can be purchased at prices up to $100.00 per ton below the U.S. price. This is an obvious attempt by South Africa and Rhodesia to export as much material as possible before the outbreak of violence, as laid out in the NCSS report.

The conditions of the U.S. chromium market are similar to that of manganese. Perhaps the best indicator of this is the lack of U.S. opposition to the repeal of the Byrd Amendment, which for the last few years has allowed the U.S. to import chromium ore and ferrochrome from Rhodesia despite the United Nations embargo against that country. The looting operation of the past two years, in which total U.S. imports of ferrochrome rose to 270,000 tons from 150,000 tons in 1972 and from 42,000 tons in 1970, and the increase of consumer stocks from 573,000 tons in 1974 to approximately 950,000 tons at present, has made the Byrd Amendment unnecessary. Also, U.S. government stockpiles are estimated at 3.82 million tons. As with manganese, the major consumer of chromium, the stainless steel industry, has been hard hit by the decline in capital spending, greatly reducing consumption of the metal. At present depressed levels of consumption, stockpiles are sufficient to last a minimum of two to three years.

Mr. Carter's Deficit And The Financial Markets

BUSINESS OUTLOOK

The $19 billion increase in the government deficit presented to Congress and the nation by Jimmy Carter on Feb. 22 has haunted the financial markets for the last two weeks. Previously, the financial community had known that Carter's economic stimulus package would explode the fiscal 1977 and fiscal 1978 deficits, but it took Carter's public commitment to such an inflationary budget policy, which is bound to push interest rates higher and undermine real economic growth, to send jitters through Wall Street.

Federal Reserve Chairman Arthur Burns' own performance before the Joint Economic Committee of Congress Feb. 23 didn't help matters either. "I don't want to criticize anyone." Burns puffed, "but in all humility I have to say that the increase in the federal budget is stirring up new fears and expectations of inflation that in some degree may turn out to be a self-fulfilling prophecy." Everyone's fears and expectations of inflation rose.

The primary concern on Wall Street centers on the question of "timing" — i.e. fears that the Treasury will bungle into the market at the same time that corporations are endeavoring to do balance sheet restructuring. As soon as the Carter budget was out, David Jones of Aubrey Lanston estimated that Treasury borrowing in the present calendar year would be $85 billion (on and off-budget financing) and predicted that rates on three-month Treasury bills would increase to 6 percent by mid-year. (Average yields were 4.67 percent at the time of Jones' prediction and have since edged up to 4.7 percent.)

The projected deficit has not resulted in escalating interest rates over the last two weeks only because of a combination of ominous economic signs. For one thing, the spate of bad economic statistics, which stem in large part from the January-February cold wave, consoled investors that the economy was not overheating. In addition, the low corporate bond calendar in March has pushed bond yields down to where they were in early January. Corporations have only scheduled about $1.6 billion in debt obligations for sale in March, compared to a recently monthly average of $2.1 billion. According to Henry Kaufman of Salomon Brothers, industrial companies are decreasing their offerings to about $4.26 million this month, compared to $571 million last month and $2 billion in January (the large increase in January was in part seasonal). This week, for example, there were no new debt offerings by industrial companies, perhaps the key factor in the improvement of the market.

Similarly, the stock market is gaining some ground, but no one on Wall Street will say that it is headed for a rally. The Dow Jones average closed at 954 Friday afternoon, after gaining about 20 points over the week. However, continuing low volume reflects the underlying fears of inflation.

The Administration, as one would expect, has been going out of its way to try to reassure the financial markets — after releasing its whopping budget deficit last month. In a speech in New York on Thursday Treasury Secretary Michael Blumenthal commented, the projected budget deficits "needn't be inflationary in an economy with so much unused capacity, nor need it lead to appreciably higher interest rates in an economy currently awash in liquidity." Blumenthal likewise made some reassuring noises about capital formation and said that federal spending continued to run under projections in the first four months of fiscal 1977 (Oct-Jan, the final months of President Ford's tenure) and as a result the actual deficit is likely to be smaller that the $68 billion projected in Carter budget. Blumenthal conveniently did not discuss what his own administration's tax rebate and spending program would do to the deficit over the next few months. The bond and stock markets also decided to ignore reality and thus staged a rally following his speech.

What's Behind The Wave Of Merger Bids?

CORPORATE AFFAIRS

The background to the failed bid by Standard Chartered Bank of London to take over the French Rothschild-controlled Bank of California is the scramble for control of the Pacific Basin market. According to Morgan Stanley, Standard Chartered's New York investment banker in the Feb. 22 bid, the bank now wants a "strong position around the Pacific rim." Standard Chartered presently has substantial interests in the Far East (the old Cartered interests) and hoped to complete the circle by merging Bank of California with the 19-branch, California-based Chartered Bank.

Bank of California, the major extention of the Rockefeller-allied French Rothschilds in the U.S., also has ambitions in the Far East. In an interview published in the Feb. 24 Financial Times of London, Chauncey Schmidt, chairman of BanCal, said he believed the bank would carve out a comfortable share of the growing Pacific Basin market — the "new frontier" of banking. BanCal presently has branches in Tokyo, Manila, and Taipei.

BanCal has resisted the bid to take over its assets and thereby gain full control of the bank, but the publicity surrounding the bid called attention to BanCal's weak financial position — its unprofitable nonbanking subsidiaries and its discounted bad loans. Chauncey Schmidt, who only last year moved to BanCal from First National Bank of Chicago, flatly rejected the bid Feb. 23, saying the shareholders, customers, and employees would be best served if BanCal remained "an independent institution with its roots in the United States" — BanCal an independent bank with 28 percent owned by Baron Edmund de Rothschild? Schmidt added that shareholders representing 40 percent of the bank's capital were opposed to the offer.

The political ramifications of the takeover bid involve the conflicting Rockefeller versus British (Callaghan government) strategic deployments around the globe. Consistent with the Callaghan government efforts to achieve peace in southern Africa, Lord Barber, Standard Chartered's chairman, emphasized in an interview that his bank has excellent relations with black Africa and intends to expand its operations there. Edmund de Rothschild, a member of the Rockefeller family's private Bilderberg group, clearly represents contrary interests.

The Scramble For U.S. Equity

There are a number of related developments which reflect, in an ironic way, the bankruptcy of the dollar. One is the large flow of foreign money into U.S. Treasury bills since the beginning of the year — some $4 billion according to Henry Kaufman of Salomon Brothers, compared to $9 billion in all of 1976. This flow may reflect a decision by the Arabs and the West Germans, who are said to account for most of the inflow, that it is safer to hold dollars in U.S. government securities than in unstable Eurodollar deposits. Another noteworthy development is the flow of foreign capital into U.S. equity, in particular, the equity of financial corporations — insurance companies, banks, real estate trusts — which control more cash and investments. These capital flows are in part a spillover from around six months ago when the outlook for most European currencies looked bleak and investors with assets in, say, Britain or Italy, sought the relative stability of dollar-denominated financial assets. Recent developments in Europe — namely, the active discussions by the British merchant banks and others over the prospects for transferable ruble-financed East-West trade — may reverse the capital flows into U.S. equity.

A great many U.S. firms are using their large cash reserves, built up over the last two years of balance sheet restructuring, to acquire other firms. The Wall Street Journal proclaimed recently that a new wave of mergers is taking place, spurred on in part by corporations' large cash reserves which are not going into new capital investment. According to W.T. Grimm and Co., a Chicago consulting firm that does statistical studies of merger patterns, in 1976 there were 39 announcements of mergers or acquisitions in which the purchase price exceeded $100 million, three times the number of such transactions as in 1975. Asked about the new round of merger activity, an FTC official commented that the development was determined by "a strange cyclical force, which produces recurrent periods of merger activity."

The new wave of mergers is a reflection of the real state of bankruptcy of the U.S. economy. The present inflationary environment has precluded any new long-term capital investment — despite the fact that many businessmen are becoming horrified about the outmoded condition of U.S. industry as they apply the new replacement-cost accounting procedures. The relatively better-off corporations are looking to mergers as a way of expanding without assuming the risks of capital investment. In this context, the lesser-rated corporations, which couldn't get into the bond market to restructure their debt, are prime targets for takeover. Amidst the merger activity, one trend is very clear: the two largest recent mergers, GE-Utah International and ARCO-Anaconda, reflect the philosophy that "assets in the ground are best."

In addition, "the government appears to be inadvertently fostering takeovers" through the multitude of environmental regulations, according to the Journal. As the EIR has documented elsewhere, the effects of NEPA are not "inadvertent" in the least and are, in fact, a key tool for discouraging new investment and wiping out smaller pro-technology firms.

Carter's Offensive Against U.S. Industry

Carter's recent nomination of Michael Pertschuk, chief counsel for the Senate Commerce Committee, as Chairman of the Federal Trade Commission marked a further step by the Carter-Rockefeller forces to unleash a populist movement against potential industrialist opponents. Pertschuk, a central figure in the Capitol Hill "Nader network," worked hand in glove with Nader in drafting the original auto "safety" legislation, which inaugurated the anti-growth "consumerist" movement in the late 1960s. From there Pertschuk went on to draft numerous pieces of consumerist legislation such as the Natural Gas Pipeline Safety Act, bills against radiation use, flammable fabrics, unsafe products, deceptive advertising, and so forth — pieces of legislation intended to galvanize the public against further technological development and industrial growth in the U.S. If confirmed, Pertschuk can be expected to use the broad powers of the FTC to prosecute ad infinitum unfair trade practices, anti-competitive pricing mergers, etc. — of the corporate opponents of he Carter-Rockefeller no-growth program.

As a result of the change in administration, on the other hand, Watson-family controlled IBM, at the center of the Rockefeller financial and private intelligence empire, is expected to achieve a very favorable settlement in the Justice Department antitrust case now in trial in Southern District Court of New York. At least one leading Wall Street firm expects an early settlement of the case, on the basis of some form of divestiture that would be extremely favorable to IBM — possibly a divestiture into established divisions, which would divide the company into units even more "competitive" and profitable than the company as it now stands. Of course, such a settlement would be portrayed to the public as the breaking up of the largest monopoly in the world — along the lines of the 1911 "divestiture" of the Standard Oil trust.

The Carter cabinet is stacked with three ex-IBM board members; the new Attorney General, Griffin Bell, was a partner of King and Spalding, a law firm that does legal work for IBM. To avoid a public outcry of "undue influence," Mr. Bell says he is disqualifying himself from handling the Justice Department antitrust case. The main sign that the case is headed for early settlement was the unexpected, mid-January meeting between representatives of IBM and the Antitrust Division. In attendance were Nicholas Katzenbach, partner of Cravath, Swaine and Moore and general counsel for IBM; Lloyd Cutler, partner of Wilmer, Cutler and Pickering, a Washington law firm with close ties to Cravath, Swaine and Moore; Donald Baker, assistant attorney general in charge of the Antitrust Division; and Raymond Carlson, lead counsel for Justice in the case. One of the noteworthy facts about Cravath, Swaine and Moore in this context is the firm's close relations with leading congressional "anti-monopolist" Sen. Frank Church of Idaho: the firm provided the legal personnel for the writing of the Church Committee Report on the CIA.

IBM just squeezed out of another pending antitrust suit. The decision in the Calcomp case surprised many Wall Street observers, because it was regarded as the strongest antitrust suit yet waged against IBM; Calcomp provided substantial evidence that IBM dominates 60 to 70 percent of the market for general purpose digital computers. The company is now left with million of dollars in legal expenses to pay.

The above developments shed light on IBM's recent decision to invest some of its huge cash reserves in its own stock, the best investment around, now that the antitrust actions are out of the way. The company is offering to purchase up to 4 million shares or 2.7 percent of the 150.7 million shares outstanding, at a potential cost of $1.12 billion, thereby reducing the number of shares outstanding.

EXCLUSIVE

How Rockefeller Drove Bechtel Out Of The Uranium Enrichment Business

Since June 1974, the United States has been incapable of contracting for the forward sale of the enriched uranium required by at least 80 percent of the world's existing nuclear reactors. By that date, U.S. enrichment capacities were fully committed, and new reactors approved for construction had to seek enriched fuel from either Europe or the Soviet Union, whose capacities do not measure up to projected need.

The enriched uranium supply crisis in the U.S. was not the fortuitous result of poor planning, but the intended outcome of a careful plan by the Rockefeller group of New York-based financiers. Specifically, corporate and government action was taken in anticipation of the current capacities short fall; the program design and legislation drawn up to expand enrichment capacities was then subjected to calculated sabotage by Rockefeller group agencies, whose success resulted in the effective elimination of principally the Bechtel Corporation from the enrichment field and an emerging control over the industry by the Rockefeller group's premier oil corporation, Exxon.

In mid-1973, Uranium Enrichment Associates (UEA) composed of Westinghouse, Union Carbide, and the major partner, Bechtel, the world's largest construction company, was created to develop the first private enrichment facility with federal government backing. The Bechtel proposal for a large new gaseous diffusion plant in Dothan, Alabama would have increased the nation's uranium enrichment capability by 33 percent, and would have been made possible by the passage of the Nuclear Fuels Assurance Act of 1975, providing various government guarantees for the venture including government-controlled technology and access to federal stockpiles of enriched uranium in the event of delays which might threaten contract obligations. It was this critical legislation, without which the project was beyond the means or capacity for risk of any private enterprise, that the Rockefeller group "stalled to death," compelling the program's cancellation and leaving the field to Exxon's bogus "alternative" proposal for more modest, inadequate facilities consistent with energy contraction and industrial devolution.

By mid-1973 when Bechtel and its partners formed UEA, the onset of an enriched uranium demand far in excess of U.S. capacities was visible to all informed persons. Concerted efforts to close the gap, however, which Bechtel initiated in December 1974 when it first proposed the Dothan facility, were also visibly at loggerheads with the hegemonic interest in "austerity" inclusive of deindustrialization required by Rockefeller and related powers' dependence on existing world debt-structures. Assuming even modest rates of industrial growth, the existing U.S. capacity of 17,000,000 Separative Work Units (a measure of capacity to "separate" natural uranium into two streams, of which one has an enriched content of U-235 over U-238), would have to be expanded by three to five large uranium enrichment facilities (9 million SWU each) to meet domestic needs and five to seven additional facilities to meet foreign needs by the year 2000 — or there must be a cutback in nuclear energy and industrial activity in general. The largest enrichment capacity outside the United States is the USSR's approximately 7-8 million SWU. In 1977 the Soviets will enrich uranium for Finland, West Germany, and Italy (outside the Comecon) for a total of 1.44 million SWU. Present contractual commitments will include Austria in 1978, Belgium, and Spain, and by 1979 France, Britain and Sweden. The Soviets are currently offering 3 million SWU a year through 1990, with an already contracted high of 2.80 million for 1983.

The British and French each have a 400,000 SWU plant but it is not expected to be in current operation long. The Eurodif consortium, in which France has a 42 percent interest, Italy 24 percent, Spain, and Belgium each 12 percent, and Iran 10 percent, is currently building a gaseous diffusion plant, planned to have a capacity of 3.1 million SWU starting in 1979, 6.5 million in 1980 and capacity of 10.8 million in 1982. This facility is already at least 90 percent contracted out. Eurodif also has a planned second diffusion plant which would have an estimated capacity of 3 million SWU in 1983, 8.5 million in 1985 and capacity of 10 million after 1985.

Another consortium, URENCO, was established in March 1970. This is a joint venture by the Netherlands, the United Kingdom, and the BRD to build a centrifuge plant, expected to have 1.4 million SWU capacity by 1980 and 10 million by 1985, although increased costs may curtail these great expectations. URENCO, too, is presently sold out at 2 million SWU per year present capacity.

Finally Coredif, formed in May 1975 by Eurodif (51 percent), France (29 percent), and Iran (20 percent), will have a 10 million SWU capacity by the mid-1980s and is presently actively marketing.

South Africa, Japan, Brazil, Canada, Australia and other nations are in varying stages of negotiating for, or constructing pilot enrichment facilities.

The Bechtel Project

World dependence on a U.S. energy development policy was directly reflected when the Bechtel Corporation initiated its uranium enrichment program. The Uranium Enrichment Associates was to be an *international* commitment to a nuclear energy future, with approximately 66 percent of the financing to come from foreign sources: France 10 percent, Iran 20 percent, Japan 20 percent, W. Germany 11 percent, and others including Italy, Switzerland, Taiwan, Spain, Portugal, and Austria 5 percent. UEA expected to sell two-thirds of its product to foreigners, particularly the major contributors. Bechtel had already proved itself to be one of the most aggressive of the nuclear energy interests. In early 1971 the French CEA had announced that it had chosen Bechtel to conduct initial site selection of the Eurodif plant. (Not coincidentally the Gaullist CEA had earlier decided to work cooperatively with GE's arch rival, Westinghouse, on nuclear reactor construction). By 1972 Bechtel was working on a variety of enrichment programs with Canada's Brinco. In 1973, cooperation began with the Japanese on the conceptual design and marketing design for a 9 million SWU base-line gaseous diffusion and centrifuge plant. In 1973 Bechtel began studies with the Australians for similar enrichment facilities. By 1975, Bechtel was studying the possibilities of constructing enrichment facilities in Zaire and was providing unclassified enrichment data to Iran. In early March, 1975 Bechtel officials met with the Brazilian Minister of Mines and Energy offering them "the entire gamut from the development of the (uranium) mine, ore processing, enrichment, fuel processing, through the design and construction of the nuclear power plants themselves."

The danger of permitting Bechtel to begin the Alabama facility was clear to Rockefeller interests. Office of Management and the Budget's Lynn, who generally backed the program, pointed out in the 1975 hearings on the Nuclear Fuels Assurance Act: "It seems to me reasonable to believe that private firms would be more aggressive than a Government agency or corporation in pursuing foreign customers...." Heading the opposition to the legislation, Congressman Seiberling (D-Ohio) picked up the same theme from the negative perspective in the July floor debate, "...if we start creating a private industry for uranium enrichment, we are just going to create one more lobby, one more pressure group pushing to sell more and more regardless of controls. Because of the commitment of 60 percent of the product of the UEA plant to foreigners, they will be lobbying too, as will their governments...."

Rockefeller interests went after the Bechtel project by going after the enabling legislation, the NFAA, which had been submitted by President Ford June 26, 1975.

Like Westinghouse, which naively accepted John J. McCloy of Chase Manhattan Bank as their counsel, Bechtel chose Sherman and Sterling as their legal advisors. Longstanding lawyers for Citibank, the law firm was hardly pleased with Bechtel's encouraging Brazil and Zaire to use their currency reserves for nuclear energy development rather than debt service, and Sherman and Sterling partner John Bullitt had already been reruited as treasurer to New Directions, an arm of David Rockefeller's Trilateral Commission, which was drafting and lobbying for anti-nuclear energy legislation

U.S. Uranium Enrichment Critical

Uranium enrichment involves separating the two principal isotopes found in uranium in its natural state - U-235 and U-238. By weight, 0.711 percent of natural uranium is U-235. The work done to separate these isotopes to increase the U-235 content in a portion of the material leads to the productive capacity measure, Separative Work Units (SWU), which is not a quantity of material but a measure of the effort required to separate a given quantity of uranium into two streams, one having the higher percentage of uranium-235.

Most domestic and foreign commercial nuclear power reactors require slightly enriched uranium — between 2.0 and 4.0 percent: Normal separative work produces only one stream with this percentage of U-235. However, the internal economics of the process are such that the other stream, called the "tails assay," can have its content increased so that it to is more enriched. However, since this involves less efficient separation, a change of the "tails assay" from, for example, 0.2 to 0.375 percent to permit the same separative work unit to produce more enriched uranium would require 44.5 percent more natural uranium input or feed.

Given current ERDA enrichment contracts, the need for new enrichment plants cannot be delayed significantly by raising the "tails assay" for the indicated increase in output. In fact, present U.S. enrichment capacities are fully committed given even a 0.3 percent "tails assay." While some increased output could be achieved by increasing this to 0.375 percent, this would, as suggested, seriously strain the capacities of the uranium mining industry to provide raw supplies. The seriousness of the present enriched supply shortfall is indicated by the fact that without additional facilities, a "tails assay" of precisely 0.375 percent will be required to meet even the U.S. demand already written into forward contracts by ERDA.

With 1977 world demand at 10 million SWU in 1977, the U.S. will deliver 4.7 million to foreign and 5.3 million to domestic customers. Total SWU in the U.S. will be 15 million with the excess going to the government's enriched uranium stockpile, presently at 21 million SWU and expected to reach approximately 40 million SWU by 1981. ERDA's present policy, as the Rockefellers would have it, is to draw down the stockpile to meet domestic and foreign requirements as demand increases — rather than construct new plant for the 1981-85 period's demand.

and sponsoring violent anti-nuclear plant demonstrations.

While Sherman and Sterling monitored Bechtel, the Rockefellers mounted a campaign against Bechtel in Washington, D.C. On Capitol Hill, Jim Cubie, formerly of Congress Watch and at that time a Chief Lobbyist for New Directions: Gerald Warburg of the banking family and Congressman Bingham's staff (D-NY), Ann Wray of Sen. Cranston's (D-Cal) office with Robert Alvarez of the Environmental Policy Center coordinated the operation. Additional opposition to NFAA was mobilized by the Natural Resources Defense Council, recipient of approximately $80,000 of direct Rockefeller money in 1975 alone, Scientists Institute for Public Information, and Friends of the Earth, all three recipients of funds from the Rockefeller allied Kaplan Fund which *Newsweek* in 1967 had identified as a "CIA conduit."

Additionally, *Washington Post* columnist Tom Braden, an admitted CIA agent, issued a vitriolic attack on Bechtel, targeting them for their involvement in the Alaska pipeline project.

Bechtel appeared to have had little comprehension of the divergent interests of the Wall Street group and the production-development orientation of industrial capital.

Although the NFAA survived Bingham's maneuvering in the House of Representatives by a harrowing 192-193 vote on Aug. 4, 1976, the Senate version was tabled in that chamber at 8:30 P.M. one evening, just prior to the Senate's adjournment for the election campaign, when Bechtel's supporters were not in attendance. According to Ann Wray, Warburg called a meeting of sympathetic Senate staffers and told them, "It's all up to you." Then, said Wray, "We just stalled the thing to death."

With the NFAA of 1975 defeated, Goodyear and the Williams Company which had become Bechtel's partners left UEA. Shortly thereafter, Bechtel itself, terminated the project. Reliable sources report that ERDA has decided to go ahead with an extension of the Portsmouth, Ohio facility, putting plans for Alabama on an obscure shelf.

Meanwhile Exxon, already a major supplier of oil, coal, and mined uranium, had just completed contracts with ERDA for construction of a nuclear fuel reprocessing plant at Oak Ridge, and have purchased a 2,000 acre site nearby in anticipation of passage of a new NFAA.

Commenting on Cubie's threat to end nuclear reactor construction altogether by making financing of them politically too risky, a senior partner at the Wall Street investment banking firm of Loeb, Rhodes, reports that in the U.S., only one new contract for a nuclear reactor was signed in 1976. In 1973, 36 had been signed. "There is now an effective international moratorium on nuclear energy financing," he added. "There is no question that the environmentalists have been successful."

by Alfred Ross

Atomizing Desalination Process Development And California Drought Relief Plan

The following article outlines a proposal presented today at a special press conference at the Sacramento State Capital by Calvin G. Larson, California Staff member of the Fusion Energy Foundation and U.S. Labor Party candidate for Mayor of Santa Clara. Mr. Larsen is a registered civil and agricultural engineer, with 10 years specialized experience in water resources. Working in collaboration with Dr. Lloyd Motz, Professor of Astronomy at Columbia University and member of the Science Advisory Board of the Fusion Energy Foundation, Mr. Larson has designed a plan for immediate application of an atomizing desalination process which if adopted would alleviate the drought stricken state of California. In a unique application of simple hydraulic principles, this laboratory-demonstrated process can provide a cheap, low-energy, and highly practical method of seawater desalination. The implications for agricultural development are tremendous not just in the U.S. but other water short areas of the Mideast, Africa, and Latin America.

The Drought Problem

If Californians demanded their economic rights, a low-cost, energy efficient, and laboratory-proven system of seawater desalination would break the death grip of the worst drought in history by the spring of 1978. Life-saving rains in the western U.S. cannot be expected next year due to a northerly 15 to 20 degree shift of the metastable high and low pressure zones in both northern and southern hemispheres. This shift was caused by the desperate denudation of over 100,000 square miles of Brazil's Amazon rain forests, encouraged by the debt-hungry Wall Street financial cabal and their lackey economists to establish primitive ranches for displaced city dwellers. (A similar de-urbanization is proposed for New York City by these same Big MAC controllers!) Continuing rains carried the exposed and fragile humus to the delta, leaving barren, untenable land. Deprived of about one-tenth of its heat absorbing vegetative energy-pumps (photosynthesis, oxygenation and evapo-transpiration), the once dominant Amazon system passed a critical threshold, lost its capacity to maintain a metastable low, and thus shifted meteorological patterns polewards. Until the self-perpetuating drought in the Amazon is reversed by sound re-forestation methods, all the empty reservoir capacity in the world will not help California.

Incredibly, some people in California, alienated from a sense of their own self-worth, still deny the impending energy and water crisis. Without green grass, alfalfa or other cheap forage available, beef herds, including breed stock in California and throughout the west are now being sold for slaughter at a loss to ranchers and at temporarily reduced prices to consumers. Without snow pack in the Sierra, both hydroelectric power and surface water for irrigation will be drastically curtailed, forcing "roving blackouts" on cities, industries and agriculture. Without the 2000 megawatt Diablo Canyon nuclear fission power plant, hounded by "environmentalists," there will not be enough power to pump from the deep groundwater basin in the Central Valley, where 20 percent of this nation's vegetable and truck crops are produced.

California's urban economy is not immune to the effects of severe cutbacks in crop and meat production. Not only will prices double or triple (if certain items are available at all) but reduced farm income means mass bankruptcies in the energy-intensive, debt-burdened, low-profit margin agri-business industry which represents a net worth of 8 billion dollars a year — more than half of California's gross state product. The shock effect on California's banking institutions, support industries (fertilizer, pumps, pipes, farm machinery, etc.) and transportation sector (shipping, rail and trucking) will dry up purchase orders, shipping consignments and regular or anticipated employment of industrial workers, farm workers and support service personnel.

What about sanitation and health conditions? State health authorities are warning the public about rodents in the Sierra — 2 cases of bubonic plague occurred last year, one man died. The increasing rat population infesting San Francisco's sewers boldly roam the trash cans at night — the bedrooms of the city's itinerant winos. Intensified by water conservation programs, the preconditions are ripe for outbreaks of marine typhus, Weil's disease, trichinosis, and bubonic plague.

And what solutions do the small-minded President Carter and Governor Brown propose? Long-term austerity, conservation, and solar power (which has recently been openly ridiculed by competent energy scientists in Congressional testimony) are their "answers." Such "answers" blatantly reject the real motivating force behind a healthy economy — the continuing research, development and assimilation of higher ordered technology with a corresponding increase in labor skills. Carter's budget cut of 18 western dam projects for so-called "environmental reasons," many nearly completed, and Brown's insulting rejection of the "cowboy ethic" of agricultural water supply expansion and his table top demonstration of toilet tank "dams" at the recent western governors conference emphasizes that these men and their advisors (the purveyors of the Brazilian "miracle") are not working on the solution — they are part of the problem.

Californians correctly sense that their present standard of living is integrally tied to new technological developments. The electronics and computer industries are continuing to produce higher quality mini-computers and hand-held calculators at less cost for more and more routine industrial and household applications. Let's apply that methodology to energy and water problems before it's too late.

The Atomizing Desalination Process

In the early 1970s Dr. Lloyd Motz, Professor of Astronomy at Columbia University and now a member of the Science Advisory Board of the Fusion Energy Foundation, worked with a group of scientists in developing a new desalination process. This process uniquely utilizes the properties of water's liquid to vapor phase change under ambient temperature and atmospheric pressure conditions. The process is driven by a judo-like application of Bernoulli's principle.

Seawater is pumped at high velocity and extremely low pressure through a series of specially machined nozzles into a vaporization chamber (Figure 1). The turbulent jet atomizes into small droplets about 10 microns in diameter with high surface area to volume ratios. The droplets rapidly evaporate as long as their pressure is below the liquid-vapor line (Figure 2). This is assured by the Bernoulli principle for all droplet velocities in excess of 1400 cm-sec (46 ft-sec).

As droplets reduce in size, sodium and chloride ions are brought together by coulomb attraction. When the size of solid particles exceed the size of their droplet, all solids in suspension rapidly drop out. In their laboratory model Dr. Motz and his colleagues found that 76 cm (30 inches) from the nozzles liquid droplets could no longer be detected on a glass surface.

Two keys to the exceptional efficiency of this process should be noted. One is that the entrance of the nozzle

FIGURE 1

ATOMIZING DESALINATION PROCESS

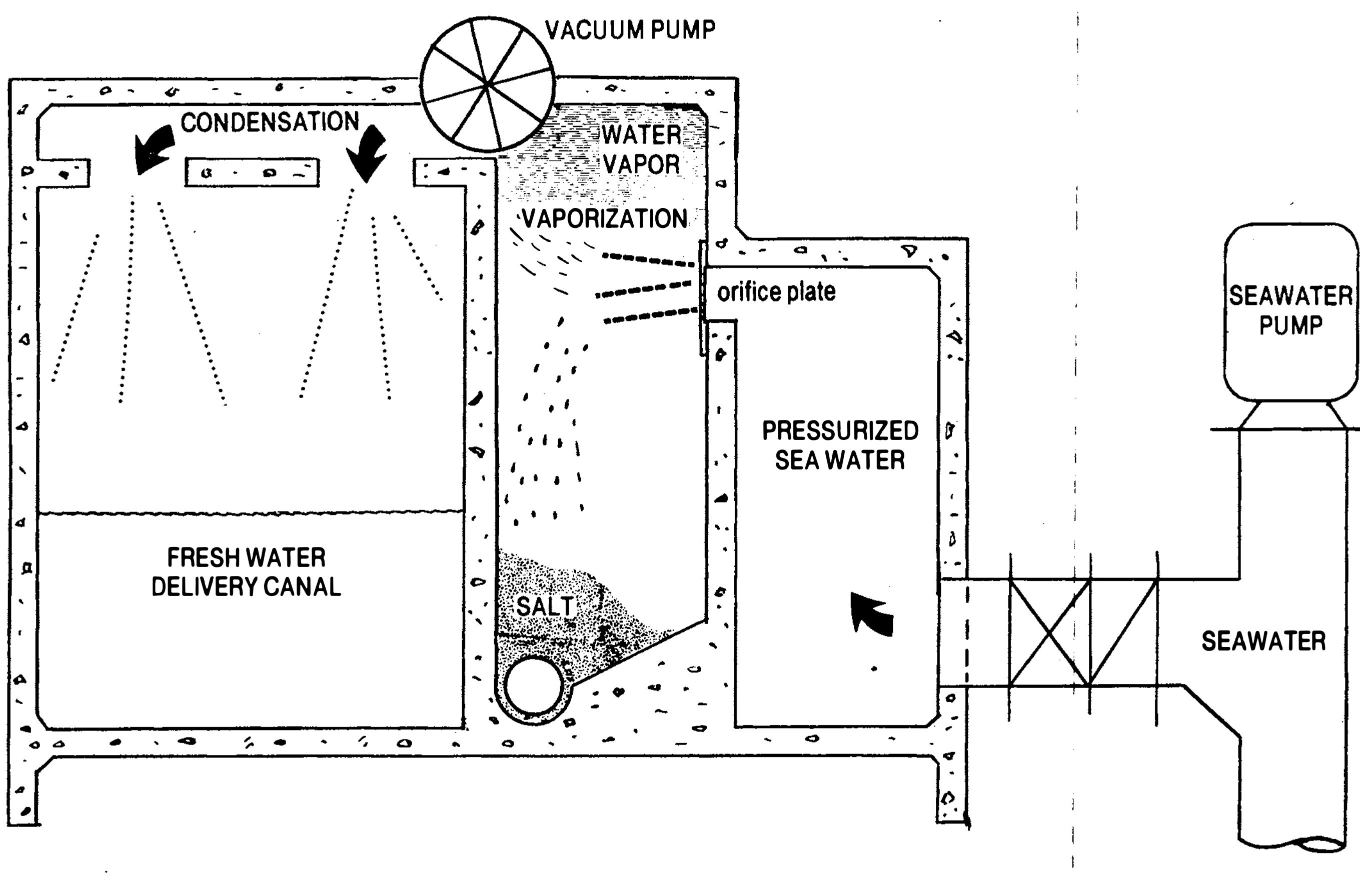
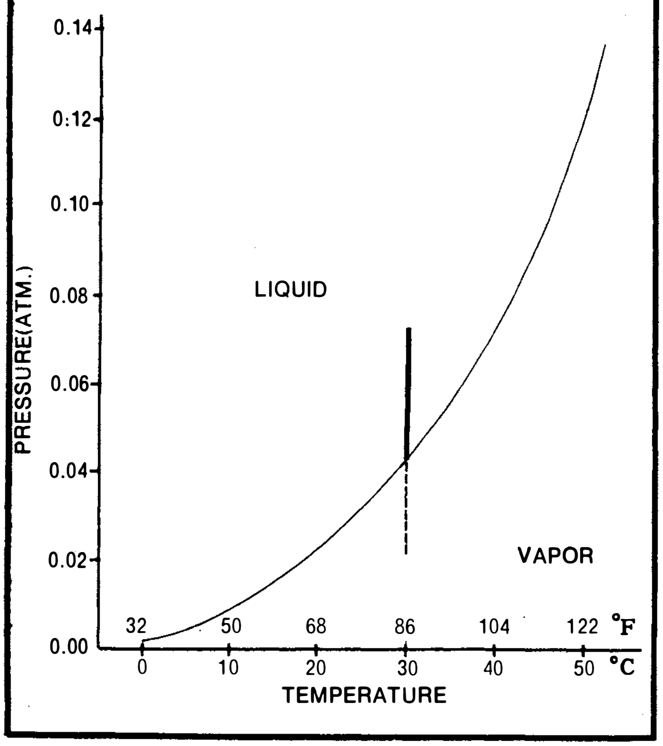


FIGURE 2



orifices will be designed and machined to conform with the shape of the contracting stream from the pressurized chamber. This virtually eliminates contraction losses and can cut energy use and design pump horsepower in half. The other key is that as the ratio of surface area to volume of the atomized water droplets increases, the rate of evaporation increases. This interrelated process continues exponentially until the droplet is entirely vaporized.

The salt collected from this process will be automatically drawn from the vaporization chamber to nearby storage where trucks or barges can transport it for marketing. A trace element of this process, lithium, will be important as a fuel component for controlled nuclear fusion power.

The remaining elements of the desalination process are stock equipment and standard civil and mechanical engineering designs. To expedite installation the vacuum pump, condensing coils (with refrigerating unit if cooling water is unavailable), seawater pump and all electromechanical controls and telemetry equipment can be pre-ordered during final design of each site-specific application.

The versatility of these units is amazing. They can be installed as individual units at inland groundwater wells with high concentration of dissolved solids, as modular units for municipal or industrial use or as units connected in series along a coastline or estuarine levee, creating a virtual river of fresh water for cities, industries and agriculture.

The cost of the system is indeed nominal, even when compared to conventional reservoir water systems. For municipal systems in the San Francisco Bay Area, units can be advantageously located along the water front with regard to existing water treatment facilities. A group of 3 desalination units — one for standby reserve during normal maintenance — was used to demonstrate costs, excluding bacteriological treatment and conveyance from the site. With a capacity of 1.42 cubic meters per second (cms), each unit (Figure 1) will cost roughly $500,000, including site preparation. Assuming a 2' percent water loss factor (which would be very high for an efficiently designed unit) the total annual water delivery of the system would be 58,000 acre-feet. This system would supply 52 million gallons per day, sufficient for a city of 230,000 at 225 gallons per day per capita. The following tabulation shows the estimated energy requirements and annual cost per acre foot of this system:

Capital: $1,500,000 (20 years at 7%)	$142,000
Energy: 12,700,000 KWH at $0.05	635,000
Maintenance at 6% of Capital	93,000
Total Annual Cost at Site	$870,000
Unit Cost at 58,000 AF-Year	$15.00-AF

For agricultural systems, extra units are needed to offset peak summer demands and capital costs would be about 15 percent higher, unless the system contains reservoirs that could be used to equalize delivery and demand. The overall cost of such systems would be about 7 percent higher than shown, or $16.00-AF.This compares favorably with current multi-flash desalination with a cost of $400.00-AF.

Design Development

The provisions of 2 federal laws must be immediately implemented to save California's vital agricultural industry. The Saline Water Act of 1952 provides funding for the development of prototype models of low-cost desalination methods. The U.S. Office of Saline Water in conjunction with the California Department of Water Resources must be authorized and directed to expedite the development of the atomizing desalination process without delay. Firm and immediate authorization of 2.0 million dollars will assure viable design development prototypes. All relevant elements of government and industry must be alerted and mobilized in this effort. Dr. Lloyd Motz has indicated his willingness to participate fully.

The powers of the National Defense Production Act must be immediately invoked to assure that all material, equipment and engineering services are available for large scale implementation without delay. This means assuring that metal working, pump, pipe, valve, electromechanical companies and supporting infrastructure nationwide are guaranteed an adequate energy supply, skilled labor force, materials and support services to gear up for full capacity production when large scale orders and specifications arrive for the California Emergency Plan. The impetus of this plan will spark similar plans throughout the western and midwestern U.S. wherever saline surface or groundwater is available in sufficient quantity for either crop irrigation or livestock water.

If vigorously initiated in March, the design development of the atomizing desalination process can be completed in June. Concurrently, site specific applications throughout the state should be studied in rigorous detail.

California's vital agricultural industry — representing 8 billion dollars a year, or more than half the gross state product — must be aggressively defended by pro-growth political, civic, industrial and agricultural leaders. The following immediate and near term plan proposed by the U.S. Labor Party must be vigorously initiated to ward off an impending economic and environmental holocaust beginning in California this summer.

In the immediate term the following measures will reduce the damage to a fraction of the present scope:

1) The State and Federal government should exhaust all means of assuring that the Central Valley in particular and all other agricultural areas of the state are provided with sufficient pumps, motors, pipe and ancillary equipment for drilling new or deepening existing irrigation wells. An inter- and intra-state inventory of well drilling firms, equipment, materials and sources of funding should be initiated and made available to all farmers and ranchers. All efforts to expedite institutional constraints, industrial back-logs and transportation should be made.

2) The huge Lake Powell and Lake Meade Reservoirs on the Colorado River should be depleted by 2 to 3 million acre-feet to ensure adequate irrigation, municipal and industrial supplies to the Imperial Valley, Los Angeles and San Diego counties.

3) Immediately authorize the licensing and expedite the completion of the Diablo Canyon nuclear fission plant. Its 2000 megawatt capacity is absolutely essential for the groundwater pumping in the Central Valley. Negotiate new or increased sales of electric energy from Canada.

4) Initiate the design development of the atomizing desalination process. This process is the only viable solution by 1978 in the face of the deteriorating meteorological condition caused by the immense deforestation in the Amazon rainforest.

Near Term: In the near term or by the spring of 1978, prototype-tested modular units of the atomizing desalination process will be designed and installed at pre-selected locations on the California coastline and estuarine systems. The 2 most important facilities would be located just west of Stockton — one near the Clifton Court Forebay pumping plant of the state-operated California Aquaduct and one near the Tracy pumping plant of the federally-operated Delta Mendota Canal. The capacity of these facilities should be sized to supply this year's estimated irrigation shortfall of about 7 million acre-feet. Modular units of the atomizing desalination process would be installed along the levees approaching the existing state and federal pumping plants. The units would draw both riverine and intruded tidewater from the waterways of the delta and deliver fresh water to the existing pumping plants.

The estimated cost of this combination of facilities is 350 million dollars. A total of 700 units with capacities of 1.42 cms would be required. They would use 1,230 MWH of electricity during this year and require 250 megawatts of electrical capacity during the peak month.

Another important location for a desalination plant is in Rock Slough near the intake works of the Contra Costa Canal. This system supplies most of the urban area of Contra Costa County. Tidewater intrusion now has caused the intake quality to exceed minimum state health standards. This condition is being used as a club by the Environmental Defense Fund to stop the San Felipe Project which is planned to service Santa Clara, San Benito and Monterey Counties. The Contra Costa Canal desalination facility would cost about 6 million dollars.

Other potential locations for municipal, industrial and-or agricultural desalination plants are:

1) In Tomales Bay near Dillion Beach on the coast about 40 miles north of San Francisco to supply central Marin County between Santa Rosa and Petaluma.

2) In Monterey Bay at Santa Cruz, Watsonville, Castroville, Seaside and Monterey to supply both municipal and agricultural water for lands threatened by seawater intrusion of present aquifers.

3) In San Luis Obispo Bay to supply the San Luis Obispo Santa Maria area.

4) On the coast near Lempoc for municipal and agricultural supply.

5) On the coast near Ventura and Oxnard to alleviate seawater intrusion in the Santa Clara River.

6) Select locations between Fresno and Bakersfield where stagnant groundwater high in dissolved solids may be reclaimed for irrigation.

7) Any other coastal or inland area that needs a fresh water supply.

The development of this revolutionary new desalination process will have a jack hammer effect on the California Water Plan as presently conceived. Previously regarded as infeasible, desalinated seawater will soon provide the long term firm water requirements of California's coastal cities, industries and agricultural land, freeing inland reservoirs and conveyance systems for other operating plans.

'A Bunch Of Wild Red Indians...'

Even the U.S. editor of the Financial Times, *normally staunch supporter of the Carter Administration, has grudgingly acknowledged the "offstage mutterings that can be heard in Europe about President Jimmy Carter's foreign policy." Major opposition to Carter's confrontationist policies — from the dissidents to energy — erupted this week in the pages of the European press. The Financial Times tried to ridicule European (and U.S.) opposition by characterizing their view of the Carter Administration as " a bunch of wild Red Indians with no experience and no control over their tongues, loosely gathered under a tribal chieftain who is trying to run before he has learned how to crawl." But it is clear that much of Europe is recognizing the Carter strategy for what it is — a dangerous confrontationist game played not only against the Soviet Union, but the oil-producing nations, the Third World, and Europe itself on the key issues of defense, energy, and foreign policy.*

The following are extracts of commentary from key European newspapers and individuals issued during the last week on the dangers inherent in the Carter Administration's policies.

On Energy

L'Unitá, March 3: Reported that layoff threats from the German company Mannesman is a "strong warning from the industrialists to the government not to modify ... the program of nuclear transformation of the energy base of the country and to defend firmly, in the face of the attacks from the United States of America, the contracts signed or to be signed with foreign countries" on nuclear power.

Herman Abs, former chairman of the board of West Germany's largest bank, Deutsche Bank and the dean of West German bankers, told the stockholders of West Germany's largest electricity producer, RWE, during a speech March 3 that "When I hear people talking about lower energy consumption, I get the feeling that they finally want to implement the Morgenthau plan."

On Foreign Policy, Dissidents

Peregrine Worsthorne, columnist for the *Sunday Telegraph* wrote on Feb. 26: "These are the deep and dangerous waters for Western statesmen to fish in, particularly for an angler as inexperienced as President Carter. Conceivably the Western Interest could be served by encouraging the dissidents. But to do so as part of a political response to a concerted campaign by a handful of Soviet writers, artists and scientists, whose present eloquence and past suffering have aroused a wave of Western emotion, makes no sense at all. The West should honor their nobility and courage. But to heed their advice as to policy would be to go far beyond the call of moral duty, or more important, that of common sense."

Countess Marion von Doenhoff, publisher of West German weekly *Die Zeit* writes in the March 4 issue: "Do we have to put our confidence in this kind of Carter foreign policy, or is it merely a new style that will change with time? One finds few answers in Washington these days, especially on the issues of Carter's utopian nuclear disarmament, the human rights issue and the linkage question. The Americans themselves are full of confidence in Carter ... but policies of morality like those of Dulles and Wilson did not make the world any more moral, but did lead to catastrophes and dead ends.... A great power like the Soviet Union will not accept any conditions and Washington must be clear that the Europeans will not go along with such a policy."

Lord Chalfont, defense analyst for *London Times* and former under-defense minister in the 1964 Wilson Labour government, wrote in the *London Times* Feb. 28 that Carter's decision to cut the technology-advanced weapons systems could put the West at a severe disadvantage: "It seems clear, therefore, that President Carter is taking a very considerable risk — presumably one which has been deliberately calculated. If, as a result of his action, he persuades the Soviet Union to initiate similar delays or reductions in its own defense program, we may be about to see the first serious step towards reversing the dangerous spiral of the nuclear arms race. If, on the other hand, the Soviet Union takes advantage of President Carter's gamble to press forward with the technological and numerical improvement of its own missile system, the West will be left with no alternative but to devote massive resources to a frantic attempt to restore the balances. What is more important, it may be too late. The advance of military technology is now so explosive that it is quite possible for the side which momentarily slackens its efforts to be left irrevocably behind."

Il Giornale Feb. 22 comments that public opinion is split and amazed by the demogogic, populist and messianic tones of Carter's speeches. "The Carter Administration has introduced again the word détente, but how can this concept coexist with the campaign for the respect of human rights in the USSR ... since if pushed to its logical conclusion, cannot but provoke a head-on clash between the two systems? Carter proposed to start again the relationships with Cuba, but he subordinated this to conditions that everybody considers inacceptable to Castro, so what is the sense of this proposal?"

Le Figaro Feb. 23 writes, "Following the refusal of French President Giscard d'Estaing to meet with Soviet dissident Amalrik, State Secretary to Foreign Affairs Pierre-Christian Taittinger was asked by the diplomatic press corps what he thought of the Carter Administration stand on the dissident question. Taittinger expressed hope that the Belgrade conference, which will be a follow-up to Helsinki, will not turn into a circus where participants would content themselves with setting up Commissions on American Indians rights in the reservations, or the rights of Soviet mathematicians. Answering American criticisms towards the French government policy of ignoring dissidents, Taittinger replied: 'France has no lesson to learn from anyone, especially on the question of refugees, since it is she who, proportionally, welcomes the greatest number of refugees from all political tendencies. President Carter has perhaps been a bit too hasty, but he is soon going to realize, no doubt, that the spectacular is not sufficient to have an impact in the big international game.' "

On the Bergland Wheat Deal

Neue Zürcher Zeitung, Swiss financial daily comments March 1: "U.S. Secretary of Agriculture Robert Bergland's statements have been in a disturbing form ever since he came into office demanding regulations on some prices and markets. The U.S. position on the wheat cartel would sabotage the western negotiating positions at the North-South conference on raw materials.... The first weeks of the Carter Administration have been characterized by various mistakes. President Carter should explain Bergland's statements."

Frankfurter Allgemeine Zeitung writes March 1: "Bergland's position is undermining the credibility of the western countries at the North-South conference. This makes it more difficult to explain to the Third World that world markets must be organized along the lines of the free market economy."

Sueddeutsche Zeitung writes March 1: "Bergland's aim is not so much to control markets and prices, but to use wheat as a weapon against the OPEC oil cartel, during the negotiations about the price of oil and the volume of oil deliveries."

Carter, Interpol Thwarted In Drive On Schmidt Cabinet

WEST GERMANY

The Carter Administration would be willing to provoke an international crisis around the city of West Berlin in order to break up West Germany's advanced nuclear power industry, charged the leading Ruhr industrialist daily *Handelsblatt* Feb. 25. Addressing Carter's insistent sabotage efforts to force either West Germany or Brazil to cancel a joint treaty for importing $4 billion worth of nuclear power equipment to Brazil, the daily stated, "If Brazil stands firm (against U.S. pressure) and the United States then brings in its role as the most important ally for protecting Berlin, for better or for worse, we would have to give in."

At a recent meeting of the stockholders of the Rheinischewestfalische Electrizitaetswerke, the largest utilities corporation, prestigious Deutsche Bank chairman Hermann Abs warned of the very grave consequences which await heavy industry if the government caves in to Carter's demands for cancellation of the Brazil deal (see above).

Interpol Wants Control

Simultaneously, the Rockefeller-controlled secret service apparatus Interpol is now embroiled in a fierce skirmish with the cabinet of Chancellor Helmut Schmidt, which is moving to cut off Interpol schemes for gaining more direct control over the Verfassungsschutz (Agency for the Protection of the Constitution), the strictly domestic arm of West German intelligence, operating under the jurisdiction of the Federal Interior and Justice Ministries. In the past ten days, two major scandals were ignited by Interpol-linked networks to begin a public campaign to "change the laws" governing Verfassungsschutz activities.

A Czechoslovakian consular official named Simko, who was stationed in the city of Cologne, suddenly flew to London Feb. 24 to turn himself in as a spy. Simko's testimony is being used to discredit détente and East-West trade; at the same time that Simko issued a list to the West German press of alleged Czechoslovakian agents — all of whom were economics aides — Christian Democrat Werner Marx, a Rockefeller-linked Atlanticist, publicly stated that the case proved that détente as a whole was a myth, and demanded that Chancellor Schmidt cancel a pre-planned state visit by Czech Prime Minister Husak.

The Schmidt cabinet denounced Marx's statements as "exaggerated" on Feb. 26, and succeeded in getting the story played down in the press and media. However, the same day, an even larger public uproar was provoked by *Der Spiegel* magazine, a conduit of Interpol "intelligence leaks." The Feb. 28 issue of *Der Spiegel* charged Interior Minister Werner Maihofer with illegally bugging the apartment of a former nuclear physicist suspected of having links to international terrorist organizations behind the December 1975 shoot-out at the Vienna conference of the Organization of Petroleum Exporting Countries (OPEC). The specifics of the story around Dr. Traube, the physicist, have a number of discrepancies. However, the scandal is being pushed to create a hullaballoo around Verfassungsschutz infrigements of "human rights." *Der Spiegel*, for example, ran an analysis of Verfassungsschutz legal jurisdiction which states that although the Basic Laws allow for the agency to exist, they do not govern what it is permitted to do, forcing it to employ "KGB methods."

In addition, an array of "left-wing" organizations, headed by the agent-ridden youth organizations of the Social Democratic and Free Democratic parties, are demanding that Interior Minister Maihofer resign. Social Democrat Peter Von Oertzen, a long-term, documented leader in "left-wing" Rockefeller networks, is even sponsoring a law suit against allegedly illegal collaboration between the Verfassungsschutz and the Bundes Nachrichtendienst (Federal Intelligence Service, the international investigatory body which interlocks with the CIA).

Chancellor Schmidt's cabinet has made considerable progress in turning this latest scandal around, and using it against its initiators. The Christian Democratic parliamentary opposition, through its judicial expert Friedrich Vogel, withdrew a request for Maihofer's resignation March 1, and now is giving him official backing on the grounds that there was sufficient cause for alarm to justify the bugging. The overriding consensus in the national press is that a full-scale investigation of the laws governing intelligence activities is justified, but Maihofer committed no infringement of the law. On March 4, Federal Attorney General Buback reported that he is considering taking *Der Spiegel* magazine to court for 'high treason' for publishing top secret documents.

Pro-Nuclear Camp Strengthens

For the first time this week, key spokesmen of industry and government have endorsed the necessity for research into fusion power. During a television debate March 2, Christian Democrat Gerhard Stoltenberg, leader of the pro-growth industrialists forces, identified fusion power as "the real chance for the future and...a real alternative." Virtually the same words appeared in the *Frankfurter Allgemeine Zeitung* lead editorial on energy Feb. 28.

Within the Social Democracy, the influence of West Germany's environmentalist movement called the "Citizens' Initiatives" group is clearly on the want. In a major shift reflecting the regional effects of a concentrated national debate on the merits of nuclear power recently started by the government, the Stuttgart regional SPD organization elected a pro-fission nuclear physicist this week as their party chairman.

In closest coordination with the British cabinet, the pro-nuclear energy forces in West Germany are beginning to broaden their offensive to include a European-wide push to salvage government-financed research and development programs. Stoltenberg's regional newspaper, the *Kieler Nachrichten*, prominently endorsed the British avionics corporations model for a NATO early warning system, and rejected the U.S. AWACS model. On March 3, the *Financial Times* predicted that the early warning project "threatens to become another source of friction between Bonn and the new U.S. Administration."

A European Strategy For Israeli-Arab Cooperation

West Germany's Frankfurter Rundschau Feb. 26 reviewed in detail the progress achieved by the Euro-Arab dialogue since its inception. Correspondent Erich Hauser wrote from Brussels:

A railway line across the North African coast passing through Casablanca to Cairo; a road- or railway link from Cairo to Khartoum (Sudan); a bridge or tunnel from North Africa to Europe via Gibraltar — these are only a few of the bold projects which are being sounded out in the dialogue between the European Community and Arab League.

Mammoth contracts for West European industry and construction corporations also promise to emerge from the planned expansion of Arab port ...in addition to a broad program for housing construction in a few Arab countries... Between April and June, the various Euro-Arab expert committees for these plans will convene in a series of meetings. The decision to do this was reached at the recent meeting of the General Commission of both sides in Tunis. It was the second meeting of its kind: the first occurred on May 20 in Luxemburg.

Since the Copenhagen summit conference of the European Economic Community in December 1973, during which the chiefs of state declared their readiness to open dialogue with the Arab nations as a result of the shock effect of the oil crisis, there has been much discussion and planning, but still little action. ...The EEC states...knew, despite frequent disruption attempts by former Foreign Secretary Henry Kissinger, that the dialogue had to continue, without disappointing the Arabs, but also without compromising their relationship to the USA and to Israel...

Agricultural problems in the highly populated Arab countries are also part of the dialogue. Priority items are the plans of the Somalians and the Sudan for their agricultural economy. As soon as a Mideast or Palestinian peace is brought about, Israel's rich experience in irrigation, agrarian development and solar energy could fill out the broad-sweeping European-Arab plans for the future.

The EEC has been able to conclude a cooperation on agreement with Israel despite the dialogue with the Arabs, without endangering talks with their Arab Mediterranean partners. Perhaps, thereby Europe has prepared a long-term regional cooperation between the still hostile neighbors; for, the Arab states as well as Israel have need for industrially developed trading partners in the future — for their major import markets for products which they have in surplus or which for lack of consumer purchasing power and high import needs they have not yet been able to sufficiently market.

French President Calls For 'Saving The Environment' A La Carter

FRANCE

President Giscard d'Estaing kicked off a campaign for French environmental legislation, "the toughest in the world," in a television appearance on Feb. 28.

Calling on all Frenchmen to build a "French style environment" Giscard designated Jean-Jacques Servan Schreiber, an opponent of nuclear energy for public or military use, to head the reforms. Servan Schreiber's role will be akin to that of energy czar Schlesinger in the U.S·: to use environmental impact studies and radical ecology movements to cancel industrial projects and halt the building of nuclear power plants. "Footdragging will no longer be tolerated" said the President referring to the pro-development political and business figures (Gaullists or the Republican Independants of his own party — ed.) who have been stalling on carrying out the environmental decrees.

Support comes from a ragtag of Maoist grouplets which have intensified their propaganda against nuclear energy and led commando operations to sabotage the construction of nuclear plants. "Friends of the Earth" leader, René Dumont spoke on governmental radio France Inter Feb. 27 on the need to impose the "Chinese model" in France: replacing costly technological investments by labor-intensive industries. "France's energy consumption should be reduced to bring its yearly rate of growth from about 4 percent to 1 percent said Dumont. Asked about the relations between his movement and the President, Dumont answered "We will support the President once he halts the nuclear power plants program."

The President indicated his willingness to carry out Dumont's wishes when he stated: "Nuclear energy is essentially a substitute source of energy for countries deprived of other energy sources," thereby opening the way for a shift, away from the nuclear energy commitment of the National Electricity program and towards using France's 'national resources' such as coal in labor intensive coal gassification projects. There are "grave environmental and security problems with nuclear energy, problems which must be carefully looked into" the President added.

Who Is René Dumont?

Rene Dumont became known in France when he ran on the ecology "Friends of the Earth" ticket in the 1974 presidential elections. As an agronomist he worked for the Food and Agricultural Organization starting in 1942 before it was incorporated into the UN. Dumont traveled widely studying one underdeveloped country after another and has a history of being thrown out of progressive countries, notably Algeria and Cuba. Cuba exposed Dumont as a CIA operative. It is reported that Dumont was once invited to an official party in Algeria where the national dish, Mechoui, (roast lamb) was served. Dumont gave the guests a lecture on how Algerians should stop eating mutton and eat grass instead, which he proceeded to do as a demonstration. Dumont prides himself of being a close friend of Club of Rome head Aurelio Peccei and the two collaborate in studies on zero-growth.

Bullock Report Debate Spreads To Europe

BRITAIN

The findings of the Bullock Committee on Worker Participation has sparked an intense debate which has spread from Britain to the rest of Europe and even to the United States. At issue is not the number of workers on a company board, their responsibilities, accountability, etc. — although this is the form of the debate — extension of "industrial democracy" to an increasingly skilled working population to lay the basis for technological change and industrial growth throughout the European economies.

The belief of Lord Bullock (chairman of the Committee) that "we are at the beginning of a change which will spread to all countries of western Europe," was borne out by the active organizing efforts of Luciano Lama, the general secretary of the Italian Communist and Socialist national trade union confederation. In West Germany for meeting with West German trade-union leaders in preparation for the May meeting of the World Confederation of Trade Unions, Lama cited the Bullock Report as a model for industry and trade-union co-operation in the creation of a European-wide industrial development policy. Lama stressed that the May meeting would specifically discuss how a Bullock-style plan can be carried out throughout Europe.

The majority report of the Bullock Committee, drawn up by a panel of leading trade unionists, industrialists, and academics after a year of study of existing worker participation systems in use in other countries, calls for equal representation of trade union and shareholder representatives on company boards as the necessary precondition for implementing technological change in industry. Specifically rejecting the West German and Swedish systems as "sham and token," the Bullock Report stresses that "trade union involvement is fundamental to the industrial strategy, not simply because such involvement is necessary to forestall negative resistance to change, but also because employees, through their trade unions, have a positive role to play in combating industrial stagnation and in stimulating much-needed change in industrial structure and performance."

The government of British Prime Minister James Callaghan has pledged to introduce legislation on industrial democracy during this session of Parliament, but after allowing for full discussion of this critical issue with trade union and industrial leaders. The government is currently engaged in negotiations with all parties involved to try to reach an acceptable compromise on the key questions so that legislation can be introduced.

While there is some opposition to the majority report within the trade union movement, especially over whether it would abrogate free collective bargaining rights of the trade unions, the most vociferous opposition to the Bullock Report has come from industrialists who fear the extension of trade-union power.

CBI (Confederation of British Industry) director general John Methven, leading members of the CBI into a meeting with government ministers March 1, gave a strong warning that although they were prepared to work out an agreement on "two-tier" boards on the West German model, the Bullock majority report was completely unacceptable. Britain's economy was already "previously balanced between recovery and decline," Methven said, and he warned that the adoption of the Bullock report "could be a major factor in tipping the scales towards further decline."

Further threatening Callaghan's program for economic recovery through industrial investment, the head of the American Chamber of Commerce in London, Hugh Parker, warned that U.S. investment in Britain could suffer if the government pushed ahead with the Bullock proposals. Speaking to the *Daily Telegraph*, Parker said "There is already enough apprehension about the general situation in this country. Anything more which goes against the American ethic is going to create even greater apprehension."

While extremely upset about the implications of the Bullock Report, the report's opponents insist that they have nothing against co-participation in general — but advocate the "cooptation" formulas which invariably enforce self-policing onto the workforce. Leading proponent of such systems, Professor Elliot Jaques of the Tavistock Institute in London conveniently put forward his counterproposal for corporatist worker-management councils which has the backing of top City of London representatives, including Lazard Brothers bank, who are intent on blocking the Callaghan government policy.

Arab Oil Strategy — Bucking The IEA

OPEC

The member states of the Organization of Petroleum Exporting Countries have set their sights on a showdown with the International Energy Agency and the Rockefeller-controlled oil companies, primarily Exxon. Defying the IEA's rhetorical predictions of future oil production cutbacks — and thus the necessity for drastic "conservation measures" by the West — the OPEC countries have launched an active drive to expand oil production. Present and future plans on the part of virtually every OPEC member call for massive investment in oil exploration and drilling, new pipelines, port and tanker development, and new marketing arrangements, with provisions for increasing oil output as much as 15 million barrels a day (mbd) above the current OPEC export level of approximately 30 mbd.

The momentum of the producers is being complemented by the consuming nations of Europe and Japan, where investors and, especially, state-owned oil companies are cooperating closely with the producers to revitalize the world oil market.

This cooperation inevitably entails direct political collaboration with Western Europe to achieve a new monetary system capable of financing a greater world trade volume.

The comprehensive industrial development of the Middle East will, with cooperation with European and Japanese industrialists and governments, become fully possible for the first time. Until now, the influence of the international monetary policies of the monetarist Euromarket banking institutions have tended to divide the area into economies they could dominate — like Egypt, Iran, and Saudi Arabia — and those who refused monetarist policies, like Iraq and Algeria. The former have seen their real economic progress stagnate or decay while economic policy revolved mainly around currency devaluations, debt refinancing, rationalization and other paper-oriented policy. U.S. industrialists in particular hewed to basically anti-industrial growth banking policies designed at 1 Chase Manhattan Plaza — and lost markets!

Countries like Iraq and Algeria, on the other hand, have seen impressive real economic development, but at the expense of isolation from badly needed industrial input from especially the U.S. when investors refused to, or could not obtain credits to deal with the centralized economic planning. Nations like Iraq have depended on the Soviet Union and on certain levels of European and Japanese inputs.

With the cooperation for a totally new monetary system between the Middle East, and Europe and Japan, based on expanded energy consumption the Euromarket banks' control over international economic policy can be effectively broken.

The outcome of the December 1976 OPEC meeting in Doha, Qatar is a reflection of the global fight between the zero-growth "conservation" policy represented by the IEA and the position of forces working toward a new world economic order.

The shift by OPEC toward active support for a new monetary system is the result of a long and well-documented series of political decisions taken since 1974. The March 1975 OPEC Summit in Algiers was the crucial turning point. The downturn of world trade since 1973 plunged the oil-exporters into a crisis: ill-conceived plans for internal development in the various OPEC countries, made in the wake of the sudden quadrupling of oil prices in 1973 were rudely upset by the countervailing fall in world demand for oil. This left several countries in OPEC short of cash for politically and economically vital development plans.

The OPEC countries were faced with a choice: (1) they might have increased prices still further to compensate for falling or stagnating revenues, but with the prospect of setting off a never-ending cycle of declining industrial demand and still lower oil revenues; (2) they could adopt a policy of seeking to set right the world economy as a whole, placing emphasis on necessary monetary and related measures for making sure the developed countries stepped up production — and exports to the OPEC countries and the Third World. Increasingly, OPEC has adopted the latter strategy.

Gearing Up Production Capacity

According to a Frost and Sullivan report released last year, the oil producers will spend approximately $74 billion between now and 1980 for "downstream" development. The money will go for refineries, petrochemicals, fertilizer plants, and gas facilities. Iran, says the study, will spend the most, about $17.9 billion; Saudi Arabia $15.9 billion; Iraq $7.8 billion; Algeria and Libya $4.1 billion each. By 1980, the Middle East and North Africa will account for not only crude, but 18 percent of worldwide refined output and will be earning about $3 billion a year from the export of finished and refined products. This is the primary goal in the oil producers' commitment to construct an industrial infrastructure — using crude as a base for the production of exportable commodities.

The accompanying chart shows both current and potential oil production based on already installed oil extracting capacity. But the producers are rapidly expanding exploration and existing capacity to raise their output to meet a rising global demand. Diplomatic activity between Europe, Japan and the Middle East in recent months was almost entirely devoted to securing

Middle East Crude Oil Output And Capacity

(IN MILLIONS OF BARRELS A DAY)

	1974 OUTPUT	1975 OUTPUT	1975 CAPACITY	1976 OUTPUT	1976 CAPACITY	% CHANGE 75-76	DEC 1976 OUTPUT	JAN 1977 OUTPUT
SAUDI ARABIA	8.43	7.04	(10.0)	8.57	(11.0)	+21.8	9.2	8.5
IRAN	5.99	5.4	(6.6)	5.87	(6.6)	+10.2	6.6	5.1
IRAQ	1.83	2.20	(3.0)	2.08	(3.1)	- 5.2	3.1	1.5
KUWAIT	2.56	2.1	(3.3)	2.16	(3.3)	+ 3.1	3.3	1.5
ABU DHABI	1.37	1.34	(2.4)	1.53	(2.4)	+14.1	1.6	1.6
LIBYA	1.45	1.46	(2.5)	1.84	(2.5)	+27.2	—	—
ALGERIA	.97	.90	(1.1)	.93	(1.1)	+ 3.1	—	—

new contracts and trade negotiations based on the premise that oil exports must expand.

The Saudi government instructed Aramco last month to increase production by reopening the Zuluf and Maja offshore fields which were shut down last year. The two fields alone can produce up to 900,000 barrels a day of mainly heavy crude. By the end of the year, Saudi Arabia could produce up to 14 mbd with relative ease — a point Yamani has repeatedly stressed, against the desires of Aramco officials. The development of new oil drilling capacity is relatively effortless and could be accomplished in a short time. The current cost per barrel of ten cents reflects the relative ease of drilling on the Saudi Peninsula.

The peak of 9.1 mbd reached in December verifies the fact that the Saudis would have no technical problem in reaching their targetted 10 mbd by the end of March, if adequate demand presents itself. On the government level, the Saudis have reduced the responsibility of Petromin, the state-owned oil company. Late last year, Riyadh announced the formation of the Saudi Basic Industries Corporation which will take from Petromin the job of overseeing various mining projects as well as petrochemical and fertilizer production. This leaves Petromin handling just the state oil sales. While Petromin averaged close to half a million barrels in sales last year, mostly on a state-to-state basis, it has already upped its contracts with France, having just renewed and enlarged a contract to supply Elf and CFP with 250,000 barrels a day. Italy's ENI and Montedison will also get expanded shipments from Petromin, many times more than their previous 1 million tons a year. After nationalization of multinational facilities, Petromin of course will play a much more active role in Saudi Arabia's oil business.

With only about 20 years of Known reserves, Iran faces the pressing necessity of maximizing the use of its oil in order to diversify its economy — still 90 percent oil dependent. For this reason Iran is putting a high priority on petrochemical development. To expedite the oil flows, Iran has already contracted for the installation of pressure injection machines to allow for drawn-down wells which lose pressure to continue to be productive. According to the National Iranian Oil Company, work will soon begin on the enlargement of the Abadan Oil refinery, upping its production from 4.5 to 6.0 mbd and making it the world's largest refining installation. Exploration continues in Iran with the new offshore find in the Straits of Hormuz — involving Mobil and Brazil's state-owned company, Petrobras — promising a yield of up to 300,000 barrels a day. Iranian gas reserves, potentially the largest in the world, will play a greater role in its future economic development not only as exports, but as raw feedstock for fertilizer and petrochemical production.

Like Petromin, the National Iranian Oil Company (NIOC) is increasing its share of Iran's total exports. NIOC, which is also the seat of Iran's most vocal development spokesmen, last year reached over 1 mbd in sales, well over the 600,000 allocated by the terms of its agreement with the multinationals consortium. Through newly negotiated joint ventures, NIOC sees 1977 as a year of still greater activity in marketing Iran's crude. Despite the early January slump in output, production bounced back to over 5 mbd with a number of joint ventures coming through at the last minute.

The United Arab Emirate could easily produce over 2 mbd this year. It has already officially increased its allowable offshore activity by 130,000 barrels a day for 1977, and like Iran, has installed an injection system in its offshore Umma Shaif field to halt declining pressure. The UAE has contracted nearly 100,000 barrels a day of additional production to a group comprised of Japanese companies. Just this week Abu Dhabi signed an agreement with France's CFP for offshore exploration in an area which could yield an additional 400,000 barrels a day.

With sizable proven reserves, Iraq's government hopes to have the totally nationalized oil industry producing 6 mbd by 1980, almost triple current output. Last year Iraq inaugurated 2 new fields discovered by Elf-Aquitaine in its southeastern section. The new fields will produce about 100,000 barrels a day this year and will be up to about 250,000 by 1980. They will be jointly exploited by Elf and the Japan-Iraq Petroleum Development Company. Another field, the Fauqi Field, found by Elf and JIPDC, will come on-stream soon. Petrobras has announced the discovery of a rich field which has a potential of up to 350,000 barrels a day. Iraq will get new refining capacity as part of a large trade package which has already accounted for $2 billion in loans from the Japanese.

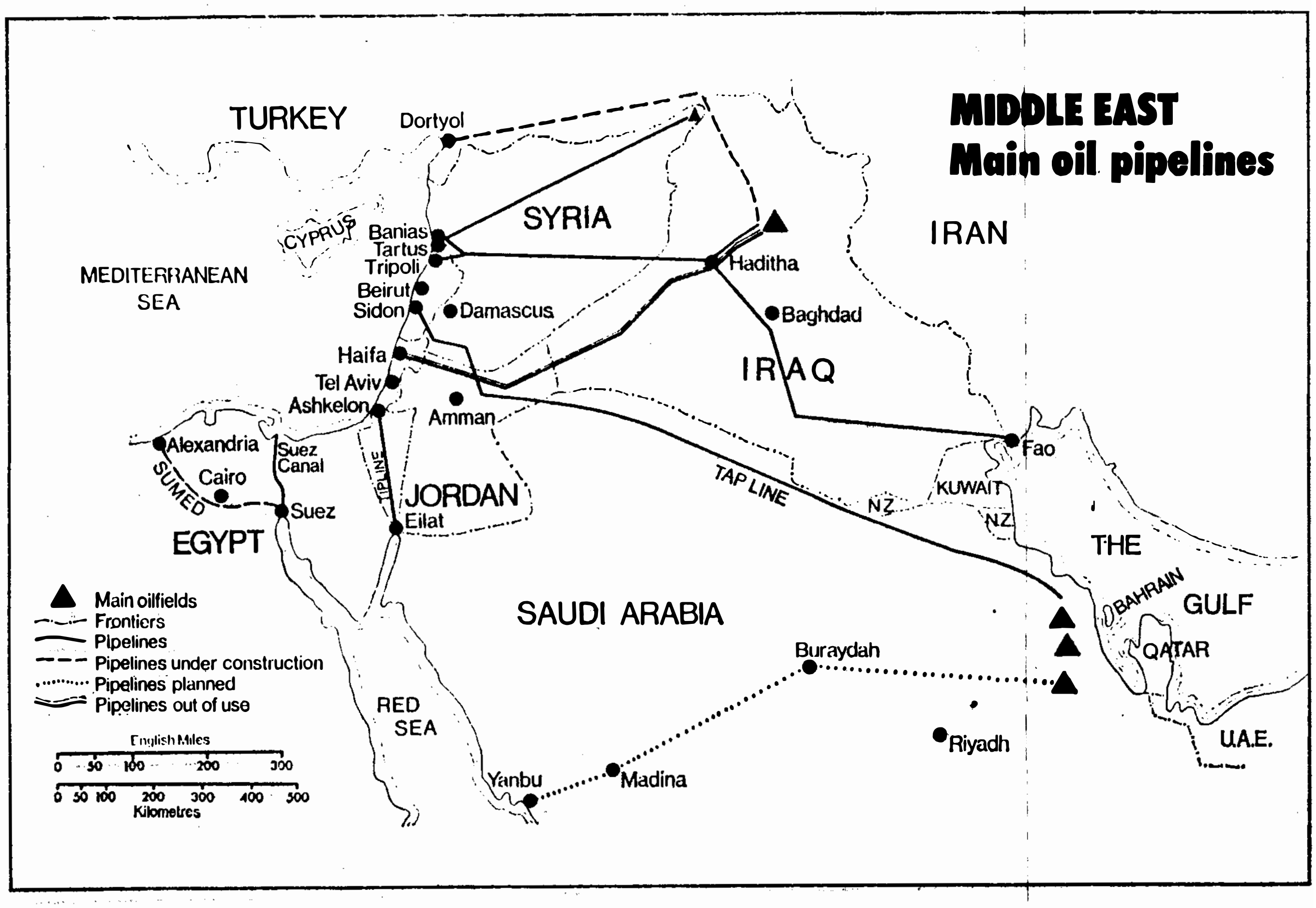
In North Africa, Libya and Algeria both envisage producing more of their highly desirable light crude. Libya has recently modified its current five-year plan to include oil and gas development, and may be considering recalling British Petroleum aid to increase the output in fields Libya nationalized in 1971. Algeria expects to double its relatively small 1 mbd by 1985, but will become more dependent on its vast gas reserves.

A major priority in downstream funding for the Middle Eastern OPEC countries will be in the construction of new pipelines and transportation. As the map shows, the pattern of new and proposed pipelines will feed Europe with more oil at less cost. The two-part Sumed pipeline through Egypt is designed to cut down costs by avoiding the expensive tanker route round the horn of Africa. Once the Saudi Yanbu pipeline is completed (feeding the Sumed line via the Red Sea), the cost of supplying Saudi crude from the eastern oil fields will be even further reduced. The pipeline contracts have just been awarded by Petromin which forecasts completion in 1979.

Implications of the Saudi Takeover of Aramco

Since 1974, the Saudi government has been haggling with the four participating companies — Exxon, Texaco, Socal and Mobil who still own 40 percent — over the takeover of their Arabian American Oil Company Aramco four to four European companies, which Sheikh Ahmed Zaki Yamani announced would be completed by December 1976, continues to be delayed. Though the terms of the agreement are secret, it is known that the nationalization will enable the Saudis to exercise far greater political control over their enormous oil business, which has the largest proven reserves in the world.

The surprising decisions taken by Riyadh just after the Doha meeting — to remove the 8.5 mbd production ceiling, and to then dictate to the four partners for the first time the terms and the customers of the additionally produced crude — shook the Rockefellers' oil empire. Last month Yamani announced the pairing of the Aramco four to four European companies, which



beforehand had not been officially designated receivers of Aramco crude. This was the first prominent gesture from the Saudis to express their intention to supply European oil companies, largely state-owned with the exception of Royal Dutch Shell. The move follows a sudden upsurge of mostly state-to-state deals negotiated between Europe and the oil producers, whereby Europe would receive badly needed crude in return for exporting technology to the developing economies of the producers. In fact, in late 1976, the English language *Saudi Gazette* announced that the longstanding hegemony of the U.S. in contracts for the Saudi $149 billion five-year development plan was being undermined by growing Saudi trade with the EEC nations and Japan.

The finalization of the Saudi takeover will give the royal family the right to dramatically expand production without a production ceiling. But more than that, it will represent a model for other producers engaged in similar negotiations with their respective consortiums.

For example, Iran's drawn out and turbulent negotiations with its British Petroleum-led consortium for a new lifting contract are suspended pending the outcome of the Aramco talks. Similarly, the Kuwaitis, who like the Saudis own 60 percent of their oil industry, are watching the Aramco talks, whose outcome will shape the terms of the Kuwaiti government's takeover.

What Happened at Doha?

The split over the price of oil that occured at the meeting of oil ministers at Doha in December is a direct expression of the fight the OPEC group favoring the continued real economic growth is conducting against the IEA. The decision taken by the Saudis and the United Arab Emirates to adopt only a 5 percent oil price increase — while eleven other countries opted for an eventual 15 percent rise — was taken in collaboration with European leaders. Prior to the OPEC meeting, Yamani made a European tour, vehemently stressing the need for a solution to the problem of Third World debt through the North-South dialogue as essential to revitalize the world economy. About the same time, the Saudi finance minister publicly attacked the faltering dollar. In a speech in Scotland during that tour Yamani harshly attacked the IEA as an institution out to undermine the political and economic power of OPEC by usurping control of the oil markets. Saudi Arabia's moderation was enthusiastically praised by European leaders following the Doha meeting, most notably Europe's most outspoken exponent of industrial expansion, Italian Prime Minister Giulio Andreotti.

The other 11 countries which chose the higher price were primarily thinking of badly needed development revenues and a show of militant nationalism. It was also the result of a shortsighted assessment that another increased injection of liquidity would quickly solve their domestic economic ills. Such an attitude has been reinforced by numerous Rockefeller-linked channels such as New York consultant Walter J. Levy and the Boston-based firm Arthur D. Little. Saudi oil minister Yamani announced again last week that his country will stick to its five percent decision, despite tremendous pressure coming from Rockefeller allies for a compromise that would raise the price of their crude.

The Big Lie

The Saudis have been attacked for their increases in oil production, which are blamed for the sudden decline in oil sales in January. In reality, the softening of the January market had nothing to do with the Saudi production which dropped from 9.1 mbd in December to only 8.7 mbd, but was the result of the oil companies' selling millions of barrels of stockpiled oil. OPEC's December sales reached a high of nearly 33 mbd as a result of buying sprees by the companies who bought up the oil as a hedge against a sizable price rise. Preliminary figures for February therefore not surprisingly show that production for OPEC is beginning to bounce back.

The major factor in determining when and by how much Saudi production will increase will be set by the consuming nations' political will to expedite their break with the dollar.

The curious stipulation the Saudis attached to their 5 percent price rise, requesting auditing of sales of all additional crude produced, is a step to delimit Exxon's notorious manipulation of world markets. Such manipulation is by and large responsible for Europe's underutilization of down stream industrial capacity in refining and petrochemicals. The Saudi auditing request was tied to an EEC decision at about the same time, to study the pricing of crude and crude related products within the European market.

In late January, according to Platt's Oilgram, two OPEC representatives met with Italian government and oil industry officials in Rome to discuss crudes in terms of their product yield. Their inquiry was made by the OPEC economists to develop a fair system of crude price differentials and followed a similar fact finding trip to northern Europe.

Such cooperation between OPEC and Europe will also revitalize Europe's own nationalized oil industries and is the centerpiece of the ongoing Euro-Arab dialogue. The Mideast oil producers have called on Europe to provide them free access to the Common Market's refining capacity. In a joint effort, the oil producers and Europe are fighting to form a European-wide oil cartel comprised of state-owned companies — Elf, Erap, CFP, Veba-Deminex, ENI, British National Oil Company and Petrofina — with BP and Royal Dutch Shell taking a keen interest. A meeting is scheduled to take place in March between representatives of the EEC and the Middle East oil producing sector to discuss joint plans for expanding their independent downstream capacity. The Arab oil producing countries hope to have a total refining capacity of more than 300 million tons a year (6 mbd) by 1980 compared to the anticipated EEC refinery capacity of 880 million tons (16 mbd) in the same year. Of course these projections are based on a dramatic economic upturn, which depends on the associated effort for a new world economic order.

COMING IN NEXT WEEK'S EIR

Why Israel Must Have Peace:
The State of the Israeli Economy

OPEC Finance Turning In New Directions

On Nov. 20, 1976, the Saudi Arabian Finance Minister, Salah Ahmed, stated in a press conference that the Arab oil producers "are facing a 23 percent devaluation of their revenues" because all avenues for investment in industrial projects have been closed off by the U.S. government and "certain European cabinets," forcing the Arabs to make "short-term deposits" in U.S. banks.

Accumulating more than a $100 billion in surplus in the last three years, the Arab financiers started moving away from the New York banking establishment in 1976. Having discovered that keeping their funds on deposit with institutions like Chase Manhattan and Citibank will lead only to a devaluation of their liquid assets, the Arab bankers and governments are now looking for alternative investments.

What was once a conscious policy only for the pro-socialist states in the Middle East, Iraq and Algeria — using their oil revenues for local industrial development — has now become the thinking of all the Arab oil producing countries.

At present, negotiations are taking place between the Gulf States and European governments to provide the investment alternatives the Arabs want through new agreements for the industrialization of the region. These negotiations, one theme of which is a shift of petrodollar deposits to European banks, have started to realize their first results.

For the first time, European-Arab commissions have been established for "technical assistance to the Arab World," in exchange for low-interest loans to the European countries, according to the London-based *Financial Times.* The same source reports that these commissions have been followed by the formation of Japanese-Arab commissions to establish new economic bilateral deals between the Middle East and Japan.

These negotiations according to the *Financial Times,* require "overcoming U.S. pressure," especially on the Saudi Arabian government, but they have already resulted in the signing of agreements for the first industrial projects. For example, a long-discussed joint venture between Italy's Montedison and Saudi Arabia for a $900 million petrochemical plant was finally signed last month. New joint-banking ventures have also been launched to promote trade between the Arabs and the Europeans. The European Arab Bank (EAB) a subsidiary of the European Arab Holding Company of Luxembourg, was launched six months ago, with shareholders in ten European and Japanese banks; it has opened branches in Brussels, Frankfurt and Cairo in order to promote new trade between the EEC and Middle East nations.

In the meantime, it is estimated that an average level of $8 billion in Arab deposits have been placed with French and German banks. As a result, the Europeans have increased their exports to the Middle East from $16 billion in 1974 to almost $28 billion at the end of 1976, putting them in first place as Arab trade partners, if the U.S. arms sales are excluded.

Meanwhile the Persian Gulf States are making trade overtures to the Comecon sector. According to *Institutional Investor* magazine, the Kuwaiti government "has been desirous of lending money to Comecon nations for political reasons." Kuwait began with the first Communist "petroloan," $40 million, to Hungary. Big investments in the Soviet bloc by the Kuwaiti financiers followed. Moscow's Narodny Bank, a London-based banking operation wholly owned by the Soviet Union, has undertaken a joint venture with the Kuwaiti Investment Company, called the International Bank of Moscow, starting with capital of $60 million and financing several cooperative deals between members of Comecon and the Arab world.

After visiting Hungary, Yugoslavia and Rumania last year, Kuwaiti Finance Minister Al Attiqi announced that his nation would supply one-third of the funds needed to finance a major Comecon project, the Andria pipeline running from Yugoslavia's Adriatic coast into the heart of central Europe. Costing nearly $600 million, this 500-mile line will provide Yugoslavia with 26 million tons of crude oil a year, and Hungary and Czechoslovakia with 5 million tons each, when it goes into operation at the end of this year. Mr. Atiqi noted that there was "scope for other Kuwaiti investments in the region" (Comecon), and that Libya has agreed to provide $70 million towards the cost of the Andria pipeline. At the same time Libya renewed its pledges to help guarantee oil to several Eastern European countries, among them Yugoslavia, Czechoslovakia, Hungary and Romania, through a $1 billion pipeline in which Kuwaiti funds will participate.

Hungary, which held the first session of its cooperation committee with Libya last year, has also held talks with the United Arab Emirates, Egypt, and Kuwait to set up similar joint economic committees.

The shift of the Arabs away from monetarist policies was crystalized in the FIAT-Libya deal, representing the starting point for new directions that the Arab financiers will take in the future. Saudi oil minister Yamani in an interview with the *Journal of Commerce* last week stated that Saudi Arabia will abandon its policy "of supporting the dollar and the British pound and will concentrate on investments in industrial projects" in Western Europe.

The logic of the Arab's new policy leads ultimately to the withdrawal of OPEC funds from the New York banks. At present, it is estimated that U.S. banks are holding about 30 percent of Arab funds in short-term deposits of up to 90 days, representing about $34 billion. In addition, Swiss banks are holding about $46 million in Arab funds which are channeled into U.S. banks, which recycle the money back into the speculative Eurodollar market.

The near-bankrupt Chase Manhattan bank and Citibank of New York are holding the bulk of the Arab deposits, while the ruling family of Saudi Arabia has up to $4 billion in the Algemene Bank Nederland. Citibank is holding about $1.6 billion of Kuwaiti funds on a 68-day basis, indicating the impact Arab withdrawals will have on these Wall Street institutions.

Morgan Guaranty Trust, which has managed the Saudi Arab Monetary Authority with a portfolio of $45 billion for the last 10 years, has played the major role in channeling Saudi funds into worthless U.S. Treasury Bills estimated at up to $6 billion. $7 billion of these Saudi funds also exist as direct short-term deposits with Chase, Citibank and Bankers Trust, while the rest is in Swiss financial institutions.

Meanwhile Arab bankers, despite their alliance with the New York banks, have been booted out of the Eurobond market. In 1974-75 the Arab houses managed or co-managed $2.9 billion, or 32 percent, of the value of international bond issues. In 1976, placements by the Arabs in the Eurobond market dropped to 7.5 percent. The reason for such a drop, according to Magdi Tamanli of Arab Financial Consultants, a Kuwaiti investment banking firm, is that the Arabs "were kicked out of lots of deals" last year as a result of conscious policy against Arab capital by the U.S. banks.

Producing Nations Expand Oil Transport

The 1973 oil price rise resulted in a major slump in the oil tanker industry. By mid-1975 50 percent or 200 million tons of existing tanker capacity was laid up, and this reached 290 million tons within a year. In addition orders for more than 30 million dead weight tons (dwt) of oil tankers were cancelled in 1974. In Japan, once the largest tanker building nation, orders have dropped to half of that of 1974. Now almost all the Japanese shipyards face bankruptcy.

Nevertheless the Arab oil producing countries are moving into the tanker industry, providing capital to the European shipyards and concluding joint ventures with Japanese tanker companies.

The efforts by the Arab countries to form their own independent fleet to transport oil to Europe has been crystalized by the formation of two companies, the Arab Maritime Petroleum Transport Company (AMPTC), jointly owned by the governments of six Arab oil countries and the United Arab Shipping Company (UASC) established in January 1976, with allocated capital of $600 million and an expected fleet of 150 vessels by 1980.

Since 1973, the oil nations' share of the world's fleet has vastly increased. The tanker tonnage under the Arab flags has jumped from 1 million in 1973, to almost 6 million at present. Joint ventures with state owned European oil companies have been concluded. The most important example is the Iranian deal with the British controlled oil company BP concluded in 1975. Under this deal, the Iranian National Oil Company (NIOC) and BP established a jointly managed oil tanker fleet. Ten of BP's oil tankers were sold to NIOC and a similar volume of BP-owned tanker tonnage under the British flag was supplied in mid-1976 to the new Iranian fleet. This pool of shipping will be used by both parties and operated under joint management from London.

At present the Arab countries own 58 tankers accounting for 1.7 percent of the world fleet. The Arabs have an additional order of 24 ships, totalling 4.5 million dwt, due for delivery over the next five years, which would increase their ownership share to an estimated 2.5 percent: shipping experts think they will expand much faster. Ian Foster, managing director of London's Galbrath Wrightson Ltd., acting agent for Kuwaiti ships, sees their total share going to 10 percent while other British shipping consultants, H.P. Drewry Ltd., peg it at an eventual 20 percent.

One more sign that the Arab oil countries are serious about becoming a force in shipping is their intensive effort to train crews. In 1975 OPEC arranged to set up maritime academies at Jidda, Saudi Arabia; Basrah, Iraq; and Doha in the sheikdom of Qatar. Trainees are being sent overseas currently some 500 Arab and Iranian cadets are studying under the auspices of *Y-ard Ltd.*, a subsidiary of Scotland's Yarrow shipbuilding group.

The Middle East nations as a whole are moving to establish building facilities for ship-yards for the construction of oil tankers. At a major international shipping conference held in Kuwait Feb. 17-18, 1976, the chairman of the Kuwaiti Tanker Company noted Arab interest in developing a shipbuilding a repair capacity both because "this industry is considered one of the most important and strategic industries with regard to the aspirations of the Arab countries" and because it could "become the axis of development which creates large industrial opportunities" for the region.

As a result of the decisions made in 1976, the Arab - countries have allocated millions of dollars for the construction of shipyards. Iran is constructing a repair yard and building complex at Bandar Abbas with a dry dock for VLCCs (tankers of unusual size and capacity - ed.) of up to 400,000 dwt and facilities for the Iranian navy.

Other projects include the Kuwait Shipbuilding and Repair Yard Company, with Kuwait Shipping Company (KSC) participation, designed to accommodate ships of up to 20,000 dwt and the construction of vessels 3,000 dwt. After the Kuwaiti Shipping Company decision to transfer its entire fleet to United Arab Shipping Co. (UASC) and participate actively in the management of UASC, authorized the Kuwait Oil Transport Company (KOTC), to acquire a building capacity for vessels in 2-25 dwt range in anticipation of large orders from the UASC. KOTC is both the largest and most experienced of the Arab tanker companies, and has been managed by British interest and control by the Kuwaiti government.

Iraq is developing a building and repair facility at Basra involving the construction of ships of 1,500 dwt. Saudi Arabia has entered into an agreement with Marcona Corporation of the U.S. for a joint project involving a steel plant and shipbuilding yard to be constructed near Jeddah. Saudi Arabia has also invested in the construction of a shipyard for vessels of up to roughly 60,000 dwt in Malta.

Abu Dhabi is now in preliminary negotiations with unnamed West German shipbuilding companies for invesments. Meanwhile Saudi Arabia has established a series of joint shipping companies with Japanese and European interest. These ventures include the Saudi Arabian Shipping Company, the Arabian Maritime Company, the Hispanarabian Tanker Company, the Saudi Arabian Maritime Company (Samarco), the Saudi Orient Maritime Company, and the Red Sea Saudi Arabia Maritime Company. Mitsui OSK of Japan holds 40 percent share in the Saudi Arabian Shipping Company. Samarco has the U.S. firms of Mobil and Fairfield Maxwell as shareholders. Research and Development Corporation has agreed with Tor Line of Sweden to create the Saudi Maritime Transport Shipping Company. P and O and Shell have recently agreed with a Saudi concern to create the Saudinaft Tankers Company in which each will have a 23.5 percent participation and both companies will train Saudi personnel.

The biggest project undertaken by OPEC is the Bahrain dry dock. With initial capital of $500 million allocated in 1974, the Bahrain supertanker drydock off Muharrag Island will be ready to go into operation by the end of this year. Lisnave of Portugal will manage the supertanker dry-dock in Bahrain which will have the ability of handling up to 600,000 dwt. It is expected that in five years the Bahrain dry-dock will be one of the largest construction sites for LNGs (tankers carrying natural gas), and LPGs (petroleum carriers).

Moreover the Arab countries have established strong connections with the Europeans on the question of gas transport. The high cost of building modern LNGs has pushed Arab companies to seek participation from European shipyards. In Kuwait for example, the Kuwait Gas Tanker Company with KOTC has four LPGs of 70,000 cubic-meter, each costing up to $90 million ordered from the French shipyard La Ciota with delivery due at the end of this year. Actually Kuwait is a major investor in La Ciota through their shared control of the Beirut based Intra-Investment Company. Discussions are taking place between La Ciota by the Middle East Gas and Petrochemicals for four more orders. La Ciota also based in Kuwait was formed by the Kuwaiti Government, Bridgestone of Japan and the Multinational Gas and Petrochemical Company, a subsidiary of Phillips Petroleum. In the meantime Middle East Gas and Petrochemicals has placed orders for at least three LNGs of 52,000-cubic meters and other LGNs up to 30,000-cubic meters with Japanese shipping yards.

In the area of gas transport, Algeria leads the Middle East. The Algerian National Company CNAN has two gas carriers with a capacity of 36,557 tons, and five other LNG carriers are due for delivery in the next year. However, Algeria's plans for the development of natural gas and petrochemicals transport have run in to problems because of the lack of funds, and the unwillingness of some European countries to take the lead in such projects. CNAN, has complained that their financing conditions are unfavorable compared to some European companies and has argued that the nations building the vessels — those who will be importing the gas — ought to revise their finance policies to make significant reductions in the cost to themselves of gas transport. A major new port for handling natural gas built by Philipp Holzmann of West Germany at a cost of $400 million, provided by the Banque Nationale d'Algerie and the Finance ministries of Kuwait and West Germany, will be ready to go into operation by the middle of 1978.

Egyptian Economy On The Brink

EGYPT

Egypt's economy is in a dismal state, crippled by massive indebtedness, the beginnings of Chile-style super-inflation, and the decay of its fixed capital and infrastructure. This state of affairs is in part a function of the progressive collapse of the dollar-based monetary system in the 1973-77 period and of Egypt's maintenance of an astronomical defense budget, currently eating away at 40 percent of annual revenues. The disintegration is more directly attributable, however, to the anarchy that has prevailed under the country's reckless "Open Door" economic policy of the past three years, a policy increasingly overseen and managed by Chase Manhattan and the International Monetary Fund.

David Rockefeller and the IMF are applying intense pressure on the Sadat government to implement the same austerity measures that provoked large-scale popular uprisings throughout the country in mid-January. Abdel-Moneim Kaissouny, the Chase-backed Deputy Premier for Economic Affairs who rushed through the January measures behind the backs of the rest of the Egyptian cabinet, is now in the United States for meetings with Chase and the IMF, and announced before leaving Cairo that the reform measures, including reduction of food subsidies by $1 billion and the conversion of the Egyptian pound to a unitary convertible (50 percent devalued) level would be put into effect. Kaissouny is now slated to be head of an Egyptian version of New York City's Emergency Financial Control Board. The IMF wants to use April 22 Paris meetings of Egypt's creditors in order to form an EFCB-type oversight board to manage cuts in consumption.

Yet for the international business community to accept that Egypt is a country unattractive for development-oriented investment would be to accept a myth, notwithstanding official — if semi-confidential — assessments from Chase that Egypt is not viable for investors until it is radically "re-structured." Egypt has the incipient potential to be the industrializing heartland of the North Africa-West Asian region. Its strategic location establishes it, in a rationally ordered system, as a major potential transport and mediation point for the trade of three continents. It has a not insignificant industrial capacity, both in medium and heavy industry-size scale in steel, auto assembly, textiles, etc.; this requires new capital investment and re-tooling. With appropriate capital investment, Egypt has immense land reclamation and irrigation potentialities, an extension of the capabilities introduced by the completed High Aswan Dam. Egypt has a vast pool of educated manpower, now stagnating in a 4.5 million-man bureaucracy and in a standing army of several hundreds of thousands. Finally, but by no means least important, is the subjective factor of a national will to progress nurtured in the Nasser years and still hegemonic for most of the population.

There is a growing tendency among European industrialist spokesmen to view Egypt's development potential with interest. The leading West German industrialists' daily *Handelsblatt*, on Dec. 22 of last year, called for the transformation of Egypt and Algeria into the industrial giants of northern Africa. A more recent piece in the French industrialists' newspaper, *Les Echos*, called for an investment program in Egypt in the tens of billions of dollars to reverse the country's decayed economic state and advance industrial take-off.

Increasingly, the European and Japanese business interest in Egypt has turned toward cooperation with the Egyptian public (or state) sector industries, which had originally been built with Soviet aid in the 1957-67 decade, but which have since been de-emphasized and gradually dismantled by the Sadat regime, under insistent prodding from the IMF and Rockefeller-connected banking interests. The above-mentioned *Handelsblatt* piece calls for re-invigoration of the public sector as the means of accomplishing Egypt's industrialization. (A cataloguing of European-based industrialists' collaboration with Egypt's public sector industries appears in the concluding section of this report).

The predominant attitude from the U.S., by contrast, is to insist that Egypt make its currency convertible, at a uniform rate, streamline its bureaucracy, and remove legal impediments to profit-making investment, *before* a development process with U.S. aid can be initiated. This approach has been substantially defined by Chase Manhattan directly and accepted by U.S. based industrialists, several representatives of whom co-exist on the channelling institution for U.S.-Egypt economic relations, the U.S.-Egypt Business Council, with David Rockefeller, George Ball, and top executives from several other New York banks.

A semi-confidential Chase study written in mid-1976 by former Chase Vice-President Lauren Suter *discourages* investment until the Egyptian government undergoes radical restructuring. The Suter study served as the basic pressure point exerted by David Rockefeller in an October 1976 trip to Egypt and had much to do with the appointment of Kaissouny as Egypt's economic czar in November. But the Suter approach has been echoed elsewhere. A mid-1976 Department of Agriculture study authored by economic research consultant William Scofield stresses the legal, bureaucratic, and currency impediments to investment and relegates discussion of the country's infrastructural capacity and problems to a few words in the last paragraph. Similarly, the most ambitious investment overview yet authored in the U.S., written by an Allis-Chalmers feasibility team, demands currency reform as a prior condition, before a program of 24 diverse investment projects, capitalized at a total of $2 billion, can get off the ground. So far, there have been no takers for any of the 24 projects.

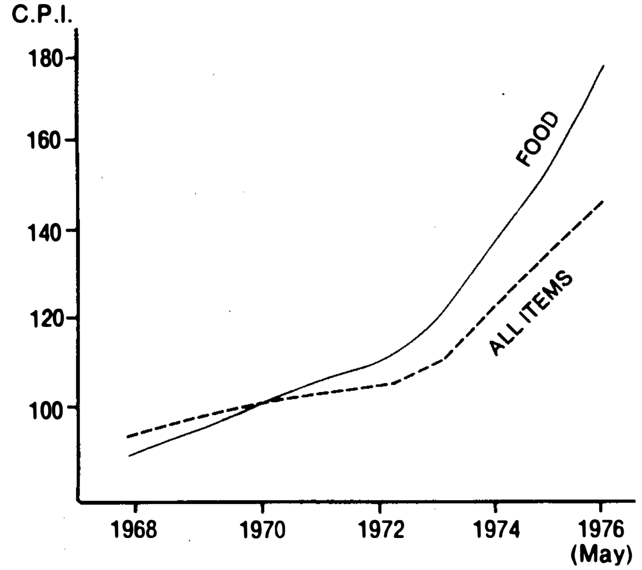
The Suter report defines a hostile attitude toward the public sector: "The heavy concentration of industry in the public sector and the advantages and incentives provided the public sector companies create an unfair advantage over the private sector companies...There is some concern that if there is a recession...the government may generate even more favorable discriminations in favor of the public sector. This dual world of state-operated, state-subsidized industries trying to operate side-by-side with private enterprise is something with which most American businessmen don't want to cope." Not commenting at all on the deleterious effect the Sadat regime's relative de-emphasis on the state sector has already had on Egypt's economy, the report elsewhere warns of "possible competition between private and public sectors" leading to "confusion and lack of interest on the part of foreign investors."

There is likely to be a widening divergence in the coming days between Europeans and most U.S. interests on the critical subject of Egypt's debts, as the April 22 date approaches for a Paris meeting of Egypt's leading creditors. While the U.S. government, the IMF, and representatives of the U.S. banking community will undoubtedly present stern demands for austerity and repayment, contrary signs are developing across the Atlantic. The cited *Handelsblatt* piece stressed the importance of converting Egypt's short-term obligations to long-term. This week, the West German government itself is initiating a cabinet-level review of Egypt's debt situation, in the context of conciliatory statements on Third World indebtedness generally by new Development Minister Marie Schlei. In December, the Italian government granted Egypt a moratorium on $80 million of debt obligations.

The Debt and Interest Rate Explosion

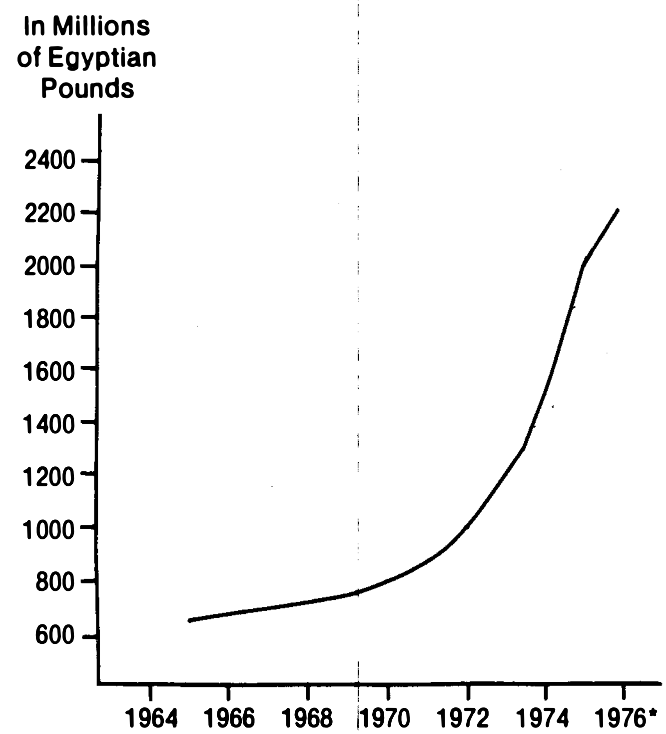
Precise figures on Egypt's foreign indebtedness are nearly impossible to come by, as figures are juggled and often used to conceal the actual state of affairs. Chase Manhattan, which late last year was confidentially admitting that Egypt had defaulted on its obligations, estimated in January of this year that Egypt's total foreign debt was $18 billion, a $5 billion jump from March 1976 estimates. The jump partially reflects uneven accounting activity but also a significant jump in high-interest short-term 30-60 day loans to pay for food imports and suppliers' credits. A recent *London Times* feature, citing "reliable" estimates, arrived at a near-$20 billion figure for Egypt's foreign debt. The most recent IMF statistics, for January 1977, do not present a comprehensive detailing of Egypt's debt situation, but do demonstrate that the combined obligations of Egypt's central and commercial banks have risen 500 percent from 1972 to third quarter 1976, with a seven-fold increase in the high-interest (16-25 percent) short-term category during this period. While exact figures for short-term debt are unavailable, it is reliable estimated that in 1975,

G aph A—Egypt's Inflation:
Consumer Price Index Shifts
(1970=100)



(source: UN Bulletin of Statistics, Feb. 1977)

Graph B—Egyptian Money Supply
(net currency in circulation plus
private demand deposits)



*(through Oct.)

Rise in money supply through 3rd quarter, 1976, does not reflect hyperinflationary printing of bank notes through latter half of year. A crisis in excessive liquidity has been predicted for the latter half of 1977.

Egypt paid almost $2 billion to service its short-term debt, and in 1976 almost $3 billion, including at least $400 million in the latter year for interest payments alone. Debt service ratio for 1976 was estimated to be well over 30 percent.

The interest rate picture is a story unto itself. The first concerns to come crashing through Egypt's Open Door have been foreign banks, mainly Chase and other New York establishments. Through joint venture and offshore arrangements expedited by changes in Egyptian law, the foreign banks were able for the first time since Nasser's 1961 nationalizations to deal freely in local currency and in loans to Egyptian industries — at progressively higher interest rates.

According to an Arab journalist, this process led to "heated discussions by economic experts" in Egypt, who emphasized the risk that it could establish a "firm grip on the country's threat" and "force local banks into bankruptcy." By 1975, with Egypt's balance of payments deficit veering into the billions, the country began receiving loans at 19-25 percent interest. Resistance to this was manifested at the highest levels of government, including the architect of the Open Door, Prime Minister Hijazi, who advocated an increase in medium-term borrowing to finance a 9 percent national growth rate. Hijazi, however, was replaced as Prime Minister in April 1975, by the Interior Minister and former police chief of Alexandria Mamdouh Salem, who accepted the 20-25 percent rates with hardly a murmur. A new Minister of Economics, Zaki Shafei, fought within the Egyptian Cabinet for new joint venture banks to have free rein in establishing interest rates. Shafei also expedited the legal arrangements for bringing new offshore facilities to Egypt for funding imports and suppliers' credits, at rates at times approaching 25 percent.

Economy Pays the Price

The consequences of the 1972-77 experiment in "Open Door" economics are revealed in several key indicators of Egypt's economic performance.

One is inflation. Conservative estimates are that Egypt's inflation rate is now slightly above 30 percent. Graph A shows inflation figures as revealed in price fluctuations over the past few years.

Also revealing is Graph B of the money supply, but this only tells part of the story, and more recent figures would likely be telling. In the summer of 1976, the government initiated a large-scale expansion of treasury bill notes in order to work for as long as possible by deficit financing; at the same time, Latin American-style printing of money was begun. In 1975, the government's debt to the banking sector had already risen by 67 percent to $5.5 billion. By late 1976, the London Financial Times was reporting a "gigantic treasury deficit" of more than $2.6 billion, likely to increase substantially during this year. The Times also worried that the "most important effects of this year's uncontrolled note and treasury bill issues should be felt towards the end of 1977 as the wildly excessive liquidity filters through the economy."

Obviously the government was trying to meet a vastly expanding foreign payments bill, which may not have necessitated recourse to hyperinflationary means if not for the fact that simultaneously experts were barely holding their own, imports were rising astronomically (see balance of trade Chart I), and production internally was undergoing a profound crisis.

The rise in the import bill is mostly attributable to the rise in food imports, as indicated by the more than 1000 percent rise in food imports, at dollar value, from the U.S. to a 1976 level of $800 million, since 1972. Obviously, food costs were rising internationally since the 1973 fourfold rise in oil and other commodity prices, but the Egyptian situation was exacerbated by an internal crisis in agriculture that has progressively worsened. Since 1972, when Sadat decided to wind down Egypt's relations with the Soviets, the internal cohesion of state sector economic relations has disintegrated. Food refining and storage facilities have decayed for lack of spare parts and capital refurbishing, and there has been a gradual reversal of state-run cheap credit and fertilizer supplies to farmers, lowering fertilizer usage since 1972.

At the same time, there has been a deployment of internal investment funds *away* from agriculture and related irrigation projects. While for years under the Sadat regime agriculture has gotten proportionately less current and capital expenditures than other sectors, in the 1976 budget there was a 48.9 percent *drop* in expenditures on agriculture and irrigation, from 90.2 million Egyptian pounds to 46.1 million, and the most recent 1976-80 target budget provides for austerity cuts in fixed investment for agriculture from the originally projected 710 million to a revised 410 million Egyptian pounds.

Even before the investment cuts, agriculture was showing a crisis. Cotton production, which peaked to 1580 bales in 1972-73, had dropped to 1355 in 1974-75 and 1138 in 75-76, with a very slight rise predicted for the next period. Rice production, at a yearly 1970 level of 2.6 million tons, dropped to 2.27 million and 2.24 million tons respectively in 1973 and 1974. Sugar, produced at a 633,000 metric level in 1971, plummetted to 572,000 in 1973, 577,000 in 1974, and 522,888 in 1975.

For the immediate future, with the investment cuts and no substantial present investment projects in this category, the agricultural picture looks very bleak. Much of the Nile Delta is faced by a rising water table, the so-called "waterlogging" syndrome, caused by equalization of hydrostatic pressure built up behind the Aswan Dam, which is reducing the yield of crops. Capable of being reversed by the necessary capital investment, the problem is worsening as a World Bank project to combat it is reportedly way behind schedule. Meanwhile new arable land — Soviet experts have estimated that 8 million acres in the Western Desert, more than current total usage, are capable of being transformed into arable terrain — is not being developed; the 1976 U.S. Agency for International Development report for Egypt tersely reported that "cultivation in desert areas (surrounding the Nile) can only be accomplished at very high cost."

A parallel self-feeding process of collapse is unfolding in the infrastructure—transport and communications—sector. While Egypt has 3600 km. of railroad track and a dense network of Nile Delta lines, a prolonged period of under-investment has left the track, signalling, telecommunications and rolling stock in a state of obsolescence. The decaying system of internal distribution has periodically held up supplies of basic commodities in the cities, and has helped trigger periodic outbreaks of unrest. Similarly with communications: French press sources report that a call from one part of Cairo to another is virtually impossible, since rats have eaten away at most of the cables! Yet the 1976 budget showed a 44.4 percent *decrease* in investment outlays for transport and communications.

Finally, the picture of Egypt's economic collapse cannot be complete without an overall view of the decimation of the state sector in the past three years. In late 1975, Sadat abolished most of Egypt's "general organizations," comprising more than 300 state sector companies, replacing them with "supreme sectoral councils," a not very subtle effort to prepare much of the state sector effectively for eventually being auctioned to New York banking interests, and the lead edge of a general process of decentralizing Egypt's industrial process, a process that has gone so far as to try to route potential investment into Egypt *away from* the populated cities of Cairo and Alexandria and towards "investment free zones" in newly built-up cities. This process has been labelled "capitalism run wild" by one knowledgeable western financial observer and has been attacked internally in Egypt as "incompatible with well-organized planning." The proponents of the latter argument have pointed additionally to the 50 percent idle

Chart 1 — Egypt Import-Export

(MILLIONS OF DOLLARS)

	IMPORTS	EXPORTS
1968	$666	$622
1969	638	745
1970	787	762
1971	920	789
1972	899	825
1973	917	1117
1974	2352	1516
1975	3751	1402
JAN-SEPT 1975	2302	1116
JAN-SEPT 1976	2634	1259

SOURCE:
UN BULLETIN OF STATISTICS, FEBRUARY 1977

state of the large Helwan iron and steel complex and the near-complete idleness of 137 other Soviet-built industries as a negative consequence not only of the deterioration of Soviet-Egyptian relations, but also of the failure to maintain upkeep and capitalization in these industries. The idle industries are as well costing Egypt minimally $2 billion in export-earning reserves, according to reliable estmates.

The Basis for a Reversal

Aside from continued Soviet technical and other assistance in at leat 105 projects spanning the areas of electric power, machine tools, lubricating oils, and others, the support for state sector and state-run heavy industry has come increasingly from European interests.

For example, in *oil*, owned by the state Egyptian General Petroleum Authority, British Petroleum, Italy's AGIP, West Germany's Deminex and Japan's Egypt Petroleum Development Corporation are among the leading concerns in exploration and production towards the stated aim of 1 million barrels of oil a day within 2-3 years. Italy's Montedison has been mapping out with EGPA the feasibility of an Egyptian petro-chemical processing capability, and Italian construction interests were at the head of a French-financed consortium that has just completed the Suez to Mediterranean (SUMED) pipeline project that will begin pumping 25,000 tons of oil from its point of departure to its Mediterranean outlet.

In other *energy* production developments, the French are slated to build two or more nuclear power generating plants, and have recently completed the Aboukir electricity generation plant. The U.S. based Westinghouse has signed a letter of intent with the Egyptian government for a nuclear power plant.

In *iron* and *steel*, leading Japanese state trading companies in September of last year discussed the use of Japanese steel-making technological expertise in expanding the Helwan works, and a Japanese-Egyptian trade protocal removing legal restictions to bilateral trade was signed late last year.

In the field of *aerospace* and *electronics*, currently non-existent in Egypt, French and British companies, with France's Dassault in the forefront, have been trying to get motion underway to concretize an Arab Military Industries Organization on Egyptian soil, the first such high-technology enterprise anywhere in the Arab sector. Dassault intends to aid in re-tooling current Egyptian industrial capacity and, with other French concerns, building whole new factories in Egypt in order to assemble 150 airplanes in the Mirage line. Discussed during French President Giscard d'Estaing's January visit to Saudi Arabia, the financing for this project awaits an April decision by the Saudi Arabians to provide the necessary funds.

EXCLUSIVE

The Inside Story On Chase Manhattan Moves To Take Over Egypt

The following special report is based primarily on confidential transcripts received from Egyptian government sources, discussions and related documents.

By early 1976, the fear had begun to grow in informed U.S. circles that the Sadat regime was in trouble as a result of the increasing economic anarchy in Egypt and the failure of the Open Door to produce concrete results. A confidential February 1976, Treasury Department detailed Egypt's "economic woes": a severe balance of payments deficit, the lack of investment capital, antiquated and underutilized productive capacity, the "lack of a competitive spirit," and the "unrealistic and unworkable perceptions" of Egyptian officials. The memorandum confided that "unless the Egyptian government makes a major effort that succeeds in getting a major U.S. investment into Egypt soon, it will be difficult to hide from the Egyptian public, or world, the fact that the 'Open Door policy' has utterly failed."

The memorandum concluded that "it is very important that in the very near future we see the start-up of one or two major investment projects to help attract other investment and to demonstrate that the "Open Door policy has not failed" — but this in turn depends on the Egyptians' "major effort" to "attract" this investment.

On March 5, 1976 David Rockefeller arrived in Cairo for private meetings with Sadat and Salem. Sadat began the meeting by blasting, "When the Soviets said I would crash in 1975, I laughed," but continued that "as it turned out, if not for the $1.1 billion I received from the Saudis and Kuwaitis I would have crashed." Sadat then stressed that he needed "five years," after which time Suez Canal tolls and oil export revenues would provide export earnings, but in the meantime, "We need short-term loans ... We need help." He told Rockefeller, "Dave, we put before you what we have reached. We need the World Bank and your side to join in studying our plan."

Salem at that point cut in and stressed that Egypt needed $32 billion for the next five years, $22 billion "from the outside." Salem pleaded, "I am out $890 million on our short-term facilities. We are taking drastic action. Our deficit in foreign exchange is $2.2 billion. We need 632 million Egyptian pounds for debt service. We must have a repayment schedule for past debts." Sadat jumped back in to emphasize that he would not "pay $1 to the Soviets" in debt service, but also noted that "we have a 35-day delay on short-term loans."

Rockefeller answered that "due to Egypt's conditions, I do not believe the private sector could raise in a consortium more than $200-300 million in short-term loans. The one thing I can't do is promise you something I cannot deliver on. Mr. President, you need advice by experts in the international arena. Officials at the World Bank and the IMF are what you need." Rockefeller then presented Sadat with a personal message from Israeli Defense Minister Shimon Peres, whom Rockefeller visited in Israel during his own private March Mideast shuttle. The message read, "You can assure him that he will have no problems on our part militarily. We will not provoke and we would want dialogue."

In Israel, Peres pleaded with Rockefeller to marshal the international community in defence of the Sadat regime.

Arriving back in the U.S., Rockefeller wrote Sadat on March 15 that "you may rest assured that I will help you within the limits of my ability to do so. I have had talks upon my return with Henry (Kissinger), Bill Simon, Bob McNamara and several others." Rockefeller implied that he was putting a special assistant on the Egyptian case. He concluded by noting that "Nelson and Happy" were about to take a "quick trip" but "regretted" that they would not stop in Egypt.

(It is interesting that the Egyptian magazine Rose el-Youssef has recently claimed that on April 3, 1976, Simon Treasury assistant Edwin Yeo told the Detroit Economic Club that the current Egyptian leadership was "not qualified" to carry out necessary economic reforms. The magazine identified the Yeo speech as part of a U.S. "billionaires' plot" to "overthrow our regime.")

Soon afterward, a confidential memo was passed through the Chase executive strata by a leading CIA Middle East veteran, who concluded that although Sadat's position was "fairly solid," the economic situation "is the key to the problem," with the IMF "fairly optimistic that by 1982 Egypt will be out of its worst period." The "prognostication," the note stressed, is "that if Sadat were to be assassinated, he would be replaced by someone of similar beliefs, except that he would probably be neutralistic and less pro-American. The American love affair is strictly Sadat's and will disappear when he does." Finally, the note stressed the "short-run danger" of a military coup by "senior Egyptian officers" if it became apparent after the U.S. elections that Sadat had been ' "had' by the Americans."

By autumn, 1976, the Suter report was completed, and in October David Rockefeller returned to Cairo, Shortly after he left, a London Financial Times piece datelined Cairo leaked the fundamentals of the Suter report and estimated that floating Egypt's pound, while creating "immense problems, "would probably have the greatest single impact of anything the Egyptian government could do to attract foreign investment." The Times noted that the Suter report attacked Egypt's Foreign Investment Authority for failing to do this, but welcomed the recent Kaissouny appointment as "encouraging the possibilities of implementation." Rockefeller, the Times reported, utilized the Suter report to put pressure on Sadat to make the necessary changes. "Since the report was presented to Sadat," the paper continued, "Egypt's Cabinet has been re-shuffled in a way which indicates that the President will respond to some of the recommendations as best he can." The Kaissouny appointment itself and "persuasion" to get him to take the post were attributed to "American influence."

A knowledgeable British source in November reported that Kaissouny returned to Egyptian official life only because he was promised a "free hand" to use his "extensive network worldwide of personal high-level business and financial contacts" in order to "re-structure the financial and economic system of the country." Confirming widespread suspicions, the source commented that "his appointment was hastened, if not actually instigated, by a confidential report by Chase Manhattan Bank for the Egypt-U.S. Business Council that severely criticised virtually every phase of Egypt's investment and monetary operation and organization."

Iraq: A Centralized Economy Breaks Out Of An Oil Siege

IRAQ

Despite its status as a nation under siege by Rockefeller oil companies, of all Mideast countries which possess petrodollars, Iraq has emerged as the only country which has followed a national development strategy according to plan. Unlike Saudi Arabia and other oil-rich countries, contracts signed by Iraq for development projects, are not cancelled.

The Iraqi government under President Ahmed Hassan al-Bakr and Vice Chairman Saddam Hussein have centralized the economy and maximized the reinvestment potential of Iraq's oil resources. They have succeeded in upgrading the population's skills and the economy through education, mechanized agriculture, improved infrastructure, with a firm foundation in heavy petrochemical and other industries.

The Iraqis received crucial support from Japanese, Italian, French and other Western European corporations and governments, along with the close cooperation of the Soviet Union. U.S. industry has followed, to its own loss, the advice of the New York banking community against investment in what they term the "totalitarian" Iraqi economy. The European and Japanese have recognized the efficiency of dealing with a centralized economic planning body in a developing nation and today stand in a far better position to benefit from Iraq's oil, gas and agricultural riches.

Open Oil War

The political downgrading of Iraqi oil development potential escalated after the 1973 war, but dates from the 1960s. During that period, of a world oil glut, Exxon, Mobil and Shell (which held 47.5 percent of the Iraq Petroleum Company (IPC) and controlled most of the country's production) deliberately held down production to favor the world sales of their Saudi Arabian and Venezuelan concessions. Iraqi production was cut to lower the world sales potential of the British and French national companies, British Petroleum and Compagnie Français des Petroles, which held the other 47.5 percent of IPC. Due to suppression of exploration data, Iraq's total reserves have been consistently estimated at the 1960s figure of a mere 40 billion barrels. Recent authoritative reports suggest the real figure is close to or surpasses the Saudi Arabian figure of 150 billion barrels.

In 1968, then State Department Director of Fuels and Energy, James Akins revealed that not only was there "no new investment" in Iraqi oil production but there was in fact substantial "disinvestment." He reported that as much oil as possible was being taken out of the country without any investment whatsoever.

This situation led directly to the Iraqi government's nationalization of the IPC in 1972, which was settled with compensation to involved companies in early 1973. During the 1973 war, however, the Iraqis singled out Exxon and Mobil for expropriation without compensation for their remaining holdings in the Basrah fields because of their continued limits on production. To force Iraq to rejoin the Exxon-Mobil sales network, Rockefeller subjected Iraq to open warfare. The resultant financial drain was intended to produce either social crisis or Iraqi borrowing on the Eurodollar market, a policy of dependency which Iraq has always eschewed.

From late 1973, the Iraqi government has dealt with the CIA's "Kurdish rebellion" directed by U.S. Ambassador Richard Helms in Teheran. Iraqi oil flow through the key Kirkuk pipeline through Kurdistan was slashed by 40 percent forcing the government to begin construction on two entirely new pipelines.

Syria, under Washington-New York promptings, sharply reduced the flow of water to Iraq from the Euphrates River in early 1974. This resulted in the shutdown of farm production and close to a 20 percent drop in agricultural output during 1974-75.

Exxon and Mobil refused to either market Iraqi oil or allow other companies to do so in markets where they had the leverage, closing Iraq out of 40 percent of the world industrial market. In the same vein, West German, Japanese, and other corporations and governments were directly pressured not to sell industrial goods to Iraq or engage in Iraqi development projects, oil industry sources report.

Some quantifiable effects of this pressure on Iraq's economy have been:

*Severe rise in expenditures on food imports in the fourth quarter 1975 after two consecutive harvests hit by the Euphrates diversion (Table 1)

*Flattened oil production at 2 mbd in 1974-75 compared to present rising capacity at 3 mbd, and a severe fall in production during the first half of 1976 to 1.1 mbd. Production averaged 2 mbd for 1976 as a whole, compared to a planned 3 mbd 1976 output, which cost the country some $5 billion in losses of expected revenues towards its 1976-80 development plan.

* Drain of foreign exchange reserves from $3.3 billion in the fourth quarter of 1974 to $2.4 billion in the first quarter of 1976 (Table 1).

Table 1— Iraq: Basic Trade Statistics

	1973	1974	1975				1976		
			I	II	III	IV	I	II	III
IMPORTS (MILLIONS OF DINARS)	270.3	700.1	115.5	217.6	212.4	699.3	111.0	204.3	224.7
EXPORTS (MILLIONS OF DINARS)	653.6	2,059.4	552.2	625.0	652.8	666.8	597.2	489.4	685.4
BALANCE OF TRADE (MILLIONS OF DINARS)	423.3	1,359.3	436.7	407.4	440.4	- 32.5	486.2	277.1	460.7
RESERVES (MILLIONS US DOLLARS)	$1,553.1	3,273.2	2,910.6	2,593.9	2,403.4	2,727.3	2,364.9	2,883.5	3,409.7

Development Deals

The result has been to force the Iraqi government to fight even more rigorously for oil markets based on superior, *long-term* stable oil contracts on a government-to-government basis with Europe and Japan.

In 1974, Japan granted Iraq a $1 billion long-term credit for an oil for plant and equipment barter deal, and locked up 9 million tons of Iraqi crude, Japan's first major oil deal independent of the Exxon-Mobil companies.

When Iraq was forced to arrange its first Eurodollar standby credit of $500 million after the late 1975 drain in reserves, the Japanese government began negotiations for another $1 billion credit. Iraq never took up the Eurocredit. Iraqi-Japanese deals in the works total $4 billion, for the construction of liquefied petroleum gas plants, thermal power stations, desalinization plants, petrochemical plants, and other heavy industry in Iraq.

After the 1972-73 nationalizations, the USSR's Techneport helped Iraq's major capacity expansion from 2 mbd to 3 mbd, including the expansion of the Rumalia fields from 200,000 bpd to 1 mbd.

Iraq's two new pipelines were Italian and French built. In only 22 months to December 1975, the Iraqis and ENI of Italy built a reversible flow "strategic pipeline" 810 kilometers long from the southern Persian Gulf to the Mediterranean with 1 mbd capacity.

Iraq and the French consortium Entrepose meanwhile completed at similar breakneck speed the Iraq-Turkey pipeline, with over 1 mbd capacity, which opened in January, and connects with the reversible line.

Iraq has allocated $1.32 billion for agricultural development and irrigation projects in the 1977 budget; approximately $9 billion has been allocated for 1976-80.

This figure was calculated on the basis of a sustained oil price of $12 a barrel, but because of shortfalls in production due to political sabotage, Iraq has become a net food importer. Iraq is focussing its effort to improve yields and production by working major long-term problems of water logging and salination of the once-fertile Euphrates-Tigris basin and the Basrah delta area. The intended Five Year Plan, now delayed for a year due to uncertainties in oil revenues, was aimed at increasing cultivated areas from 10 million acres to 12 million, a 20 percent increase. Wheat production in 1976 reached 1.3 million metric tons, a huge 40 percent increase over 1975, mainly by the regulation of the major rivers previously being tampered with by Syria.

Infrastructure

The second major investment area is infrastructure which will get an even bigger boost, Saddam Hussein announced last November. Iraq will hold back from heavy industrial development, Hussein reported. Instead housing, electric power capacity, transportation, bridges, and communications will get new investment. In 1976 plans were to increase the national generating capacity from 1,181 megawatts to 3,500 megawatts by 1980, a tripling of capacity. A contract signed December 1976 with Mitsubishi to build a giant thermopower plant near Basrah will provide 800,000 kilowatts. This "crash program," said Sabah Kachachi, Director General of the Industrial Department of the Japanese Ministry of Planning, "has the same potential as the TVA program in the states during the Thirties."

Increased utilization of the rivers for transportation will be greatly helped by the dredging, widening, and deepening of 1,200 kilometers length of river. There are also plans to turn the Tigris River into a major route for heavy barges carrying goods now off-landing at the Gulf ports. A new navigation canal in Basrah will cut through a river connecting Hammer Marsh with Khor Zabair through the Persian Gulf, shortening the distance from Basrah to the Gulf by 180 kilometers. The same project will provide irrigation water to revive the once fertile delta area.

Approximately 223,750 one-family units will be built over four years for both rural and urban areas, 68,750 more a year than the long-term 1976-80 plans had intended.

Industry

Iraqi planners have steered away from heavy industrial projects for the immediate future due to manpower shortages and a general underdeveloped population. Last year Iraqi planners were talking of heavy industrial investment at the same time as oil production was plummeting. Then in May, 1976 five heads of ministries, including the Minister for Industry and Housing and the Planning Minister, were replaced and new posts were created for Public Works, Housing and Labour, and Social Affairs, indicating a major shift in government emphasis for the 1976-80 plans. While news has been made public that the industrial development budget for 1976-80 will be around $15 billion, it may be an exaggerated figure. Indeed for 1977, it is $3.384 billion.

Existing industry in Iraq is mainly based in construction. Cement output fell behind during the construction boom of 1974-76, but it is now being geared up so that cement production by 1980 will rise to 7.2 million tons a year to meet the needs of increased educational and health facilities and housing. Consumption is expected to be steady at 5 million tons, leaving 2 million tons for export. For all other construction production materials, Iraq must import metal parts and is also importing semi-automated and automatic machinery. The "Caterpillar" tractor is now a household word throughout the country.

The other major industrial area aside from petroleum is textiles. Using locally produced wool and synthetic fibres plans are to be self sufficient in clothing material. Presently textile and hosiery production provide 14 percent of industrial production and it is estimated that $300 million in 1977 will go into new mills but more importantly, will go to replace outmoded machinery.

Well underway are the massive industrial complexes, namely the Khor al Zubair Iron and Steel works with a 1.8 million tons capacity: an aluminum smelter plant with a 16,000 tons-year production capacity. Another industrial complex is planned at Suwaira in central Iraq. Some 90 multi-purpose industrial projects were completed in 1976

One area which Iraq previously neglected is getting much-needed attention, fertilizer production. In February 1976 a contract was signed with a Belgian company for the production of phosphates. An integrated program in the western desert is now taking shape around an integrated township, a glass factory and a large cattle producing project. A chemical plant is planned here to produce 1 million tons of phosphate fertilizer a year. Iraq is also negotiating a second area plant with Mitsubishi. The first will be completed by 1978.

Unfortunately it may be these later projects that will suffer from the industrial investment cutbacks. Cutbacks may also prevent the foundation of a planned industrial city in the Basrah region for 100,000 people.

A look at development plans now underway shows a clear emphasis on increased social services, reducing consumer prices, and education. The education budget for 1977 has been increased from $582.08 million in 1976, to $631.04 million, with emphasis on sending 50 percent of the elementary school children to high schools and 50 percent to vocational schools. The number of graduates increased from 34,000 in 1975 to 70,000 in 1976 and expected 150,000 for 1980.

Iraq is suffering from not just a skilled labour shortage but a general labour shortage. With migration of rural populations to the towns where they are desperately needed, only 36 percent of the population now lives in a rural environment. The migration of 500 Egyptian farm families to Iraq where they will receive 12 acres of land, a down payment of 500 Egyptian pounds and a monthly payment of 60 Egyptian pounds, equipment, fertilizers and education in new farming methods will help to alleviate the problem.

In 1976 the government started a drive to move faster to agro-industries and towards state farms, of which there are now 21. Informed sources say that 20 percent of the 1976-80 plan will go to agriculture, while only 8 percent will go for industry.

Mr. Kachachi reports that the agro-industries, "The companies will dig canals, do land leveling, leaching and preparing the soil for cultivation and all the infrastructure that is required... They must train the Iraqi staff and so they will stay for two years after finishing the job."

Overall, thanks to a centralized economy, the government was able to pinpoint immediately the problems especially in the case of 1974-75 spending spree to "beat inflation" in the West which drained the foreign reserves from $3.273 million in the last quarter of 1974 to $2.910 million in the first 1975 quarter, a level that was not reached again until the third quarter of 1976.

Algeria: Basically Sound Despite Planning Problems

ALGERIA

The Algerian government has implemented a centralized planninng system for the economy to reinvest totally all available surplus from oil revenues into the development of heavy liquified natural gas (LNG) processing, petrochemical, steel and other industries, while developing infrastructure and agriculture. The 1974-77 Plan (Table 1) shows the impressive breakdown of investments scheduled in 1974, which has overall been adhered to, and which despite Algeria's international and domestic planning problems has produced excellent economic growth when compared to the chaotic situation in Saudi Arabia or Iran today. Of the $31.6 billion in long-term investments scheduled over 1974-77, fully $16.3 billion has been allocated for industrial development, over 90 percent of that in the state sector. Economic infrastructure at $4.1 billion, agricultural development at $2.3 billion, and education at $2.3 billion have also been heavily promoted.

Algeria has, however, been under considerable political pressure from its bankers since President Boumedienne began his leading role as proponent of the new international economic order with its included features of debt moratorium and a new monetary system. In reaction to this pressure, Algeria has moved closer to the Soviet bloc, with its central bank now one of the few Third World nations with a transferable ruble clearing account at the Comecon's International Bank for Economic Cooperation.

Despite its efforts Algeria has also developed significant planning problems, the major one being the purely external political constraint under which fully 50 percent of the planned liquified natural gas (LNG) export program has been kept from implementation by the refusal of the U.S. Federal Power Commission (FPC) to

Table 1 — Algerian 1974-77 Budget Plan: Table Of Investments

In millions of dollars

	TOTAL SPENDING AUTHORIZATION	PERCENT	COST OF THE NEW PROGRAMS
Industry	12,000	43.5	16,348
Agriculture	3,001	10.9	2,306
Water Power	1,150	4.2	1,210
Tourism	375	1.4	300
Fishing	39	0.1	14
Economic Infrastructures	3,880	14.0	4,124
Education	2,487	9.0	2,247
Social	3,653	13.3	4,082
Administrative Equipment	359	1.3	326
Studies-Diverse-Unforeseen	630	2.3	616
TOTAL	27,554	100.0	31,618

Chart 1— LNG Exports

Customer	Country	Destination	Volume (billion m³/year)	Start of delivery
Operational				
British Gas Corp ...	Britain	Canvey Island	1.0	1964
Gaz de France ...	France	Le Havre	0.5	1965
Gaz de France ...	France	Fos	3.5	1972
Distrigas ...	USA	Boston	0.45	1972
Contracts approved				
El Paso	USA	Savannah & Cove Point	10.0	1977/8
Enagas	Spain	Barcelona	4.5	1976
Distrigas	Belgium	Zeebrugge	3.5 **b)**	1979
Gaz de France ...	France	Fos (?)	3.5	1980
Signed contracts awaiting approval				
Eascogas	USA	—	1.0 / 6.0	1977 / 1980
Distrigas	USA	Boston	0.75 / 1.2 **c)**	1976 / 1978
Panhandle	USA	—	4.5	1980
El Paso	USA	—	10.0	1981
Tenneco	Canada **d)**	St John	10.0	1981

grant El Paso and other corporations licenses for Algerian exports. Secondarily, the Boumedienne government has allowed development policy to be shaped by the Hudson Institute and other monetarist consulting agencies introduced into the country by the New York banking community, causing severe financial mismanagement.

The economy, however, is more than basically sound: a tremendous potential for real industrialization has been laid which can absorb high-technology plant and equipment exports from U.S., European, Japanese, and East bloc industry as the population is brought up to higher living standards.

The centerpiece of the economy is of course investment in expanded hydrocarbon production, which will be seen in Table 2 to be a major share, or $6.5 billion, of the total

Table 2 — Algerian 1974-77 Budget Plan : Industrial Investments

In millions of dollars

	Total Authorized Expenses 1974/77	Cost of the New Programs
Hydrocarbons	4,875	6,500
Mines	275	200
Electricity	381	425
Iron Smelting	1,466	2,000
Electric and Mechanical Construction	1,559	2,675
Chemistry	1,000	1,212
Construction Materials	1,025	1,137
Nutrition Industries	367	562
Textiles	355	500
Leathers	42	75
Wood-Paper-and assorted	415	750
Local industry and handicrafts	227	287
General Studies	10	12
TOTAL	12,000	16,337

Table 3 — Algerian Actual 1976 And Announced 1977 Budget

	ACTUAL 1976	PLANNED* 1977	% CHANGE '77 OVER '76
I EXPENDITURE: TOTAL (1+2)	10	13.2	+32
1. INVESTMENT (A+B)	6.4	9.3	
A. STATE INDUSTRY	4.2	6.3	+31
B. INFRASTRUCTURE EQUIPMENT	2.2	3.0	+37
2. OPERATING EXPENSES	3.6	3.9	+ 8
II REVENUE: TOTAL (1+2)	6.0	7.0	
1. OIL AND GAS	3.8	4.3**	
2. OTHER TAXES	2.2	2.7	
III DEFICIT (II-I)	-4.0	-6.2	+50

* ANNOUNCED BY THE GOVERNMENT JANUARY 3, 1977

** ASSUMING A FIRM 10% OIL PRICE INCREASE AND $300 MILLION IN NEW LNG RECEIPTS.

$16.4 billion 1974-77 industrial investment budget. Algerian hopes lie in the expansion of the LNG production, since her oil production has just about reached the limits of capacity expansion at the 1976 production level of 1 mbd. Just to keep at that level, over $500 million a year is spent in new exploration and in gas injection stimulation methods. There is, however, a major refinery expansion program being implemented, with today's refinery capacity of 122,400 b-d to be increased to over 750,000 b-d by 1980, a major investment program.

In 1976, Algerian LNG sales amounted to some 5.5 billion cubic meteres (bcm), which brought in less than $100 million in revenues. (see chart 1) The planned expansion programs are to 20.5 bcm for 1978, and to over 70 bcm by 1980, making Algeria the world's largest producer of LNG.

In order to accomplish this, however, a tremendous expansion of expenditure on plant and equipment is necessary, since the natural gas must be liquified before shipment. Presently there are only two LNG plants on line with a combined production capacity of 6 bcm per year, with expansion of a total of 14 bcm planned for the end of 1977. Contracts are under negotiations for plant to liquify the full 1980 production target.

But, political intervention by the Exxon-Mobil group of oil companies is costing Algeria 50 percent of its LNG trade. Fully 35 bcm out of the planned 1980 exports of 70 bcm are scheduled to be contracted to U.S. firms such as El Paso Gas, but have not been approved by the U.S. Federal Power Commission. Reasons given range from environmentalist worries about safety of storage of LNG to minnows near the U.S. storage sites to outright FPC statements that such a large contract with Algeria is politically too hot. It is however well known that since 1964 El Paso, which has had one 10 bcm Algerian contract tentatively approved for 1977-78 but still awaits approval on another 10 bcm, has been trying to step up U.S. LNG sales specifically to undercut the Exxon-Mobil oil share of the U.S. energy market.

Because of repeated delays by the FPC, Algerian LNG plant construction and gas development at this point is fully 18 months behind schedule, with costs rising to over $2 billion a year for LNG development alone, compared to the $6.5 billion over four years original budget for all hydrocarbons.

The Italian state oil company ENI in February announced plans which will significantly ease the problem, by firming up their contract for 10 bcm delivery by 1980 through tankers, previous plans for a sub-Mediterranean pipeline having been thwarted by the Tunisian government. The Italians are reportedly seeking several billion dollars in financing from the Saudi Arabians, to be advanced to Algeria.

Petrochemicals

Sonatrach already has a plant that produces 1,000 tons a day of ammonia and 400 tons per day of urea and plans a huge increase in these projects. Plans include complexes at Tebessa and Annaba, both to produce 1,600 tons per day of sulphoric acid, 500 tons per day of phosphoric acid and phosphoric acid concentrates, as well as a 280,000 tons per year super phosphates plant at Tebessa and a sodium tripolyphosephate plant at Annaba.

To meet its export commitments, Sonatrach is investing heavily in pipelines and liquification plant. A 40-inch, 580 kilometer pipeline from Hassi R'Mel to the Skikda port was opened in 1972 with a capacity of 12.7 billion cubic meters-year of gas.

Iron and Steel

Iron ore is mined in Algeria, though through transportation and distribution bottlenecks production is being held steady at about the 300 metric tons level, most of which is exported.

In January 1977 a $3.5 billion contract was signed with Thyssen Company to build two steel plants with production capacity of 8-10 tons per year. This means that Algeria has stepped up the time table for steel production, as their 1976 target was a production rate of 5 million tons. By the mid 1980's they should be producing around 15 million tons a year.

Monetarist Financial Blunders

During 1976 and in the 1977 budget announced by the government January 3, 1977, the Algerian government

Table 4 — Algerian Trade And Reserves

	1973	1974				1975				1976					
		I	II	III	IV	I	II	III	IV	I	II	III	OCT	NOV	DEC
TRADE (ALG.DINARS BILLION)															
EXPORTS	7.4	5.1	5.3	4.5	4.2	4.3	4.4	4.2	4.9	5.5	5.5	4.8	1.5		
IMPORTS	8.8	2.9	3.3	4.4	4.9	5.1	4.9	5.1	6.1	6.1	6.0	5.9			
TRADE BALANCE	-1.4	2.2	2.0	0.1	-0.6	-0.8	-0.5	-0.9	-1.2	-0.6	-0.5	-1.1			
RESERVES (US BILLIONS OF DOLLARS)	1.1	1.4	1.8	1.9	1.6	1.0	1.1	1.2	1.3	1.5	1.5	2.0	2.1	1.9	1.9
DEBT (US BILLIONS OF DOLLARS)															
LONG TERM	3.0	3.0	-0-	-0-	-0-	-0-	-0-	-0-	1.5	-0-	-0-	-0-			3.0
SHORT TERM	NA								3.0						4.5

has fully kept up with the impressive industrial development projections of the 1974-77 Plan, as a comparison of Tables 1 and 3 show. Compared to a projected $31.6 billion capital investment policy over four years averaging almost $8 billion per year (Table 1), actual 1976 and 1977 estimated expenditures are $6.4 billion and $9.3 billion respectively (Table 2), a 30 percent rise during 1977.

However, the delays in the LNG programs are largely Hudson Institute-inspired financial mismanagement, have reduced revenues and raised costs such that the pace of investment has been kept up only at the expense of a $4 billion budget deficit in 1976 and a $6-7 billion minimum deficit in 1977:

*** The financial *costs* of the oil and gas program have been huge, probably amounting in 1977 to $3 billion or the entire 1977-1976 increase in investment, almost entirely due to the delay and resultant increased costs. For example, the typical LNG plant first planned in 1973 at $400 million ran at over $1.5 billion in 1976 prices.

*** Hudson Institute planners mis-ordering of heavy machinery far beyond utilization possibilities tied up billions of dollars in half-built plant and its financing costs, which bring in no revenue.

*** Hudson Institute designed Maoist agricultural policies have left Algeria with a $1.5 billion food import bill in 1976, aside from budgetary expenses, by stressing village by village communes at the expense of comprehensive mechanization.

As a result, over $12 billion in foreign debt had been run up again at the end of 1976, from financing imports both on the investment budget deficit and on current account such as food, leaving a huge trade deficit (Table 4).

In 1974, the Hudson planners put through a $3 billion long term debt. Since then, new debt has built up during 1975-76 under vastly more unfavorable circumstances. During 1975-76 some $4.5 billion in long and medium term Eurocurrency credits were borrowed (Table 4) at higher interest rates than the original long-term loans. Worse, over $7.5 billion in short-term suppliers credits have been run up, which must be constantly rolled over and thus make themselves increasingly felt in yearly planning revisions. Since mid-1976 Algeria has been openly black-listed off the longer-term Eurocurrency market, after the Boumedienne government rejected conditions by Citibank and others that all medium and long-term finance be tied to specific projects upon which the banks would then have first lien on revenues, as in "Open Door" 19th-century China.

Clearly nothing is wrong with the centralized Algerian economy per se. Even a simple free-trade approach by sane Western industrialists to speeding up LNG contracts, coupled with longer repayment periods and fresh credits for completion of half-finished projects, would immediately work wonders.

Barring this, Algeria plainly has no choice but to continue on towards unilateral debt moratorium and fuller integration into the CMEA.

Iran At The Crossroads

IRAN

The year 1976 marked a critical turning point for the Iranian economy which, despite Iran's petrodollar windfall after 1973-74, posted a trade deficit of $2.4 billion.

The current crisis in Iran bursts the bubble of the Shah's proclamations that Iran was on the way to becoming the world's fifth industrial power by the 1980s. The glorious dreams of Persian Empire lie abandoned on the planning boards in Teheran, and the Shah and his retainers are struggling to keep the country liquid. As the Shah said recently in agreeing reluctantly to cuts in his prized military budget: "Bankruptcy is worse than defeat."

According to reliable sources, the entire Iranian Cabinet is up in arms over the Shah's outlandish schemes for national development and for the military. At recent Cabinet meetings, the Iranian government has risked the wrath of the autocratic Shah to demand that military spending be slashed. As a result of a decline in oil sales in the first half of 1976—owing to falling world demand—the government opted for a policy of large-scale foreign borrowing, amounting to between $1.5 and 2 billion in the Euromarket.

According to London financial circles the new record budget of $49 billion for Iranian fiscal year March 1977 to March 1978—a budget over twice that of fiscal 1976-77—carries with it prospects for the government borrowing up to $6 billion this year, and placing Iran in a net deficit spending position. Ironically, such a large scale development plan will continue to be accompanied by a domestic austerity drive.

A number of crucial factors are involved in explaining why Iran, with a total oil income of $60 billion since the 1974 price rise, should be experiencing such a sudden economic downturn. Following the quadrupling of oil revenues between 1973 and 1974, the Shah indulged in a shortsighted spending spree, for both Iran's development and imports as well as for an unwieldy arsenal, to date having cost Iran $15 billion from the U.S. alone! Within a short period Iran began to suffer the economic side effects of the Shah's having overextended government expenditures. Iran's still largely underdeveloped infrastructure was not equipped to accomodate the spate of poorly planned new development projects, the most flagrant manifestation of which was the clogged Iranian port situation, where merchant ships last year were experiencing turnaround times of from 5 months to a year, and which cost the Iranian government $1 million a day in wasted cargo and waiting fees to the suppliers. The government has in part successfully alleviated this notorious port congestion. But even more serious are the effects the Shah's chaotic development schemes have had in terms of triggering a 20 to 30 percent inflationary spiral which is still not under control.

Last year the Iranian Central Bank (CBI) attempted to delimit the growth rate of liquidity — at that time at about 40 percent—by imposing tighter restrictions on foreign borrowing to private and public sector banks, calling for a 30 percent deposit with the CBI of the total amount of any sought after loan. Similarly the CBI raised the prime rate. Such moves have caused intense political repercussions for Iran's development-hungry industrial and private sector, which has repeatedly questioned Iran's chaotic and inadequate banking system. Resistance to the Shah's economic policies, particularly his military spending, has been voiced by various circles from the pro-development National Iranian Oil Co. through to the Iranian Cabinet.

Going Into the Red

Increased foreign borrowing has in part funded Iran's growing food import costs. As early as 1975 Iran began to import more foreign-supplied goods, including food on credit rather than on the usual cash terms. Imported goods for that year were down 10.7 percent on cash terms and up 41.5 percent on credit, with 1976 seeing a further increase in credit-financed imports by an additional 18 percent. Aside from financing Iranian imports, the upward trend in borrowing during 1976 was devoted to maintaining the level of Iran's foreign exchange.

Iran's worsening cash flow problem was a major factor in Commerce Minister Taslimi's announcement in December that Iran wished to conduct the major part of its commodity imports and financing of future development deals on a petroleum barter arrangement. Since then several large barter deals have been signed, involving British, German and Italian firms.

Iran's Foreign Imports

By Major Trading Partners

(IN THOUSANDS OF DOLLARS)

	1974	1975	1976
JAPAN	$1,013,556.	$1,854,296.	$1,233,812*
U.S.	1,733,600.	3,241,700.	2,763,231
GERMANY	1,139,123.	2,193,340.	2,419,200
U.K.	446,720	791,720.	755,680**
FRANCE	246,580	540,664.	448,698***

THRU; * SEPT '76, ** NOV '77, *** SEPT '77

Regardless of the means of financing Iranian-foreign commercial relations, in order for successful foreign investment to flourish in Iran the Shah will have to reconsider his corporatist "White Revolution" scheme. This was recently forthrightly addressed in the *London Times,* which correctly complained of the instability of investment under the government plan, where Iranian workers are getting 49 percent paper ownership of industry, and of sporadic anti-corruption clampdowns which deleteriously affect foreign business. The *Times* urged the Shah to enhance Iran's foreign investment climate by building up Iran's private sector through the dispersal of funds through Iran's commercial banking system. This corporatist policy, companion to the Shah's White Revolution, its prime political vehicle, the recently formed Rastikhiz Party, and the massive military build-up, has been directly fed to the Shah through numerous Rockefeller-controlled institutions, one of which is David Lilienthal's International Bank for Economic Cooperation.

Pro-development factions in Great Britain, Germany, France, and Italy, as well as the Soviet Union, have been applying pressure on the Shah to break with his long-standing alliance with monetarist policy and use Iran's oil wealth for reasonable development. The priorities of the new budget—steel-iron, energy generation, and petrochemicals — have already been supported by numerous deals with the above mentioned countries. Aside from a major policy shift on the part of the Shah in order for the plan to succeed, new international monetary arrangements will be necessary to provide the large amounts of needed credits.

Iran's Food Problems

With food consumption on the rise, Iranian agricultural self-sufficiency is on the decline and the latest U.S. State Department reports indicate that recently the government has begun to draw down its own food stockpiles to meet the demand. Food production in 1976 rose by 7 percent against an anticipated 12 percent rise. Iran's food bill for the last fiscal year rose to over $1.5 billion. Not surprisingly, the government is considering reducing the number of subsidized food commodities as part of the next budget, thus reducing the $1.1 billion in yearly food subsidies.

According to the U.S. Department of Agriculture, Iran presently only cultivates about 3.8 million hectares but envisages an additional 500,000 hectares under cultivation by 1980 with 1,000 wells and four dams constructed to aid in solving Iran's serious water problems. An impressive amount of Iran's rapidly growing trade and economic cooperation with the Comecon involves the development of Iranian agriculture. At the end of 1976, the Soviet Union agreed to construct two new dams in Iran and has been involved in ongoing negotiations with Teheran aimed at joint cultivation of the potential agricultural wealth of the Caspian Sea area.

Energy

In the past year, Iranian cities, most frequently Teheran, have been subjected to numerous blackouts as a result of an inadequate power generating capacity. Iran has concluded agreements to fill the gap in its national power grid. Aside from the four nuclear reactors to be supplied from France and Germany, though not to come on-stream until the early 1980s, France, Germany, and the Soviet Union will provide Iran with thermal power stations, the largest of which will be in operation next year and is slated to be the Mideast's largest. The Soviets have agreed to build an 800,000 kilowatt power station at Isfahan. The Iranian intention to become a nuclear power economy has caused strains in U.S.-Iran relations. The U.S. has opposed the construction of the plants, most notably the units being constructed by Kraftwerke Union at Busheir.

Steel

In Iran's efforts to build up a new non-oil industrial base, iron and steel production is the number one priority. The Soviet-built Aryamehr steel plant is still the cornerstone of Iran's small steel output. The Isfahan plant is presently going through enlargement with Soviet assistance and will soon produce 1.9 million tons a year, up from its present capacity of 600,000 tons. Otherwise, additional steel producing capacity will be provided by West Germany, France, Italy and the Soviet Union. British Steel Corporation is slated to complete another plant at Isfahan in 1980 worth $1 billion, while Italy's Italsider will build a new complex on the Persian Gulf at Bandar Abbas. The pace of construction of the Bandar Abbas plant is in question, partially because of problems with finance (a barter arrangement has been hinted at) and also because Iran has had problems coping with the expansion of the Aryameh plant as well as the construction of two direct reduction plants at Ahwaz and at Isfahan.

Other plants are still in the drawing board phase. As for the ore, Iran has already signed an agreement with India for the development of India's Kudremukh mines which will supply 7 million tons annually to Iran which will as well develop domestic ore and coal reserves.

Shifting Trade Patterns

Trade figures for 1976 with Iran and its major trading partners show some definable shifts (see chart). The most dramatic was a nearly $500 million decline in non-military imports to Iran. State Department reports indicate that the U.S. number one trading position with Iran may soon be overtaken by West Germany, with French trade also on the rise. One of the reasons for the sudden drop in U.S. trade is the rising cost of U.S.-made goods which Iranian officials have repeatedly complained about; the other is a reorientation towards Europe for cooperation in Iran's development.

1976 saw an improvement in relations between Iran and the Comecon countries, especially the Soviet Union. The new five year trade protocol signed between Moscow and Teheran signed at the end of 1976 was for a record $3 billion, and all other renewed protocols with the Comecon countries were significantly on the rise. While quantitatively Iranian-Comecon trade is still relatively small, the pacts are designed to enhance development particularly in those areas which are weakest in the Iranian economy, food production for example. Most trade is based on barter agreements using both gas and oil. During 1976, Czechoslovakia signed its largest foreign deal ever with Iran, for natural gas valued at $2.5 billion, for which Iran will get goods from the Czechs. This is part of a larger agreement signed last year in which Iran will pump liquified natural gas (LNG) to the Soviet Union, which will in turn pump a portion of the gas to France, Austria, West Germany and now Czechoslovakia.

Funds Flood Sudan, The New Arab Granary

SUDAN

Saudi Arabia along with other oil-producing Arab states are massively investing in Sudan to turn the country into the "granary of the Arab world." In tandem with Arab efforts, European—largely Brithish—financiers and businessmen are flocking to Sudan with investment credits in what is quickly emerging as a model of European-Arab cooperation for Third World development.

Last year, the International Monetary Fund categorized Sudan as the only country with negative foreign exchange assets. Sudan's "uncreditworthiness," however, has not deterred businessmen who recognize that as much as one-third of Sudan's land surface is potentially arable. According to the Middle East Economic Digest, international businessmen see "the country's grave financial position as a short-term problem, and believe that in the long term investments will pay well." Said one investor from Great Britain: "The potential is enormous in the Sudan. There is land, water, good soil and customers who want to buy the produce from it."

Most of the credits for Sudan are coming from the Arab oil-producing countries with Saudi Arabia and Kuwait in the forefront. The Arab Fund for Economic and Social Development (AFESD) and its financing affiliate, the Arab Authority for Development and Agricultural Investment (AADAI), have worked out a 25-year (1976-2000) development plan for Sudan that will channel $6,535 million in funds to Khartoum by 1985. In November, Arab finance ministers met in Khartoum to deliver the first $300 million of the $500 million they had pledged to the AADAI.

The decision to focus on Sudan was taken in June 1974, when the Council of Arab Economic Unity met and agreed to draw up a joint Arab organization on —AFESD — to develop Sudanese agriculture. Growing concern over a possible "food crisis" and "famine" predicted by the United Nations and affiliates were the chief motivations. In particular, the Arabs were alarmed that the U.S. would start a food war against the OPEC states. AFESD accordingly set out on a program to develop "a well planned and fully integrated" agricultural plan to tap the food-producing potential of designated Arab countries, with Sudan targeted as " the first step."

According to the program, AADAI shareholders will sponsor capital intensive infrastructural development projects, operning the way for commercial investors to put together profitable business packages in fields such as canning, trucking, livestock production, textiles, and so forth. AADAI will provide 45 percent of the financing, while the remaining 65 percent of the plan's expenditures will be in foreign currency under arrangements explicitly set up by AADAI.

In the plan's first phase-10 years, 100 integrated projects will be started to develop infrastructure and Sudan's agro-industry. In the second phase, yet to be delineated in detail, emphasis will be placed on "the acceleration of productive projects." Based on 1970 prices, agricultural exports will increase 300 percent during the plan's first phase. By 1985 Sudan will be able to provide 42 percent of sugar, and 58 percent of meat equivalent in animal feed.

Some People Don't Like This Idea

Critics around the World Bank have charged that it is unrealistic for a country that must still import food for its own population to think it can begin producing food for the entire Arab world. The International Labor Organization recently published a report on Sudan which claims that modern capital-intensive irrigated farming is "not profit-worthy." Fertilizer must be bought from abroad, the ILO complains, heavy inputs must be made in social services and capital goods. The ILO alternatively suggests the "development of traditional agriculture." In the same vein, the World Bank is pressuring the Sudanese and their Arab backers to "reconsider" their development schemes and to take into account the "wider implications" of the 25-year plan like the "social cost." Do not "rush in headlong to make Sudan a major exporter of food by 1980," the Bank has warned AADAI.

Such interest's admonishments—and other pressures—have had their impact. In the wake of the July 2 coup attempt, Numeiry suddenly proclaimed that he wanted stronger ties with the U.S. Numeiry made a two-week visit to the U.S. where he urged U.S. investment in Sudan's chrome industry, claiming that Sudan's ore is of higher quality that South Africa's. Currently, most of the chrome extracted by the nationalized Ingessana Hills Mining Co. is exported to Japan. Numeiry also showed willingness to "open the door" to foreign banks, after he had nationalized all the banks in Sudan years ago. Chase Manahattan plans to open a branch in Khartoum and has expressed readiness to participate in Sudan's Six- Year Plan.

But David Rockefeller's relationship toward Sudan is hardly beneficent. In 1974, Chase was involved in a development scheme arranged by Adnan Khashoggi, a freelance Saudi financier, for a $250 million project for food and infrastructure in Sudan. The credits to Sudan were backed up by a Saudi loan guarantee arranged by Khashoggi, and Chase was named as manager. But at the last minute, Chase pulled out of the consortium and the whole scheme collapsed, leaving the Saudis stuck with the loan guarantee.

The top priority of development efforts in Sudan is infrastructure, specifically the development of irrigation and transport, i.e., roads, harbors, railways, pipelines, etc. Port Sudan—through which more than 95 percent of Sudan's exports and imports pass— is barely able to manage the growing volume of heavy capital equipment and a new port at Suakin is slated to be built. Rolling stock is in short supply; in addition, oil products now take up 40 percent of the railway's capacity. When the Port Sudan-Khartoum pipeline and highway is completed this year, the railway will begin to work more efficiently, allowing for goods to reach their destination on schedule. An expansion of the railway and road system is currently underway, financed to a large extent by European capital.

Irrigation is the other prime focus, with almost 2 million acres of uncultivated land scheduled to be irrigated. Plans also exist for the rapid expansion of rain-fed mechanized farming in the Kassala-Darfur regions, with 200 million acres earmarked for eventual cultivation!

Sources of Capital

The extent of capital investment in Sudan is immense. *Saudi Arabia* is extremely active in Sudan. Last November, King Khalid visited Sudan to advance economic cooperation between Sudan, Saudi Arabia, and Egypt. Khalid gave $700 million in credits to Numeiry. The Saudis are setting up an oil refinery in Port Sudan and have agreed to supply Sudan's oil needs through 1979. They are also financing the search for minerals in the Red Sea. Members of the Saudi royal family as well as Khashoggi are investing heavily in cattle farming in Sudan, with U.S. firms acting as managers of the projects.

Kuwait likewise extremely active in Sudan, as are to a lesser extent the United Arab Emirates, *Abu Dhabi*, and *Iraq*.

Sudan is also attracting considerable business from Europe and Japan. *Italy* has signed numerous trade agreements with the Sudanese; *France*, the *Netherlands, West Germany*, and *Japan* have extending sizable loans. *Great Britain* maintains its position as Sudan's number one trading partner. For example, Massey Ferguson provides tractors for the Gezira and Rahad agriculture and irrigation schemes; Lonrho manages the giant Kenana Sugar Estate; Fletcher and Stewart are building two important sugar factories. Last November, at approximately the same time that King Khalid arrived in Sudan, a 14-man mission sponsored jointly by the London Chamber of Commerce and the British Agricultural Export Council visited Sudan. The Lonrho Kenana project is exemplary of the kind of joint British-Arab cooperation. Kenana will, by 1980, produce 300,000 tons of sugar to be increased to 1 million tons, making it the world's largest combined sugar plantation and refining estate. Last year, Kuwait bought 23 percent of Kenana's stock.

Financial Crisis

Despite extensive Arab financing, Sudan now faces considerable balance of payments troubles, including a large trade deficit ($592.6 million in 1975, an increased of 66 percent over the 1974 level), and an inflation rate of 20 percent. The result is that Khartoum has been forced to borrow from abroad, bringing the ratio of debt servicing to export earnings to 35 percent: The difficulties have not discouraged investors, however. The New African Development journal uports that investors recognize that "the import of capital machinery which has contributed to the balance of payments deficits will begin to produce profitable returns. The well-publicized sugar schemes have served as a sort of dry run for developments already under way in other sectors of the economy."

Behind The Amin Affair

Carter Plotted Coups In Uganda, Ethiopia

Well-informed African diplomatic sources revealed today that the recent crisis in Uganda was part of a massive covert operation ordered by the Carter Administration to stage pro-U.S. coups in Uganda and Ethiopia, and to aid the takeover of Kenya by a pro-U.S. clique there. The source outlined that a U.S.-backed coup in Uganda and a coup by pro-U.S. officers in the Ethiopian military were planned for February. Both events were timed with the arrival of a flotilla of the U.S. Seventh Fleet to provide the military backing for the operation.

The aim of the Carter intervention was not the overthrow of petty dictator Idi Amin. The Carter Administration is looking to secure a base of military operations on the eastern coast of Africa looking to the Indian Ocean, and on the strategic northeast Horn of Africa, as points of intervention against the socialist governments in the region. Carter's intervention into East Africa is seen by African sources as linked to the Administration's backing for the racist minority regimes in Rhodesia and South Africa and their efforts to block British diplomatic efforts toward a peaceful settlement of that situation.

It is no coincidence that the coup attempts were also timed almost exactly with the opening of the Afro-Arab summit in Cairo, the primary aim of which is to reach accord on a development strategy for Africa.

Target Uganda

The centerpiece of the Carter plan was the unstable situation in Uganda, where according to the sources, dictator Idi Amin discovered a real coup attempt and reacted with a spree of arrests and murders against real and imagined subversives and accusations not only against the United States but against all other perceived "coup plotters," specifically neighboring Tanzania.

When the coup attempt failed, Carter proclaimed that Amin's actions "have disgusted the entire civilized world..." — a comment criticized by one conservative American source as "waving a red flag in front of an unstable personality." Amin answered with threats against American citizens in Uganda, nearly creating the pretext needed to rationalize U.S. military intervention. This crisis was heightened by U.S. press columnists such as Trilateral Commission member Carl T. Rowan and others who called variously for the overthrow and assassination of Amin — a practical application of the "limited sovereignty" doctrine of National Security Council chief Zbigniew Brzezinski. News reporting has exaggerated the extent of Amin's atrocities against the Ugandan population in order to heighten the crisis atmosphere, according to a U.S. Christian missionary organization with East African contacts. According to Christian missionaries in Uganda quoted by the Christian Science Monitor March 3, reports grossly exaggerated the danger to American citizens.

As late as March 4, William F. Buckley unabashedly indicated U.S. policy: "Sanctions should be voted, the country isolated. Somebody's CIA — not ours, we do not wish to give offense you know — should take the initiative internally."

A CIA-sponsored coup in Uganda would have shored up an increasingly active pro-U.S. clique in Kenya — where rival circles backed by British and American interests respectively have been struggling for control since independence. A U.S. puppet in Uganda would reopen an important market for Kenya's exports of light manufacture and pharmaceuticals.

The pro-U.S. grouping in Kenya, composed mainly of young World Bank "radicals" has received substantial publicity by the *New York Times*. This grouping has led attacks against the "corruption and repression" of the older British-linked leaders around aging President Jomo Kenyatta. When the Kenyatta-British force began its move toward closer economic ties with the Soviet Union and other socialist countries in 1975, the *New York Times* tried to Watergate this circle of exposés of rampant corruption, ivory smuggling, and other "venality." Kenyatta's faction reacted with a purge of the pro-U.S. faction, prompting the *Times* to threaten in an October 23, 1975 editorial: "It will be a tragedy for all of Africa if, in his unwillingness or inability to curb his own greed and that of his intimate circle, Mr. Kenyatta allows that record (of 'steady economic growth' and 'freedom of dissent') to be tarnished beyond repair and the seeds planted for future civil and tribal strife..."

But the pro-U.S. Kenyans managed last month to ground airplanes belonging to the East African Airways, a joint corporation comprised of Kenya, Uganda, and Tanzania. These three nations are also part of an East African Community, an economic cooperation organization. Tanzanian President Julius Nyerere then closed his border with Kenya, a move that cut Kenya off from crucial export markets in Tanzania and Zambia, markets which account for a large part of Kenya's revenues. Nyerere discovered on telephoning Kenyatta to discuss the situation according to the *Financial Times* of London, that the grounding had been ordered without consulting or even informing Kenyatta. African sources say that the border closure was continued specifically to pressure the pro-British circles in Kenya, who are in favor of much better relations with Tanzania, to clean house.

An additional effect of a CIA-sponsored coup against Amin would be to prevent the threat of a reinstatement of Uganda's former President, Milton Obote — a close associate of President Nyerere.

Target: Horn of Africa

The Uganda crisis was to provide the smokescreen for U.S. intervention into strategic Ethiopia. With a controlling coastline of the Red Sea, Ethiopia is the gateway to the Suez Canal and to the Israeli-controlled area of the Sinai peninsula. The U.S. has had a major communications base used for commanding U.S. nuclear submarine and naval operations in the Indian Ocean. Already one portion of the Horn — Somalia — is under a socialist government that is close to the Soviet Union.

With the failed Uganda coup attempt the operation in Ethiopia has failed with even more of a vengeance. As sources outlined, in early February there was a coup attempt in Ethiopia by a group of pro-U.S. officers of the ruling military junta, who hoped to clear out the remaining influence of a group of radical nationalist military officers allied with an important circle of pro-Soviet socialist intellectuals and trade unionists. The coup not only failed but the entire circle of pro-U.S. officers was killed in the attempt, leaving the government firmly in the control of the pro-socialist grouping who have since moved rapidly to align Ethiopia with the non-aligned and socialist countries and begin cleaning out of the military and other layers the extensive influence of both U.S. and Israeli intelligence agencies.

Two immediate questions for the new Ethiopian regime are the resolution of the numerous tensions on the borders with socialist Somalia to the east and Sudan to the north, and dealing with the tremendous internal breakdown and subversion operations. The longstanding Ethiopia-Somalia dispute is now being mediated by African countries, including Tanzania, and the Ethiopian government has publicly stated its desire to establish cooperative relations with Somalia. Sudan, which has been backing the secessionist movement in the northern Ethiopian province of Eritrea, is a larger problem which remains to be peacefully solved. The Sudanese bear a grudge against Ethiopia dating to Israeli intelligence use of Ethiopia as a base for running a major secessionist movement in southern Sudan.

Since the coup the new regime in Ethiopia faces a massive U.S.-run campaign of terror and assassination against government leaders and their supporters. In the capital city of Addis Ababa the Maoist "Ethiopian People's Revolutionary Party," a U.S. intelligence agency creation, has carried out the killings including among their recent victims the head of the trade union federation.

The *New York Times* and *Washington Post* correspondents in Addis have been churning out stories on the instability of the new government, described as a "dictatorship" based on "violence" — all aimed at creating the climate for a second attempt at destabilization of that strategic country. Secretary of State Vance added his bit by announcing a cutoff of U.S. military aid to Ethiopia, under the guise of violations of "human rights," a convenient rationale for the fact that the formerly U.S.-tied regime has announced it will now seek arms from the socialist countries.

But this face-saving posture has fooled no one. "The decision of the American Department of State to reduce financial aid... to Ethiopia, is officially inspired by moral considerations," comments the French daily *Le Monde* Feb. 28, but it also "ratifies an undeniable loss of American influence in a country which was a longstanding privileged ally of Washington in eastern Africa."

An Interview With Ethiopia's Mengistu — The Man Carter Wanted Out

The Carter Administration's attempted coup to eliminate the alliance of Lt.-Col. Mangistu Haile Marian and Haile Fida, pro-Soviet director of the Office of Political and Mass Organizing (OPMO) in Ethiopia, has instead left Mangistu and Fida in a stronger position. The coup was to have capped a four-month Chile-type chaos operation of terror, assassination, and economic sabotage that had been underway since the arrival in Ethiopia of U.S. Ambassador and CIA operative McMurtrie Godley in September.

After finding out about the coup plans, according to the Yugoslav press agency Tanjug, Mangistu on Feb. 3 had Dergue president Teferi Bante and six other Dergue members who were on the inside of the operation arrested. He then called an emergency meeting of the rest of the Permanent Committee, the 17-member highest body of the Ethiopian government, showing them working documents found in the possession of the plotters which laid out plans to profoundly revise the political line put into effect by Mengistu and Fida.

In the course of this meeting the security chief of the Dergue headquarters burst into the meeting and opened fire on the participants, killing Dr. Senaye Likke, a close collaborator of Fida, Lt.-Col. Daniel Asfaw, Dergue member, and an unidentified soldier before he himself was killed. After this panic-stricken response to the arrests was dealt with, the seven conspirators were executed.

Of the seven insiders to the operation, there were two ringleaders: Alemayeu Haile and Mogus Wolde Michael, both avowed enemies of Fida. Mogus, who played the primary role, was trying to reverse specific policies put through by Mengistu and Fida, such as the reorganization of the agent-ridden labor union, elimination of the ultra-leftist countergang, EPRP.

The following interview with Mengistu was published by Prensa Latina, the Cuban press service, on March 2:

ADDIS ABABA, Mar. 2 (PL) — The Ethiopian people must be quick to face new imperialist attempts to frustrate the Ethiopian revolution, in spite of the recent failure of the reactionary forces, declared President Mangistu Haile Marian here.

In an interview given to Prensa Latina, in the old Imperial Palace, present headquarters of the Military Provisional Council (Dergue), Mengistu said that the governments of Sudan, Saudi Arabia, and other reactionary Arab countries in concert with the United States, were plotting to impede and sabotage the example signified by revolutionary Ethiopia.

The problems confronting the Ethiopian process and the Government's measures to solve them were discussed by Lieutenant Colonel Mengistu, who has occupied the Presidency of the Dergue since Feb. 1, dating from the fight during the attempted coup d'etat of Brigadier Teferi Banti and six other soldiers.

The intended coup d'etat of Feb. 3 was linked to all the previous conspiracies. Nevertheless, our situation is much improved since the counterrevolutionaries in the heart of the Dergue were eliminated, Mengistu said.

The unity and political understanding within the Dergue have been increased, and the Ethiopian revolution can now pass from the defensive to the offensive.

The Ethiopian President specified that the elimination of the counterrevolutionaries will not resolve all the problems of the country, because more difficulties always await in the future.

Asked by Prensa Latina about the participation of the United States and the Central Intelligence Agency in the activities against the Ethiopian revolutionary process, in particular the latest incidents of Feb. 3, Mangistu Haile Marian said:

It is necessary merely to see the Spencer report, made to the U.S. Congress by this CIA agent in which it was reported that it would be necessary to continue the relations that existed at that time between the feudal fascist regime and U.S. imperialism, in order to control the situation in the country and eradicate the Ethiopian revolutionary tendency.

The imperialists use two means to pursue their objectives. On the one hand they call on the reactionary Arab countries for aid, like Saudi Arabia and Sudan, to help the secessionists in order to harass the revolutionary Ethiopian governments.

On the other hand, they foment problems in the capital, to create the situation propitious for a fascist coup d'etat. For example, in the north of Ethiopia, mercenaries and dispossessed aristocrats infiltrate from neighboring countries and fire on Ethiopian peasants and soldiers, said Lieutenant Colonel Mengistu.

Before discussing the plans of the enemies of the Ethiopian government to liquidate the revolution, the premier said that it was necessary to explain how the forces of reaction and imperialism are presently proceeding.

While the people are struggling for a new and just society, the imperialists give aid to the elements who are fighting against the peasant associations and the unions, committing economic sabotage and political assassinations.

Recently, for example, reactionary agents just assassinated the president of the central trade union of Ethiopia, created two months ago, and wounded his Adjunct Secretary-General.

The aggressions committed against the country will continue to happen, but it is not possible to predict exactly when the next coup attempt will happen, said Mengistu Haile.

In Ethiopia, a revolution is developing which will proceed to socialism, and this is frightening to reactionary forces, because our process can be an example for other African countries.

Our people must prepare themselves and face any eventuality to defend their revolution, for we are convinced that the imperialists and the reactionary forces are decided upon destroying the Ethiopian revolution, the President reiterated.

Sudan, he said, has eliminated a great number of communists, and repressed the authentic movements of the Sudanese people. This government, which had strong relations with the feudal fascist regime of Ethiopia (Selassie's — ed.), opposes itself to the revolutionary movement of Ethiopia, because they see that this has repercussions in their country.

This hostility was born, after all, after the visit of President Numeiry to the United States, and since the signing of the Egyptian-Sudanese-Saudi pact, said the Ethiopian premier.

The Sudanese government supports the so-called "Front for the Liberation of Eritrea" (FLE), which creation dates from the same time. They give them offices, medical installations and weapons.

Sudan also supports the aristocrats who escaped from Ethiopia, and offers refuge to their mercenaries. Presently, with money from the U.S. imperialists and from Saudi Arabia, they are building a radio station, to broadcast propaganda against Ethiopia, which constitutes a direct intervention into our affairs, said President Mengistu Haile.

We can discern that there are counterrevolutionary clouds which float in the northern part of our country and that all this corresponds with the "Spencer report," which has been mentioned.

All this that has been said about Sudan concerns the anticommunist government of Numeiry, for there is no contradiction between our people and the Sudanese masses who support the Ethiopian revolution.

The real Sudanese people suffer under the yoke of this regime, a present-day reproduction of the old Anglo-Egyptian Sudan, which prevents them from freely deciding their destiny, Mengistu reaffirmed.

Questioned on the possibility of creating an alliance between Ethiopia, Somalia, and Democratic Yemen (across the Red Sea on the Arabian Peninsula — ed.), which would stop the hegemonistic plans of the United States in this region, the premier responded that all the progressives in his country considered this perspective quite possible.

Our government, he said, has made proposals to the

Somali administration with the objective of realizing areas of collaboration in education and economics between our countries.

We also have proposed the creation of an airline between our countries, of a telecommunications net and the development of commercial relations, he said.

He also added that at present there exist difficulties to achieving these objectives.

In relation to Democratic Yemen, the Ethiopian president affirmed that his government maintains extremely good relations with the heads of this country, and reiterated that he hoped that the idea of a common front is possible.

Concerning Djibouti, a territory bordering Ethiopia and the last French colony in Africa, the premier responded that the position of his country is very clear.

Our position, he said, is the same as those adopted by the Organization of African Unity, the non-aligned countries and the United Nations: the independence of this territory.

He explained that in Djibouti exist two nationalities, the Affars and the Issas, and that both also live in Ethiopia.

There is a tendency represented by the Affars which is interested in the joining of Djibouti with Ethiopia, and there in the territory is another movement which is inclined toward Somalia, he said.

He added that a third movement, stronger than the other two, struggles for independence and the creation in Djibouti of a sovereign national state.

Other currents aspire to the perpetuation in this territory of French colonialism.

In view of these different positions, he said, and taking into account that the majority of the population aspires to independence, it would be irresponsible to assume that Djibouti will be annexed to Somalia or to Ethiopia, (several countries have shown themselves to be partisans of the independence of Djibouti).

What should happen is joint work to establish a progressive government there which will contribute to the formation of an antiimperialist front, he emphasized.

In relation with the Ethiopian colonial heritage, the premier specified that to sweep away this legacy and construct a new society, it is necessary to realize the revolution and initiate an epoch of socio-economic transformations.

The poverty, sickness and ignorance which our people suffer will only be eradicated with the continuation of the revolutionary struggle, said the premier.

Among the measures adopted by the Dergue, Mengistu listed the distribution of the land to the peasants, (95 per cent of the population) and the nationalization of foreign concerns.

In accord with the program of the national democratic revolution, he said, we are working to modernize agriculture and to continue with the process of nationalization.

In reference to education, Mengistu affirmed that all the Ethiopian people should have access to a high level of instruction, and that a governmental commission for superior education was recently created toward this end.

In addition to these internal measures, we are working to establish a convention of cooperation with the socialist countries and to realize various projects which will guarantee a rapid socio-economic development, he said.

The President of the Ethiopian Military Provisional Council also referred to the necessity of constructing a working class party, and added that the founding of this organization has been one of the principal difficulties of the Ethiopian revolution."

Affirming that the date of the creation of this party depends on the future development of the revolutionary process, Mengistu announced that there exist in the country Marxist-Leninist organizations working toward this end.

We are marshalling all the forces possible to create a vanguard party, he said, simultaneously with fighting forces that exist in the nation and with new revolutionary cadres, which are forming all over the country.

China's Economy Reels Under Maoist Disruption

CHINA

Recent reports of a 20 percent decline in China's steel production last year and of food shortages in North China confirm that China's economy in 1976 witnessed the worst disruptions and resultant loss of output since the peak year of the Cultural Revolution 1967. There is little doubt to the truth of official reports blaming these disruptions on the so-called "gang of four," the four Politburo level members of the Maoist faction who were purged in October and their supporters nationally. The spate of national and local level conferences on every sector of the national economy from coal to handicrafts and the barrage of press and radio articles and stories on the damage to the economy wrought by the "gang" and the necessity of redoubling efforts to increase production, indicate the severity of the existing problems.

It was privately but officially admitted to Western reporters in February that steel production had dropped to 21 million tons in 1976. The admission itself is unprecedented. Production in 1975 was about 25 million tons, down from 1974's all-time high of 26 million tons. The 20 percent drop from that figure brings China's steel production down to the level of 1972. Production figures for most other sectors of the economy for 1976 have not been released at all, unlike the practice in recent years. Areas of the economy dependent on steel have likely suffered severe shortfalls of production as China's steel imports did not rise at all.

A People's Daily article in mid-February charged the "gang of four" with undermining production in the iron and steel industry. It said that in 1976, supporters of the "gang" labelled old cadres as 'capitalist roaders' and young cadres who dared to resist the gang's erroneous line as 'capitulationists.' The gang fomented factionalism to create splits among the workers...and instigated their trusted followers to support one section of workers while attacking another, and to resort to force in the struggle." The reported Maoist-instigated factionalism, confirmed by reports of industrial strife at the time, undoubtedly accounted for much of the falloff in steel production.

The rest was probably the result of disruptions of rail transport. A New China News Agency (Hsinhua) release Feb. 21 described a top-level conference on railway work in Peking, attended by 200 representatives from the provinces, the 36 railway bureaus, and the central administration, and by all of the members of the Politburo residing in Peking. The Hsinhua account accused supporters of the "gang of four" of "smashing and looting," and said they "dismissed the efforts to improve management as 'controlling, checking and suppressing the workers'. All this sowed confusion in people's minds, made a sorry mess of rules and regulations...and dislocated rail transport." A People's Daily commentary adds that because of this interference, "rail transport is now a weak link in the national economy," and calls for the extraordinary expedient of "build(ing) the railwaymen's ranks into a semi-military industrial army consisting of particularly good fighters...(with) great drive and good discipline..."

Problems on the railroads in several provinces in South China have been legion, while the Army had to take over the vital rail junction at Paoting, just south of Peking, in January.

The transportation problems may also bear responsibility for the shortages of food reported by foreign observers in Peking this winter. Meat is scarcer and of worse quality; fruits are rarely seen for sale; Peking residents are spending inordinately long lengths of time in lines hoping to be able to purchase basic consumer items. The *People's Daily* Feb. 21 blamed Maoist disruptions for the food problems. "In areas where the influence of the gang of four was strong" it said, "the difficulties (in agriculture) are great." The *People's Daily* admitted that despite the earlier claim that 1976 was "another bumper year," in fact there were serious problems. The U.S. Department of Agriculture has estimated that total grain production in China in 1976 will be slightly less than 1975's 270 million tons. This estimate is based on the weather alone and may need correction downward to encompass losses through disruption.

Fuel shortages are also reported in Peking. Some factories have had to shut down for up to a week, and private homes often have heat for only eight hours a day. A shortfall in coal production and transportation problems probably account for the shortages.

One of the major themes in the Chinese press recently has been the charge that the "gang of four" deliberately fostered anarchy in the factories. A *People's Daily* article in mid-February charged the Maoists with proposing to "set up enterprises which do away with rules and regulations." Other articles stress the importance of absolute discipline and the necessity of strictly complying with all administrative laws and rules of work. One likened the Maoists to the notorious nineteenth century anarchist Mikhail Bakunin. Some results of the shop-floor anarchy are listed in one article as: production of articles without quality, non-implementation of safety rules which have led to factory accidents, and unjustified absenteeism.

The severity of the economic crisis, whose full dimensions are only now coming to light, explains in part the apparent suspension of political infighting at the Politburo level, where severe conflicts are known to still exist. However, a battery of still unresolved questions including whether to restore Teng, former deputy premier to power, will shortly interfere with the campaign to restore the economy if they are not resolved.

Squaring The Circle Of U.S. Policy To China

A Seven Springs Conference thee-day roundtable this month on "China After Mao: The Global Implications for Great Power Relationships," and Joseph Kraft's public charge Feb. 27 that Kissinger and Nixon had promised China the U.S. would dump Taiwan by 1975, signal that the Great Debate on U.S. foreign policy toward China has reared its head.

The extraordinary murkiness of the continuing faction fight in Peking and fogginess emanating from the White House on China policy left the CFR without much to do but clarify how much U.S. China watchers don't know. While the syndicated column by Joseph Kraft reiterated the super-utopian "two-front" strategy for using China against the Soviet Union, the CFR (with Kraft attending) discarded this widely discredited program as impractical.

The Kraft "leak," however, underlines the Carter Administration's bumbling incompetence in foreign policy matters generally. Kraft asserted that at his meeting with Chinese liaison office head Huang Chen, Carter was asked if he was aware of the alleged Kissinger assurances on Taiwan. "It (the Administration) wasn't, and immediately set to work to find a copy" (sic) of documents presumably concluded between the Nixon Administration and the Chinese. This was on Feb. 8. When asked about the Kraft report on Face the Nation almost three weeks later, Secretary of State Cyrus Vance gave complete credence to the report of the Feb. 8 meeting: "We are checking to see whether we have all the papers at the State Department. If we don't, we'll get them."

It is hard to draw any other conclusion from this Keystone cops episode than that someone highly placed in the Carter Administration wanted this story publicized. The Schlesingerian content to the rest of the Kraft column suggests that quarter as the source of the "leak." Kraft's column is otherwise noteworthy for resurrecting the long-buried notion that "China, and the ideological threat it poses to Russia's claim to lead the Communist world, is still one of the best things Washington has going against Moscow." Perhaps Mr. Kraft has been dipping a bit too heavily into vintage 1965 Peking Reviews.

Of a piece with the Kraft column was Drew Middleton's article the next day which "leaked" the information that "the prospect of such approaches (by the Chinese to the U.S. to buy weapons) has ignited controversy in the Defense and State Departments." The bulk of the article then implicitly suggests that if China were to acquire more advanced conventional hardware, this would force the Soviet Union to redeploy their more sophisticated weapons from Eastern Europe to the Chinese border. Citing "qualified sources" in Washington, Middleton said that China is showing renewed interest in purchasing modern weapons from abroad.

The backdrop to the Kraft-Middleton-Schlesinger line is a debate on China ignited in the fall of 1975 by the Rand Corporation's Michael Pillsbury, who proposed in *Foreign Policy* that the U.S. find a way to sell China military or military-related equipment as a pressure point on the USSR. In the subsequent period, most analysts have come to view the policy as misguided and potentially dangerous. With the current level of instability in China, there is a question as to whose hands such weapons might end up in and whether they might be used against Taiwan or even shared with the Soviet Union in the future. Moreover, arms purchases are intended by the Chinese to provide technology, not large quantities of weapons. Even with the technology, the critical bottleneck for China is the economic capacity to manufacture large numbers of sophisticated weapons. China's economic weakness precludes its becoming a serious military threat to the Soviets for decades to come. But "second-front" fantasies die hard.

Preliminary reports indicate that the CFR roundtable was unable to square the circle of U.S. China policy. In the "leaderless group" atmosphere fostered by the Administration's absence of a China policy, participants were divided over whether to "incrementally" improve U.S.-China relations by progress on peripheral questions while continuing to fudge on the central Taiwan issue or to move quickly to break the security treaty with Taiwan and accord the Peking regime full diplomatic status.

Participants were generally agreed, however, that trying to manipulate China against the Soviet Union is a risky business. Countering Kraft's call to "Play the China card," analysts suggested that there may not be a card to play. To more realistic observers in U.S. policy circles, the time for playing China games passed with Mao Tse-tung.

There is no evidence however that this conclusion, or any other realistic assessment, has sunk into the heads at the White House. Apart from Vance's display, National Security Council chief Zbigniew Brzezinski is on record supporting the Kraft line that the Taiwan issue is really tertiary for the Chinese and that what they are really concerned with is seeing the U.S. go eyeball to eyeball with the Soviets. For other reasons, Brzezinski is already pursuing that course. The Administration's contingent policy prescriptions vis a vis the Chinese, however, amount to playing verbal games and conceding nothing substantive on the Taiwan question. An indication of how this will be received in Peking was suggested by an unofficial, but probably authorized attack on the Vance-Carter stalling in the pro-Peking New Evening Post Feb. 28: "The question Mr. Carter and Mr. Vance should answer is whether normalization will be achieved this year, and the more urgent question they should answer is whether and how the defense treaty will be scrapped." Mr. Brzezinski may learn fairly soon the consequences of following a utopian policy in this area of the world.

The Soviet Watch On China

A Feb. 9 *Pravda* column signed "Observer" was the first Soviet commentary since the death of Mao Tse-tung to be severely critical of the Chinese leadership. The Soviets are piqued at the continuation of anti-Soviet diatribes in the Chinese press despite the hiatus of anti-Chinese reports in the Soviet press.

Two weeks later, the Soviet Union withdrew its negotiator, Ilychev, from Peking, after he was no longer received by his Chinese counterpart. However, a Feb. 27 article in *Red Star* and *Pravda* indicated that the Soviets understand that at the present moment there is really no firm leadership yet in China although the campaign against the Maoist faction is still growing.

Pravda, Feb. 9: "the author (of the article in the Chinese press—ed.) issued an anti-Soviet attack, in the spirit of the proponents of the 'cold War' and of inflaming international tensions. Resorting to outlived, long-discredited myths on the Soviet threat, he asserts that supposedly 'the Soviet Union has not for a minute renounced its thoughts of enslaving our country.' ...This appeal to the thesis of the Soviet threat in no way corresponds to the interests of the Chinese people and plays into the hands of the opponents of socialism and of easing of international tensions...."

The Struggle Against The 'Gang Of Four' In China

The Soviet Communist Party paper Pravda published the following article Feb. 26, filed by the TASS bureau in Peking:

The campaign against the "group of four" in China is taking on a constantly greater scale and is described by the leadership as the central task of 1977. In Peking alone, according to official Chinese data, over 50,000 meetings and party conferences have been held in recent months, for condemnation of the "four." Twenty million people took part in these assemblies, according to the same data.

This campaign is being waged under the slogan of truth to the "revolutionary ideas of Mao Tse-tung." At the same time, attention is drawn to anti-Soviet statements which are being carried to the absurd.

Criticism of the "four" is accompanied by the "Jen Fen" movement. Judging from material in the Chinese press, the "Jen Fen" movement is spread throughout the party and state apparatus at all levels.

In order to conduct the purge in the provinces, autonomous regions, districts, and cities, special "brigades" have been created, including in many instances representatives of the armed forces.

Reports have appeared on new appointments on the ministerial level and of provincial and military district leaders. However, as deputy chairman of the standing committee of the National People's Congress (NPC) Yao Lien-wei stated there is still not clarity in the Central Committee of the Chinese Communist Party concerning the replacements for several leadership posts at the center. From the Politburo of the CCPOC elected at the 10th Congress—composed of 21 members and four candidates—16 people remain. According to the assertions of Yao Lien-wei, "since criticism of the 'group of four' has not yet been completed, one should not speak of any conditions for convening a congress of the CPC or a session of the NPC."

Foreign correspondents in Peking, referring to reliable Chinese sources, report the appearance in individual provinces of wall posters condemning official persons who have "shown restraint" in criticism of Chaing Ching.

From materials published in China and reports from foreign information agencies, it is evident that the situation in the PRC remains complex, and the very development of events has a quite contradictory character.

Takeo Fukuda: An Economic Wizard of Oz?

JAPAN

Takeo Fukuda's claim to the right to be Prime Minister of Japan has always been his reputation as an "economic wizard." During his 1976 drive to oust his predecessor Takeo Miki, Fukuda repeatedly assured businessmen in small, private meetings at well-known hotels that he — unlike Miki — knew just the right brilliant touches needed to put an end to Japan's three-year recession. The promised brilliant gimmicks were, of course, Chase Manhattan's reflation policies now embraced by the Carter Administration. It is poetic justice, therefore, that the economy is the issue which will most likely fell Trilateral Commission member Fukuda after July elections for the Upper House of Parliament.

So unpopular is the Carter program that, despite Fukuda's personal support, the Japanese government joined West Germany in a flat rejection of it at the Paris OECD meeting yesterday. The reason for the policy's unpopularity is quite simple. The production level in Japan at the end of January is no higher than it was last July — and the stagnation is predicted to last through March at least. For the last several months real consumption has been below the previous year's levels, while capital investment continues to fall. Corporate bond issues other than those for the power industry fell 65 percent in 1976! The banks cannot find borrowers and even they are screaming for lower interest rates.

The only thing that has kept the economy from falling through the floor has been continued high exports. And yet, last week Fukuda publicly endorsed Assistant Treasury Secretary C. Fred Bergsten's call for a steep yen revaluation and a payments deficit. Yet, Fukuda must know that he cannot add any more domestic stimulus to substitute for exports; the government budget deficit is already 30 percent. Was it those fellows at the Brookings Institution that labelled Fukuda an economic wizard?

Naturally enough, an opinion poll by the *Asahi Evening News* reveals that only 20 percent of the people support the man's economic policies. Only 28 percent approve him overall while 33 percent oppose him — the worst for any postwar Prime Minister.

Anti-Fukuda businessmen and politicans have opened up a campaign to oust Fukuda while blocking him from carrying out Carter policies before the ouster is accomplished. Within the ruling Liberal-Democratic Party (LDP) the coalition is led by Toshio Komoto, a shipping magnate and former Trade and Industry Minister who is the number two man in Miki's faction; Yasuhiro Nakasone, the leader of a major LDP faction; and Raizo Matsuno, a respected party elder who split from Fukuda's faction last fall. Matsuno and Takeo Miki put the coalition together following a successful closed meeting in January between Matsuno and prominent businessmen from across Japan. According to the March 2 *Mainichi*, the group believes that Fukuda will have to resign if, as expected, the LDP loses its small majority in the Upper House. Then, says Miki, "I shall return." Another Miki ally is the New Liberal Club (NLC), which split from the LDP last summer and gained 19 seats in the December Lower House elections. A close Miki economic advisor, Saburo Okita, just announced he will run for the Upper House on the NLC ticket.

The success of the anti-Fukuda campaign will depend upon business' ability to secure international agreements around economic cooperation. Particularly important in this regard are developments in Japan-West Germany relations. Japanese businessmen have repeatedly said that even if Europe broke with U.S. policy, Japan would remain loyal as long as West Germany did. Thus the significance of Japan's public support for West Germany's view at the OECD meeting, Vice-Finance Minister Matsukawa visited Bonn.

Many observers feel that the next alliance of the two countries against Carter will occur around energy policy — a traditional sore spot with Japan. The Carter Administration has tried to obstruct Japan's nuclear energy program by blocking supplies of enriched and reprocessed nuclear fuel. Japan Atomic Energy Commission head Goro Inoue, in Washington last week to settle the dispute, told the press Feb. 26 that the Carter Administration refused to budge. As a result, Japan will be unable to test its first reprocessing plant, and its breeder reactor program will be significantly delayed. Another atomic mission is now in Europe.

While business has been able to prevent Fukuda from acting on Carter's program, they aren't able to stop him from blocking their efforts at economic diplomacy. In the latest example, Chamber of Commerce and Industry Chairman Shigeo Nagano — back from a top-level mission to ten Mideast countries to discuss oil-for-technology deals — reported that no concrete agreements had been reached. Sources within the mission reported that the reason was the refusal of the Fukuda Administration to assure government support for the prospective deals, e.g. Export-Import Bank credit. This stalemate has led many businessmen to the conclusion that economic recovery means dumping "economic wizard" first.

The IPS Report On Latin America: Linowitz With A Left Cover

Two months after the appearance of the second Linowitz Report on Latin America, the Rockefeller-controlled Institute for Policy Studies (IPS) has published a study on Latin America which is a third-rate rehash of the Carterite policy proposals contained in the Linowitz Report — under somewhat more of a "left" cover. The IPS Report, *"The Southern Connection: Recommendations for a New Approach to Inter-American Relations"* parrots the Linowitz Report's concern for "human rights," "ideological pluralism," an end to U.S. "paternalism and hegemonism" — all of which is intended to be the sugar-coating for the bitter economic pill that is the report's real message to Latin America: debt moratorium is out of the question, and the U.S. government should assume direct control over debt *rescheduling* and other monetarist mechanisms for continued looting of the region.

The casual reader's initial impulse is to charge the authors of the IPS Report with cheap plagiarism of the Linowitz Commission (see the accompanying comparative quotes for evidence) — but it turns out that they are largely the *same* group of authors and consultants. Most notably, two of the seven authors of the IPS Report, Robert Pastor and Abraham Lowenthal, were also Executive Director and Special Consultant respectively to the Linowitz Commission. Pastor is additionally the new Latin American Director for Zbigniew Brzezinski's National Security Council (NSC), and provides the direct NSC control of both groups. On top of Pastor and ex-Council of Foreign Relations member Lowenthal, the IPS staff was manned by Roberta Salper, IPS Latin American Unit Coordinator and top "left" agent extensively involved in Caribbean counterinsurgency; Michael Locker, co-founder of the North American Congress on Latin America (NACLA); and Guy Erb, Senior Fellow of the Rockefeller-funded Overseas Development Council.

This Rockefeller-NSC trail has been so badly disguised that Pastor, among others, has gotten nervous about the obvious NSC authorship of the IPS document. In a telephone interview with NSIPS this week, he denied anything more than casual involvement with the IPS Group, and said he would be demanding a retraction of their claim that he participated in the formulation of the document.

As for the IPS-Linowitz Commission connection, there is no attempt made to disguise it. The introduction to the IPS Report states: "We welcome the recently released...Linowitz Report, to which several of us have contributed in different ways. We endorse many of the Commission's specific recommendations...As specialists, however, we want to do more: to go beyond the most pressing current issues and to reach beyond the most widely accepted solutions. These are the aims of "The Southern Connection."

The *actual* aim of the "Southern Connection" however, is just that — to establish a demagogic southern connection, especially with those governments of Latin America (such as Jamaica, Guyana, Cuba and Venezuela) that are causing problems for Wall Street, and rope them into support for Carter's debt-collection policies, which have so far sold poorly in their Linowitz Report packaging.

The best thing one can say about the new IPS Report is that it has a better cover than its Linowitz predecessor — and nicer binding too.

Cuba Targeted for Subversion

There are only three substantive points to the IPS Report: certain blatantly subversive policy proposals regarding Cuba; Carter's boycott of nuclear technology exports to Latin America; and the debt-collection recommendations mentioned above. The rest is typically Carterite contentless sweetener about human rights; the urgency of handing the Panama Canal back to the Panamanians ("the canal is useful to the United States, but not vital"); and how the Caribbean has "become the testing ground for ideological pluralism in the hemisphere."

The Linowitz Report was open about its intentions towards Cuba. It offered to ease relations with Havana if the Cubans would withdraw from Angola, promise never to engage in similar expressions of internationalism, and also stop supporting the Puerto Rican independence struggle. Since this provocative Carterite "offer" has been categorically rejected by the Cubans since then, the IPS report is forced to resort to slightly greater caution to suggest...the identical policies.

Says IPS: "Implementing this kind of (new positive U.S. policy towards Cuba -ed) will require detailed negotiations and mutual compromises on issues ranging from *compensation for expropriated properties* to Cuba's claims on Guantanamo Base, from *reconciliation among separated elements of Cuba's community* to universal recognition of essential *human rights,* from accord on the norm of *non-interference in each other's domestic affairs* to cooperation on broader international problems." (emphasis added). There is little doubt that the Cuban government will not even concede to discuss either compensation for expropriated properties; or internal subversion by a flock of returning exiled Cubans ("reconciliation among separated elements of Cuba's community"); or destabilization through the use of the "human rights" fraud; or silence around the Puerto Rico question ("non-interference in each other's domestic affairs"). The IPS Report, like its Linowitz predecessor, is nothing but a blueprint for confrontation with the Cubans and ultimately with their Soviet allies.

Wall Street's "Human Right" to Receive Debt Service

On the "military issue," the IPS Report is a straight regurgitation of Carter's already active policy of "human rights" destabilization and sabotage of nuclear technology. Although no explicit mention is made of the German-Brazilian fission reactor deal, the message comes across clearly: "We recommend...that the United States not attempt to sell more nuclear plants...(We recommend) that the proposed bill applying the human rights principle to all arms sales be approved and enforced. This step would permit Congress to veto any U.S. weapons deals with countries that systematically violate human rights."

The economic section of the IPS Report is not even circumspect the way the Cuba proposals are, but rather directly threatens Latin America with credit strangulation if debt moratoria are encouraged. Instead, says IPS, "debt rescheduling" in the interest of Latin America's Wall Street creditors should be fostered, under the direct dictatorial control of the U.S. government and subject to blackmail dictates masquerading as enforced "respect for human rights."

"The need of Latin American countries to maintain their creditworthiness in private banking circles contributed to their unwillingness to support calls from developing countries in 1976 for a debt moratorium. Many Latin American countries would prefer the consolidation and relaxed scheduling of commercial debt payments and the creation of a debtor-creditor agreement along the lines called for by the developed nations...With these considerations in mind, we recommend: That U.S. support (possibly including debt rescheduling) for any Latin American country administered through multilateral and bilateral channels (sic) should take the country's position on human rights issues into account. Human rights should be considered in the decision-making process of private banks, a process that should involve debtor countries, the banks, and the U.S. government, if the policies are to be consistent."

This is, of course, a direct call for submission to Wall Street's precise policy for Latin America — the so-called "agreement along the lines called for by developed nations" that the report euphemistically refers to. With this as its unmistakable centerpiece, the IPS Report's repetitive disclaimers about the need to "foment more equitable development throughout the region," about sacrosanct human rights, ideological pluralism and so on, will undoubtedly be seen through and discarded with scorn by Latin America, much as is already occurring with the Linowitz Report's promise of "new relations" between the United States and Latin America.

Two Sides Of The Same Mouth

IPS Report	Linowitz Report
1. U.S. Paternalism	
"Apart from dropping paternalistic attitudes and practices the new thrust of U.S. policy in Latin America should be to support the ideologically diverse and experimental approaches to development that are gaining support around the world. Underlying this recognition and response must be the acceptance of ideological pluralism in both economic and political affairs."	"We urged the government...to replace the paternalism and so-called 'special' relationship which had characterized our attitude and our policies in the past with a new relationship based on mutual respect and a mutual determination to resolve common problems."
2. On Human Rights	
"We believe that U.S. policy toward foreign economic and military assistance whether bilateral or multilateral should honor and support human rights...We contend therefore that legitimate U.S. concerns over human rights issues should be expressed within multilateral institutions..."	"The (Linowitz) Commission reaffirms its belief that the U.S. should consider human rights violations to be a major factor in deciding on the substance and tone of its bilateral and multi-national relations with all countries."

IPS Report	Linowitz Report

3. On Panama

IPS Report	Linowitz Report
"The need for a new Treaty that clearly recognizes Panama's sovereignty in the area is significantly an issue on which all Latin American and Caribbean nations agree. Our country's legitimate interests would best be served by recognizing that we do not need to exert perpetual control over the Canal nor reserve exclusive jurisdiction over the Canal Zone...We recommend that the American public be fully informed of the justice and desirability of negotiating a new Treaty."	"The new administration would promptly negotiate a new Canal Treaty...and should make clear to the American public why a new and equitable treaty with Panama is not only desirable but urgently required."

4. On Cuba

IPS Report	Linowitz Report
(The new administration should) "bar the use of U.S. territory personnel or resources as the basis for terrorist acts or plans and also cut whatever ties may still exist between U.S.Government agencies and those who engage in terrorism or sabotage against Cuba...If such (preliminary Cuba-U.S.) talks are fruitful we recommend that the U.S. embargo on food and medicine be lifted...(and) enter into negotiations on other outstanding issues: financial claims human rights the status of the Guatanamo Base and the terms on which credit extensions and trade might be resumed."	"The President should make clear the determination of the U.S. government to use its powers to the full extent permitted by law to prevent terrorist actions against Cuba or any other foreign country or against U.S. citizens and to apprehend and prosecute perpetrators of such actions... Thereafter representatives of the Administration should indicate to Cuban representatives that the U.S. is prepared to lift its embargo on food and medicines and enter into subsequent negotiations with Cuba on the whole range of disputed issues."

5. Footnotes on the Term "Latin America"

IPS Report	Linowitz Report
"Hereafter throughout this Report the designation 'Latin America' is understood to include the Caribbean."	"The Commission of course recognizes the historical political and cultural diversity of the people and countries of Central and South America and the Caribbean and the term 'Latin America' will hereafter be used in this Report only for purposes of brevity."

6. Chapter Titles

IPS Report	Linowitz Report
I) Introduction: Establishing New Criteria	I) Introduction: the Need for a New Approach
II) Human Rights	III) Human Rights: Deeply Disturbing Developments
III) Panama	II) Panama: the Most Urgent Issue
IV)The Caribbean	IV) Cuba: A Lingering Anachronism
V) The Economics of Restructuring Inter-american Relations	VI) Economic Policy: The Central Issue
VI) The Military Issues	V) Arms Sales and Nuclear Proliferation
VII) Toward a New Immigration Policy	VII) Cultural Exchange

Mexico Facing Social Upheaval

MEXICO

The Mexican political situation appears to be heading toward an early showdown in which the country's institutional order itself may be in jeopardy.

The center of disturbances is the southern state of Oaxaca. Nine months of increasing conflict between student and peasant groups and the state apparatus of rightwing governor Manuel Zarate Aquino, has culminated in a series of shootings and massacres unprecedented in recent Mexican history. In at least three separate incidents over the last 10 days the death toll has climbed to over 40. Army and police patrols have virtually militarized the zone. Right wing shopkeepers in the state capital began a "strike" Feb. 28 in support of the governor, in an action reminiscent of the stage-managed truckers "strike" in Chile preceding the fall of Allende.

Setting the stage for more bloodshed, provocateurs allied with the Mexican Communist Party have reportedly begun distribution of arms to certain peasant groups. Peasant organizations who understand the PCM's anarchist provocations play into the hands of the right wing have publicly labelled such actions "irresponsible."

In the past this level of conflict would have been speedily dealt with through presidential intervention. The Mexican Constitution provides for executive replacement of governors when a "dissolution" of local powers is determined. But President Jose Lopez Portillo, under pressure from recalcitrant layers in the ruling Institutional Revolutionary Party (PRI) and the official trade union structure, has not been able to move. Conflicts are now sharpening in at least four other states. The assassination of the leader of the powerful oil workers union Feb. 28 has deepened the crisis.

Normally the U.S. would be expected to view these threats to the institutional stability of its southern neighbor with alarm and use its enormous influence to back-up the generally pro-U.S. Lopez. The opposite seems to be the case.

Lopez returned from his much-touted state visit to Washington in the middle of February, empty-handed. The Carter Administration refused financial and commercial aid until Mexico allowed U.S. oil multinationals to take charge of exploiting Mexico's enormous oil reserves and instituted greater austerity measures. The International Monetary Fund (IMF) which took a direct role in advising Mexican financial policy for the first time only last fall, now has a mission in Mexico reportedly working out the details of a 10 percent cut-back in Mexico's already-pared budget. Wall Street sources confirm a complete freeze of credit to Mexico, except for Petroleos Mexicanos (PEMEX) issues, until IMF "guidelines" are met and until U.S. companies gain control over the oil. Restive Wall Street sources have further speculated, not idly, that there still remains some $1 billion in "flight capital" which can be removed from Mexico on short notice to precipitate renewed currency troubles for the wobbly peso.

The conclusion which a number of observers have reached is that the Carter Administration and the New York banks aren't interested in Mexican stability, but rather take it for granted that some sort of "social explosion" is inevitable and want it soon.

The New York Times correspondent in Mexico, Alan Riding, reflecting banker opinion has repeatedly suggested that the Mexican army will be necessary to crush popular resistence to IMF policies. But since there are recognized limits to what the relatively small army can do in the face of real social ferment, U.S. contingency planning has begun which outlines a role for U.S. troops. The sociologist Daniel Bell, advisor to several Carter cabinet members, declared to the French weekly L'Express in mid-December that because of population and related pressures, "An explosion can appear on our southern border which would force Carter to pull back certain units from Europe." James W. Wilkie, top Latin American expert at UCLA, revealed to Joint Economic Committee hearings in Washington Jan. 17 that he had been sounded out by U.S. military intelligence officers on the feasibility of U.S. intervention into Mexico during the last month of Echeverria's term.

With this in mind, the real U.S. policy toward Mexico — far from posturings on "human rights" — was most accurately reflected in the visit of Chicago economist Milton Friedman to Monterrey this past week. The architect of Chile's policies under Pinochet called for "restraining" Mexican democratic development and matching government expenditures to direct income — a 30-40 percent slash in government spending. The major national daily Excelsior immediately drew the lesson of Friedman's visit in the midst of the Oaxaca crisis: We are looking "into the mirror of Chile or Argentina" it warned March 2. It has also not gone unnoticed that Henry Kissinger, veteran of the Chile coup operations and now honorary chairman of Carter's Alliance for Energy Conservation, flew into Oaxaca last weekend on a sudden side-trip from a vacation in Acapulco.

In the Crossfire

The Oaxaca squeeze play mounted by Mexican Communist Party (PCM) linked provocateurs on one side and the fanatic rightwing on the other clearly has more than Lopez Portillo as an intended victim. In fact all the nationalist state-sector oriented forces who backed the policies of former President Luis Echeverria are finding themselves dangerously exposed in the crossfire. They have begun to rally support for Lopez Portillo and are emerging into greater public prominence.

Lopez Portillo, weakened and desperately searching for support, appears to be entering into an implicit return alliance. Still smarting from his treatment in Washington, last week he publicly defended his predecessor from New York Times-conduited charges of collaboration with the CIA and issued a joint declaration of support for a "new world economic order" with the president of Costa Rica, Daniel Oduber.

Though White House strategy apparently counts on a controllable bloodletting, it may find it has unleashed more than it bargained for. The Echeverrista nationalists, no small contingent in their own right and with strong roots particularly in the peasant sector, can expect support from a number of international sources. Virtually inviting Mexico to join OPEC. Venezuelan President Carlos Andres Perez directly addressed the Mexican population in a front page interview in the daily El Sol last week and expressed his confidence that Mexico would use its oil "in solidarity with the Third World."

There are insistent reports that the Arabs are interested in extending long-term credits for Mexican industrialization if Mexico joins OPEC. In Europe, vanguard countries breaking with the dollar — most notably Italy — have maintained close ties with Mexico. Perhaps most important, Mexico signed agreements with Comecon in 1975 and 1976 which established closer potential ties with the socialist trade bloc than those of any country except Iraq. It is rumored in European capitals that Mexico may be the vanguard Third World country to be included in expanded use of the Comecon's transfer ruble as a gold-backed replacement for the dollar.

Before such policy considerations come to the fore, saner banking and business layers in the U.S. are already showing concern over the near term effects of the social explosion courted by Friedmanite policies. They fear the devastation of Mexico's productive apparatus to result from an upheaval and are rightly suspicious of the pure monetarists' vision of Mexico as simply one large oil well. A major New York investment bank is recommending continued loan roll-overs for Mexico to keep a minimum of stability in the country, and this attitude is sufficiently widespread for the hardline *Journal of Commerce* to warn yesterday that the banker freeze on loans to Mexico must not be broken until the IMF consolidates unquestioned control of Mexico's economic policies.

Brazilian Economy: The Continental Confidence Game

BRAZIL

The Brazilian economy is in peril of breaking down following the consolidation of political power in Brazil by the monetarists and allied military Neanderthals during the past month. The monetarist policies designed to meet the estimated $6.2 billion in debt service due this year will rapidly collapse the internal market, and prevent Brazil from meeting export goals and due dates on the even larger scheduled 1978 debt service.

The real productive economy of Brazil has been subjected to progressive destruction by government policies strangling internal credit, cutting off needed imports, and further reducing the consumption of the population. All that remains is a confidence game designed to preserve the belief that the paper economy can survive. Up to the end of last year, the considerable quantities of foreign investments and loans needed to pay debt service could still be conned into Brazil in the expectation of continuous high yields. But during the next few months, as is worriedly conceded by American bankers, the worsening of the situation reflected in the January "stagflation" figures is likely to burst the fantasies of "economic stabilization." The mere release of statistics showing continued inflation or a drop in foreign exchange reserves could trigger a classic panic and bring the breakdown of the national economy.

Monetarist Coup Against Industry

The key event in the monetarist subjugation of Brazilian industrialist interests was the Feb. 8 ouster of Industry and Commerce Minister Severo Gomes, the only spokesman for national industry in the cabinet. Severo had fought the monetarist policies of Finance Minister Henrique Simonsen and openly advocated the expansion of the internal market through adequate supplies of industrial credit. Severo articulated the premonitions of the local industrialists that a continuation of the consumption-cutting, tight-credit policies of the monetarists would bankrupt Brazilian-owned industry and leave it vulnerable to being bought up for a song by better-financed multinational scavengers.

Brazilian political observers are now waiting on tenterhooks for an expected Institutional Act from President Ernesto Geisel which would abrogate constitutional provisions for direct popular election of state governors in 1978. The dictatorial elimination of even Brazil's currently limited electoral process would gut the fragile two-party system, which otherwise would have served as a vehicle for the universal popular opposition to monetarist follies. New York bankers confirmed that they felt the total concentration of power in the hands of the Simonsen "team" was required for it to have the strength to overcome resistance to its triage policies.

Restraint on Real Economy

The government's obsession with improving balance of trade statistics and reversing the inflationary spiral — at all costs — is rapidly undermining the real economy. The regime has pledged to hold down the money supply to a 25 percent annual growth rate, which in the context of a 47 percent inflation rate, means that it is severely reducing credit. Brazilian and even foreign industrialists moan that the only factor that's free to charge any price in the vaunted "free market economy" is money. Interest rates have risen to the 60-66 percent level; 20 percent above inflation and 30 percent above the government's monetary correction (indexing) level. The result is a cataclysmic contraction of business liquidity which has raised bankruptcy rates to double that of last year. An amazing and ever-shifting welter of price controls, quotas, prohibitions, and countervailing Keynesian gimickry is being dictatorially imposed by the monetarists in order to eliminate all production which does not result in an immediate improvement in the balance of payments. The outcome of this hodgepodge of monetarist manipulation is widespread plant closings — even in industries vital to export production.

Manufacture of consumer durables and construction have been the first targets for strangulation. Housing starts in Sao Paulo were down 25 percent and commercial building starts down 100 percent from January, 1976 levels. Not surprisingly, this "cooling off" of demand coincided with a 60 percent increase in con-construction costs. The response of Mauricio Schulman, head of the Banco Nacional de Habitacao, is to triage the construction industry by shifting funds allocated for housing construction into the stock market.

Even such a priority industry as steel is being triaged. Price controls and lack of demand have forced 46 of the blast furnaces in the Minas Gerais steel belt to cease production since last October, resulting in 15,000 steelworker layoffs.

The picture is the same in agriculture, which until the middle of last year was Brazil's pampered source of export growth. Farmers are still "privileged," according to Agriculture Minister Paulinelli, since their credit supply will only be cut by 5 percent. But that credit is at 60 percent interest rates and the government is quietly phasing out the 15 percent interest loans with which it formerly subsidized the partial mechanization of agriculture. As a result of the credit squeeze, tractor manufacturers are stuck with inventories equal to five months sales. *The Financial Times* of Feb. 22 projects that they will have to cut production by 45 percent from last year's levels in order to reduce the inventories. Thus Brazil will produce only 35,000 tractors, less than a third of its 110,000 annual capacity.

Wheat provides an equally graphic example of the insanity of the monetarist controls. Although the wheat board is still trumpeting that imports will be cut in the expectation of a 30 percent increase in local production, wheat grower spokesmen assure that they will be forced to cut plantings by 30-50 percent. They claim that price levels fixed by the price control board fall far short of the board's own production cost calculations. The board acknowleges that fact, but argues that farmers should subtract the costs of amortizing the machinery they use on wheat from their profits on soybeans!

State Governments Bankrupt

The Governor of the State of Sao Paulo emerged from a meeting with President Geisel Feb. 24 in what reporters described as an uncharacteristic state of nervousness. Governor Egydio told the press that he had been seeking federal economic aid. What he didn't say was that the federal government has been sucking dry the state's taxation base and that Sao Paulo is rumored in banking circles to be near default. Following the recent defaults of the economically insignificant Northeast states, a default of the state in which 50 percent of Brazil's industry is concentrated could well bring down the whole internal financial system.

Industrialists Suicidal Wage-Cutting

The government's decapitalizing of industry for the sake of external accounts has put industrialists in a position where the individual entrepreneur sees the most vicious wage-cutting through labor recycling as his only hope for postponing imminent bankruptcy. The industrialist daily *Folha de Sao Paulo* reported Feb. 25 that skilled toolmakers and semi-skilled assembly-line workers are being fired and rehired en masse in order to employ them at 33 percent lower wage levels. The assemblers' wages were reduced from $1.35 to $.90 per hour. Layoffs in metalworking in January were running at 74 percent above those of a year ago.

The government approves of such cost-cutting. "To stimulate employment and prevent a recession," the regime has institutionalized wage slashing for the whole country by holding indexed wage increased to 6 percent under the official cost of living increases since last September. Planning Minister Reis Velloso said Feb. 28 that despite such cuts in real wages, wages were "the leading edge of the inflationary process." Public employees are to get a 30 percent annual increase, 17 percent behind the cost of living.

Freitas Mallmann, the vice-president of the National Federation of Industries, has characterized such "wage restraint" as "a purely magical solution." "We have to give our workers decent salaries," he said last December, "since only through strengthening the internal market will the country have the conditions for a rapid recuperation. Until we convince ourselves of the necessity for better salaries, we're going to be banging our heads against the wall looking for miraculous solutions."

The Way Out: Debt Moratorium

The way out for Brazil is expanded real capital formation and expanded consumption levels for the population. It is clear that the policies now being implemented lead sharply in the opposite direction. The purge of Industries Minister Severo Gomes and the expected repudiation of Geisel's promises of a political "opening" deprive the industrialists and the population at large of any visible means for changing the situation.

Yet the discontent sweeping the country is visible even in such traditional bastions of reaction as the daily paper *O Estado de Sao Paulo*. A column in *O Estado* of Feb. 25 hints that the international lending agencies need Brazil more than Brazil needs them. Columnist Chagas implies that Brazil could wage an effective fight against its foreign creditors by saying, "for the BID (Inter-American Development Bank) to suspend its operations with Brazil...would even imperil the BID."

The manager of the New York branch of a Brazilian bank was even more frank when he was asked recently whether Brazil might default or declare a moratorium on its $29 billion dollar foreign debt. He laughed heartily and responded, "The crux of the matter is...Who's got who by the balls?"

The Carter Justice Ministry: Law In A Zero-Growth Society

The following report was prepared by the staff of the Labor Organizers Defense Fund. The LODF was constituted in 1974 to protect the political right to organize and to educate the American people on questions of political and economic policy and their expression in law.

The formation of the LODF was necessitated by the abdication of responsibility on the part of traditional civil rights groups led by the American Civil Liberties Union. By the late 1950s these groups had begun to throw overboard any commitment to the defense of political rights under the Constitution, substituting instead litigation on behalf of the "right to self-determination" of a variety of synthetic "interest groups." This process led directly to the establishment of the "Nader lobby," and the so-called public interest law which is being used as a battering ram against American industry and labor today.

The Carter Administration, with the complicity of the Supreme Court, is now engaged in a blitzkrieg campaign to subvert the American judiciary in order to rewrite the Constitution to conform to the zero-growth economic policies of the Rockefeller interests. Public remarks and press statements by Attorney General Griffin Bell and Chief Justice Warren Burger before the American Bar Association in Seattle during the first week in February allow no other conclusion.

The Carter modus operandi for transformation of the judicial system, as laid out at the ABA and elsewhere, is to excise the notions of "justice" and "truth" from legal minds, and substitute in their place a technocratic ideal of "crisis management" — eliminating such basic American judicial practices as adversary proceedings along the way.

The policy orientation of the Burger-Bell assault is best reflected by the fact that 45 federal judges recently completed a six-week course in Nazi economics under the tutelage of monetarist quacks Milton Friedman and Paul Samuelson, disciples of Hitler's Finance Minister Hjalmar Schacht. The purported reason for this class was the orientation of judges to "complex anti-trust litigation." The Feb. 25 Supreme Court 8-0 decision in *Dupont v. Train*, a carte-blanche for the Environmental Protection Agency to shut down U.S. chemical capacities, is planned to be only the beginning in the coming display of the Court's Malthusian credentials.

The Seattle Proposals

In Seattle, Chief Justice Burger and Attorney General Bell made combined proposals for the elimination of the courts as a constitutionally empowered independent branch of government. Combined with aspects of the same proposals emanating from the ABA Committee on Judicial Administration, the American Judicature Society, the American Bar Foundation and the Committee on a National Institute for Justice, the Burger-Bell program includes the following essentials:

— Judges must rid themselves of the concept, the illusion, that they are the "arbiters of truth." This outdated concept, spelled out in the Constitution, was appropriate to an 19th century agrarian society. But today, judges must locate their roles "realistically"; courts are to be seen as "conflict resolution centers."

— Once this idea is accepted, management becomes the key determinant of the judicial process. The courts are overcrowded by a society gone mad with litigation. Therefore, effective justice is redefined to mean "satisfied consumers" in the judicial system.

— To assure effective management, various court processes created under the "truth-finding" criterion can be done away with. Slated for extinction are the adversary system, discovery processes by which attorneys examine witnesses before trial, discretionary sentencing, and state and federal court overlap in criminal proceedings — all of these are too costly and time consuming for effective "crisis resolution." The courts should desist from legislating morality. "Victimless crime," such as drug-use, clogs court calendars and should be decriminalized.

— Effective crisis resolution means that judges may not be the best operatives in all legal cases. In order to save time, magistrates appointed by the court rather than confirmed by the Senate would be empowered to hear all "less serious" cases, including "less serious" felonies. Social and behavioral scientists and other specialists should be brought into the court system for specific problem-solving missions and education of judges in their techniques.

— A National Institute of Justice should be established for effective integration of the state court system into "crisis resolution" pilot programs already running in the federal courts. A Brookings Institution-type policy control center for the courts would make further studies of the court crisis and make further proposals to streamline the courts into an effective social control weapon. The Justice Department should set up Neighborhood Justice Centers, a mechanism for bringing the Justice Department into the "pores" of American society, in order to handle "disputes" before they reach the courts.

— Implementation of these proposals is now underway. Bell has created a Special Assistant Attorney Generalship in the Justice Department, for the "Office for Improvements in the Administration of Justice," and assigned the LEAA to "court management." Senator Ted Kennedy of the Senate Judiciary Committee is already smoothing the way for the programs in the Congress.

The Carter Administration is also engaged in a court-packing plan which relegates Franklin D. Roosevelt's to the status of a misdemeanor against the Constitution. The Chief Justice called in his Seattle speech for the creation of 132 new federal judgeships, *nearly one-quarter of the present federal bench*. Carter will appoint the judges after enabling legislation is rushed through Congress to solve the "court crisis." According to Bell, Carter will bypass traditional Senatorial privilege in the appointment process, instead appointing a special national advisory committee to screen potential nominees. Senators "can make suggestions" to this Carter committee.

Background to the Seattle Proposals

The background to these proposals reveals one of the more hideous subterfuges in American history. Almost everything proposed by Burger and Bell at Seattle was authored by the Law Enforcement Assistance Administration during Democrat Ramsey Clark's tenure as Attorney General nearly eight years ago. The original Clark proposals, including pre-trial diversion for slave labor, encountered massive resistance in the judiciary. Conservative southern judges opposed the plans on a "states' rights" basis. Other Constitution-respecting judges decried the plans' neglect of fundamental rights and their metamorphosis of the judiciary into an administrative arm of the executive.

With the failure of their social engineering project and the coming to power of the Nixon Administration, the Democratic Party court reform forces turned to a private war on the judiciary, creating the conditions for support of these proposals.

Their program had three major components. In the years 1970-71 the LEAA directly infiltrated the American Bar Association, the professional organization of the nation's judiciary. Here a series of court reform proposals were prepared in stages which included judges in their design and advocacy. The Institute for Policy Studies and the Ralph Nader crew were turned loose in the press to ballyhoo studies of the inefficiency of the courts and the patronage connections of state and federal judges. This process was helped along by the participation of these same agents in the Watergate subversion, turning loose a plague of "official accountability" proposals. The "public interest bar" flooded the courts with litigation based on dubious constitutional assumptions and programmed for the creation of maximum social tensions.

Secondly, beginning in 1971, Chief Justice Warren Burger began preaching court reform with the evangelistic zeal of a Nader's raider. Aside from the Burger Court's wholesale destruction of the Bill of Rights and its barbaric death penalty decision, its outstanding "accomplishments" *have been procedural* — limiting access to the federal courts and thereby opening the door for the non-litigation, conflict-resolution approaches.

Democratic Fabians in Congress provided the third component. In 1974, using an argument of discrimination against blacks and other minorities, Congress passed the Speedy Trial Act. Following exactly the original Clark-LEAA criminal procedure proposals, the act calls for the disposition of criminal cases before the scheduling of any other litigation. Under the act a lawyer who files a civil rights case today may find his case held back interminably by a robbery which occurs in some other part of the jurisdiction five weeks from now. The act is an administrative nightmare and exacerbated whatever breakdowns existed in the courts. Burger used this fact in Seattle to demand that Congress file a *judicial impact statement* before passing *any* piece of legislation. Implementation of such a proposal would paralyze both the courts and the Congress.

Although the activation of private intelligence networks and the operations on Congress and the Supreme Court played a key role, the critical battles were fought in the American Bar Association.

The National Institute for Justice Project

In 1969 with the creation of the Federal Judicial Center, the LEAA infiltration of the ABA began. The LEAA as then constituted was a nest of former CIA agents fired from the agency in order to facilitate their deployment into domestic counterinsurgency programs. According to unimpeachable Washington sources, as the LEAA began to be dismembered by the Nixon Administration, several of its secondary leaders were deployed directly to the Institute, the American Bar Association Foundation and to the staffs of various Bar Committees. These same sources note that the programs under which these agents worked were "not being funded by the ABA."

Although the complete story of this deployment will not be known without the full resources of Congressional investigation, its key personnel appear to be Edward Levi, then Dean of the University of Chicago law school and ideological mentor to the various bar institutes situated on his campus; Donald E. Santarelli, an LEAA administrator whose name appears in every subsequent court reform proposal; Daniel J. Meador, the author of the original LEAA proposals; and Senator Ted Kennedy, who from the Senate Judiciary Committee sponsored parallel pieces of legislation.

The deployment had two purposes. Resistance to the original LEAA proposals, located primarily in the judiciary's rightful suspicion of Justice Department and government programs directed at the running of their courts, was to be overcome by a "stages" approach involving the concept of a National Institute for Justice, a joint government and private project "providing support services for the courts."

Discussion of this proposal facilitated mass brainwashing of the few independent judges left in the ABA and reeducation of the rest. The inability of judges to deal with modern court management techniques argued that they faced other difficulties in coping with a "complex urban society." By 1972 states' rightists had been coopted into creating the National Center for State Courts, supposedly to provide support services to state court systems cheated of federal funding.

The 1972 launching of the National Institute for Justice program was accomplished by no less a card carrying "conservative" than Warren Burger at the American Law Institute. In 1972 Burger was extremely conscious of resistance in the judiciary, opening his second speech on the concept that year to the ABA convention with the following:

"HAS THE TIME COME?

for consideration of such a national facility for support of the courts. My answer then was essentially the same as it is today:

I THINK IT HAS."

With Burger giving *the same speech* to the Bar Association every year from 1972 to the 1977 Seattle convention, the NIJ concept assimilation program was gradually broadened to "outside participants" including trade unions, environmentalists, and welfare rights advocates, at several Committee of 100 symposia. Leading participants in these conferences included such Carter Administration contributors as Mark Green, Juanita Kreps, Griffin Bell, Dean Rusk, Charles S. Rhyne, Warren M. Christopher and Ralph Nader. By 1974 the Burger speech and the expanding ABA list of institutes (the American Judicature Soviety, Institute for Judicial Administration, Advisory Panel on Appellate Justice, etc.) had resulted in pilot court management projects across the country, conducted primarily under the auspices of the Federal Judicial Administration Center, with large private foundation grants. The stages process is announced by the summation for the 1972 National Institute for Justice conference:

> it was generally agreed that the National Institute should "creep before it walked"...initial steps would be limited and *with progressively bolder steps* taken only after the Institute had established the basis for public support and confidence. (emphasis added)

The brainwashing program accompanying these proposals, what court reformers call "the socialization of the American judiciary," has now reached the incredible proportions demonstrated by the December 1976 six-week intensive economics seminars in Florida under the tutelage of Nazi economists Friedman and Samuelson.

The Seattle conference has brought this process full circle. Under the Burger-Bell proposal, the LEAA will once again handle court reform proposals. The National Institute for Justice will provide support services to the courts with LEAA funding. The man who wrote the original LEAA court reform proposals under Ramsey Clark, Daniel Meador, has been appointed by Griffin Bell as Assistant Attorney General for the "Office of Improvements in the Administration of Justice."

Impact: The Orwellian Nightmare of the Second Circuit

Since the Franklin Roosevelt Administration, the monetarist faction of the Democratic Party and the Rockefellers have been concerned with subverting the judiciary in order to avoid interference from the Constitution with their monetarist programs. The problem has generally been approached from a utopian social engineering methodology. Typical methods include rigorous psychological profiling of potential court appointees and shifting of implementation of economic and social programs to administrative agencies which bypass courts with their own judicial proceedings. Out of the Roosevelt experience a whole school of legal theorists was created, including such anti-constitutionalists as Thurman Arnold, Jerome Frank and Kurt Llewellyn. The stars of the "legal realist" movement concluded that all law rested ultimately on judges and all successful manipulation of law rested in the psychologica control of judges. Thurman Arnold, founder of the Institute for Policy Studies, and head of the law firm Arnold, Porter and Fortas expressed the constitutional philosophy of the realists in his book, *The Folklore of Capitalism:*

> **"The language of the Constitution is immaterial since it represents current myths and folklore rather than rules."**
> **— Thurman Arnold**

The legal realists worked their assault through the introduction of "social science" as the key to legal thinking. This thin veneer for the real operation is stripped away by the comments of the school's latter day saint Edward Levi, commenting on an early article by his mentor, Arnold: "in matters of law...it is preferable that judges are not all that bright."

The last Democratic Administration to get a shot at massive implementation of these concepts was John F. Kennedy's. Kennedy appointed almost one-sixth of the present federal bench. Nowhere is the result of the Kennedy court-selection process coupled with the "judicial administration revolution" more ominous than in the Second Circuit of New York, home of a current pilot program and residence for a high proportion of Kennedy judges.

According to a former official of the New York Trial Lawyers' Association, the result is a "high productivity" nightmare in the federal court system. Judges are competing with each other for the disposal of their calendars. Chief Judge Irving Kaufman of the Second Circuit Court of Appeals has held up his case disposal record for the "rest of the country to beat." Lawyers report receiving calls telling them to be ready to go to trial without any prior notice or face dismissal for delaying court processes. This is resulting in a selective screening of cases. Only cases brought by Wall Street law firms, intimately linked to the 1976 vote fraud theft of the Presidency through the Lawers for Carter organization and through Cyrus Vance to the New York Bar Association (Vance was President of the NYBA before becoming Secretary of State) are receiving full trial attention. Attorneys are reporting a high incidence of mental and physical breakdown in the legal profession as a result of these practices.

In addition, a full psychological profiling operation, run by the Fund for the Modern Courts, is now underway against New York City's state court bench. John J. McCloy, the American High Commissioner of Occupied Germany, chairs this project.

The Fund is sending "community monitors" into the state courts to assess whether or not judges are good administrators, whether or not they keep court decorum, whether or not they show the "obvious" effects of political patronage, and their treatment of the "consumers of justice," the defendant, the victim, and the attorneys representing both. This operation is accompanied by a state court reform scheme in New York, generated by the Institute for the State Courts, to centralize the court system and place it under control of the Emergency Financial Control Board because of the need for "economics."

The Bell Justice Department

Griffin Bell's policy statements since his emergence from the Coca-Cola and Atlanta Mafia law firm of King and Spaulding reflect the incorporation of the personnel and policies of the Democratic Party Bar operation into the Justice Department. Bell, the Chairman of the 1960 Kennedy campaign in Georgia and a Kennedy judicial appointee, characterizes himself as a "court reform expert" through service on the ABA Committee on Judicial Administration and related synthetic institutions. In discussing his plans for the department, Bell utilizes the "creeping" metaphor from the National Institute for Justice project:

> "You can't run a military government, you just work things out by talking." — Griffin Bell

The groundwork for Bell's Justice Department policies against industrial capitalism was laid by Attorney General Edward Levi. Everything emphasized by Bell — white collar crime, environmental litigation, criminal antitrust enforcement, court reform and civil rights — found their first policy and administrative emphasis in the renegade Levi Justice Department. But Bell's tenure and appointments mean that the constraints furnished by the Republican administration have vanished, and the personnel and operations to which Levi "reacted" are now employed in the Department of Justice.

With the American judiciary *drugged* by the ABA court reform operations, Bell has announced that he wants to put antitrust violators in jail rather than impose civil fines, that he will watergate resisting industrialists through extensive white collar crime enforcement, and that a new round of social agitation, demanding "equality," i.e., redistribution of shrinking wealth, will be fomented by an "activist" civil rights division.

This litigation strategy, a longer term perspective on the complete erosion of the Constitution, is complemented by administrative agency reorganization and plans for "rule by decree." Carter is already moving to watergate and stack administrative agencies regulating major aspects of the economy. His reorganization plan provides the enforcement "hands and feet" for manufactured social crises such as the recent energy and espionage hoaxes. This explains the puzzled reports of a "mixed bag" of Bell appointees in the nation's press: these are predominantly social control experts with a scattering of hard-core thugs for employment of terrorist networks. It also explains why the "open" Carter Administration is collaborating with "liberal" Sen. Edward Kennedy to push a revitalized S-1 Nazi crime bill through the Congress.

The backgrounds of the Bell appointees illustrate what is afoot.

Patricia M. Walt: Assistant Attorney General for Legislative Affairs (liaison with Congress). Wald is a former partner in Arnold, Porter and Fortas, ideologues of the "legal realist" movement and founders of the Institute for Policy Studies terrorism network. She is also a Trustee of the Ford Foundation, funders of the war on the judiciary among other notable projects. Under Ford Foundation auspices Wald helped write the benchmark book "Dealing with Drug Abuse," which opened the doors to Peter Bourne and the Atlanta "drug the population" movement. Wald's credentials also include membership in the Center for Law and Social Policy, the leading private intelligence network deindustrializing the U.S. under the auspices of the "environment."

Daniel J. Meador: Assistant Attorney General for the Office for Improvements in the Administration of Justice. Meador's critical role as an LEAA agent in the subversion of the judiciary has already been outlined. The creation of his special office in the Justice Department means the institutionalization and completion of the process begun in the ABA. Meador will have responsibility for "procedures in civil and criminal cases in the court" *"organization and jurisdiction of courts and their personnel"* and "effectiveness and fairness in crime control and criminal justice administration."

Wade Hampton McCree: Solicitor General of the United States. The Solicitor General controls all litigation coming to the U.S. Supreme Court and decides which cases the government will prosecute. McCree began as a Kennedy judge in Detroit, with close relationships to Leonard Woodcock, Walter Reuther and other social fascists of the Joe Rauh variety. From there he was appointed to the Sixth Circuit Court of Appeals, where his legal orientation was displayed in his most recent decision, a ruling which holds up construction of the 80 percent completed Tellico Dam Project because of interference with the "snail darter," a biologically useless species of fish. McCree did heavy service in the ABA project, listing himself on the Committee for the Federal Judicial Center, the Institute for Judicial Administration, and the Committee on Private Philanthropy and

Public Needs, the committee which conduited the funding for court reform and other projects.

Barbara Babcock: Assistant Attorney General for the Civil Division. This division litigates suits brought or initiated by the United States or government officials in their official capacities. Levi created a special section within the division, the Economic Litigation Section, which has been increasingly turned against U.S. corporations and has assumed a major workload in "product liability cases," the legal grounding for the consumer's law movement. Babcock was associated at Stanford University with the Anthony Amsterdam, National Lawyers Guild grouping, where she became an expert in "sex discrimination." Her earlier training includes work for the Wall Street special operations law firm of Williams, Connelly, and Califano.

Drew Saunders Days III: Assistant Attorney General, Civil Rights Division. Days is a former attorney with the NAACP Legal Defense Fund in New York and served on projects for the Rockefeller Foundation. He and Bell claimed to have discovered the existence of the nation's Hispanic population and will concentrate heavily on affirmative action in a new round of civil rights tensions, probably interfacing with Cesar Chavez's United Farmworkers slave labor union.

Benjamin R. Civilette: Assistant Attorney General, Criminal Division. Civilette, an expert in tax law and the Fifth Amendment, has been brought into the Justice Department primarily through a political deal with Congressman Paul Sarbanes of Baltimore. Civilette is a Sarbanes political protégé. His emphasis will be on white collar crime and watergating of U.S. corporations.

Michael J. Egan: Associate Attorney General. The Carter forces have split the former responsibilities of the Deputy Attorney General under the Justice Department reorganization plan provided by Rockefeller operative and former Attorney General Elliot Richardson. Egan will be chief advisor to Bell on Justice Department appointments, appointments of federal judges and U.S. Attorneys. Egan is part of the Atlanta Mafia, serving as a guest lecturer at Emory University, the nesting place of the Peter Bourne drug crew. He was formerly associated with the law firm of Sutherland, Asbill and Brennan, lawyers for the Institute for Policy Studies southern counterinsurgency project, the Institute for Southern Studies.

Bell has retained two Levi appointees, *Richard Thornburgh*, former head of the Criminal Division, and *Donald I. Baker*, head of the Antitrust division. Baker's usefulness has been proven. He has initiated more anti-trust suits against U.S. corporations than any head of the division since "trust-buster" Thurman Arnold. Bell is proposing court reform measures for "speedy criminal prosecution and jailings" of antitrust violators.

Thornburgh, who controlled terrorist network operations for the Justice Department throughout his association with Levi, has been promoted to a new special attorney general's post on espionage investigation. This role for the Justice Department's foremost thug forecasts the deployment of the Democratic Party's standard operating procedure in economic crisis: mobilize the population for war against an "external enemy."

Peter J. Flaherty: Deputy Attorney General. This is usually acknowledged as the most powerful post in the Justice Department. According to sources, Flaherty's appointment is the result of a Carter political deal with the former mayor of Pittsburgh. Flaherty worked closely with Thornburgh in Pittsburgh, when Thornburgh was U.S. Attorney and Flaherty was an Assistant Attorney General, to watergate that city's traditional political machine. He describes himself as an "efficiency expert" and was cited by the Rockefeller Brothers as the foremost "austerity mayor" in the nation. According to sources, Flaherty has a curbing psychological effect on the rabid Thornburgh. Bell has specified that Flaherty will handle all "criminal justice" matters and the "streamlining of the Justice Department."

Courts Rule Snail Darter More Valuable Than U.S. Industry

In a series of rulings issued since the Carter Administration took office, the Supreme Court and various lower federal courts have declared themselves a rubber stamp for the Administration's de-industrialization programs. Rather than carrying out its designated role as the defender of the Constitution, the Supreme Court has placed its imprimatur on the Administration's insurrection against a republic based upon industrial development and technological progress.

The major court rulings, coinciding with Carter's own programs of energy "conservation" and cutbacks in nuclear energy development, are the following:

—The Feb. 23 ruling by the U.S. Supreme Court which gives the Environmental Protection Agency sweeping powers to impose industry-wide anti-pollution regulation, which could lead to a shutdown of an estimated 10 percent of the U.S. chemical industry over the next two years.

—The Feb. 16 ruling voiding $1.1 billion in offshore oil leases, made by Judge Jack Weinstein of the Eastern District Federal Court in New York.

—The 6th Circuit Court of Appeals ruling on Jan. 31, 1977, which ordered a halt to construction of the TVA's Tellico Dam and Reservoir Project because it endangered the habitat of a recently-discovered three-inch species of perch.

"Snail Darter"

The Court ruling in the Tellico Dam case* pitted "a $100 million project against a three-inch fish." En-

**Hill v TVA*, 76-2116, U.S. Court of Appeals for Sixth Circuit, Decided Jan. 31, 1977.

vironmentalist fanatics had already made two unsuccessful legal attempts to shut down the Tellico Dam and Reservior project, which will provide electrical energy, navigation, flood control and recreational benefits to the surrounding area. In 1973, when the project was already 50 percent completed, the snail darter was discovered. (There are about 130 species of darters, members of the perch family. An average of one or two new species are discovered every year in Tennessee.) After having heard testimony concerning the snail darter, and after the snail darter had been placed on the Endangered Species List of the Interior Department, Congress directed the TVA to complete the Tellico project and appropriated additional funds in summer of 1976. Despite this unequivocal statement of congressional intent, the Sixth Circuit Court of Appeals ruled that the TVA was violating the law by continuing with the project, and ordered construction, which is now 80 percent complete, halted.

It is particularly significant that one of the three judges who ruled on the TVA case is Judge Wade McCree, President Carter's nominee for U.S. Solicitor General. The Solicitor General plays a key role in representing government agencies (such as the TVA or the Nuclear Regulatory Commission) before the Supreme Court. His potential for mischief is indicated by one recent example, when Solicitor General Bork and the Justice Department refused to support the position of the Nuclear Regulatory Commission in seeking Supreme Court review of a particularly atrocious District of Columbia Circuit Court ruling in the Midland, Michigan case. Here Judge David Bazelon of the U.S. Court of Appeals for the District of Columbia, ordered the NRC to consider "reducing consumer demand" as an alternative to continuing construction on a nuclear power plant*.

Off-Shore Oil

A case of flagrant disregard for the energy needs of the country was the Feb. 17 ruling by Judge Jack Weinstein in New York which voided $1.1 billion of leases for offshore drilling off the New York and New Jersey coasts. The suit was brought against the Department of the Interior by Laurance Rockefeller's Natural Resources Defense Council and the State of New York. Weinstein, an evidentiary expert who is considered a legalistic technocrat by the legal profession, ruled that former Interior Secretary Kleppe had failed to comply with the National Environmental Policy Act (NEPA) because the Environmental Impact Statement prepared by the Interior Department did not deal with every last detail of the oil drilling and pipeline process to Weinstein's personal liking. As a result, Weinstein halted a program which could supply 1.4 billion gallons of oil and nine trillion feet of natural gas.

At last week's Governors' Conference in Washington, Governor James B. Edwards of South Carolina characterized Weinstein as "someone who doesn't know a dipstick from a drillpipe," and called for an investigation of judicial interference in the nation's energy program.

Consumers Power Co. v Aeschliman, U.S. Supreme Court 76-528, *Aeschliman v NRC*, 73-1776, 1867, U.S. Court of Appeals for District of Columbia, decided July 21, 1976.

EPA Straightjacket for Industry

The Supreme Court's ruling on the DuPont case* gives the EPA broad powers, to impose industry-wide regulations, in what the Baltimore Sun called "a significant victory for environmentalists."

A suit brought by Du Pont and seven other chemical

'You Can't Put Industry In A Straight Jacket'

The following are excerpts from an interview with Robert C. Barnard, attorney with Cleary, Gottlieb, Steen and Hamilton, Washington, D.C. Mr. Barnard represented DuPont and other chemical companies in the EPA case before the Supreme Court.

EIR: What will be the effect of the Supreme Court's ruling?

Barnard: We were arguing that under Section 304 of the Federal Water Pollution Control Act Amendments, the EPA should fix a range of standards, rather than one straightjacket. You can't put U.S. industry into a straightjacket; this is not what Congress intended. There are a variety of conditions pertaining to U.S. plants, and Congress knew this when they passed the 1972 amendments.

All of the regulations for the inorganic chemical industry have either been overturned in court or withdrawn by the EPA. But when they are reissued, it will be as industry-wide, straighjacket regulations. And the way the law is written, these regulations will then be enforceable through criminal proceedings.

EPA issues 5-year permits for water discharges; during 1978-79 nearly all industries will be repermitted...there is no suggestion of any extension of the July 1, 1977 deadline for reducing discharges.

EIR: Will these regulations then be used to shut down industries?

Barnard: Some industries will be shut down, through EPA enforcement proceedings. About 10 percent of industry won't make it...the 10 percent figure is an EPA estimate, which is actually very conservative.

EIR: Do you think that this decision marks a qualitative change in the Supreme Court's attitude?

Barnard: There is no question that this is a benchmark decision...This opinion represents a very clear statement that EPA will be given its own way. They've now got the authority to issue single-number, straightjacket regulations. Between this and the Leventhal* decision, EPA has got everything they wanted.

Environmental Defense Fund v EPA, 75-2259, U.S. Court of Appeals for the District of Columbia. Judge Leventhal's opinion of Nov. 10, 976, affirmed the action of the EPA in suspending the registrations of the pesticides heptaclor and chlordane.

DuPont v Train, 75-798, decided February 23, 1976:

producers challenged the EPA's right to impose such industry-wide regulations, contending that under Section 304 (b) of the Water Pollution Control Act Amendment of 1972 the EPA is authorized to issue guidelines which should be used as a basis for permits issued by the states. EPA argued that under Section XX 301 (b) it can establish effluent limitations for classes of plants. (In fact, because of an NRDC lawsuit, EPA had compressed a two-stage process of issuing guidelines into one single stage.) Despite clear language in the Senate Report on the 1972 amendments which require the establishment of "a range of the best practicable level" the Court ruled that EPA could establish a single standard for categories of discharges within an industry, without regard to the circumstances of individual plants.

While an attorney for the industry warned that these are "straightjacket" regulations which could lead to a shut-down of an estimated 10 percent of the industry (see interview), EPA officials boasted that "we will enforce the penalties vigorously."

Industrial Gestapo

Carter's scenario for imposing EPA's straightjacket powers was made clear a few weeks ago when EPA agents summarily shut down assembly lines in two Ford automobile manufacturing plants, citing the 1970 Clean Air Act. Under the provisions of both the Clean Air and the Water Pollution Act, anyone who "deliberately or negligently" violates EPA's standards can be fined up to $45,000 per day and imprisoned for up to a year. With the FBI and Justice Department being retooled for corporate watergating and "white collar crime," Carter and Attorney General Bell have a well-stocked arsenal with which to attack any industrialists who fails to surrender to the de-industrialization of the United States.

To beef up EPA's industrial strike force, Carter recently asked Congress to add 900 employees to EPA's existing roster of 5,300 grey-flanneled "Nader's raiders." Carter is also demanding that Congress appropriate an additional 411 million for EPA's warchest against U.S.industry; this is in contrast to the action of President Ford who wisely proposed that Congress cut the EPA budget before he left office.

Distortions of R and D

The Clean Air and Water Pollution Acts are the correlates of the National Environmental Protection Act of 1969 (NEPA). NEPA requires "Environmental Impact Statements" for federally licensed or federally financed projects, and has been the major weapon of the Naderites to obstruct particularly energy and transportation development. EPA, on the other hand, enforces "environmental" legislation against all private industries, no matter how small or localized the firm.

The EPA's "anti-pollution"regulations have forced an insane distortion of the R and D priorities of industry. Rather than concentrating on the development of new, higher efficiency industrial processes, firms are forced to backfit nonsensical "scrubbers" onto existing industrial processes. In the principal industries affected by EPA water pollution standards — steel, chemical, metal, finishing, and pulp-and-paper — between 10 and 15 percent of current investment for plant and equipment is allocated to "anti-pollution" devices. The EPA estimates that the steel industry could be forced to invest up to 43 percent of its capital investment in anti-pollution devices over the next ten years.

'We'll Press Hard To Shut Them Down'

The following are excerpts from an interview with Ridgeway Hall, EPA Office of General Counsel.

EIR: What is your reaction to the Supreme Court's ruling in the DuPont case?

Hall: It's a complete victory for us...the language of the law is clear; this was just an attempt by industry to delay the regulations.

EIR: Do you think the Supreme Court was affected by the climate of the time, by the push in the Carter Administration in favor of the environment and for conservation?

Hall: No, this was a craftsmanly decision, they just compared the statute to what we are doing. They weren't swayed by the environmental movement ... of course it might have been in the background. Some decisions have been influenced by this...there were feelings in the background of the need for this kind of thing. I think they realized that Congress was coming to grips with a major problem...Yes, you can read some of this into it. I think I would have to modify my earlier statement about them not being influenced by it.

EIR: How will you go about implementing this ruling?

Hall: There are 42,000 industrial permits now issued. We have the July 1 deadline coming up. If anyone is dragging their feet, we will enforce the penalties vigorously. We'll be pressing hard to shut them down if there's any deliberate stalling.

Abolish the EPA

The legislative remedy for Carter's anti-industry Gestapo has already been proposed by the U.S. Labor Party's Technology and Environmental Policy Act of 1977. This proposed bill, besides repealing NEPA, will also abolish the EPA and repeal the Clean Air Act and the Federal Water Pollution Control Act. The only sections of the latter acts which would be left standing are those pertaining to research and development programs which would be incorporated into large-scale government sponsored R and D effort designed to develop higher-efficiency industrial processes which would automatically reduce the emission of pollutants while raising social productivity.

Meanwhile, the Supreme Court has agree to review a number of important cases arising under NEPA and related environmental legislation. On Feb. 22, the Court said that it would review the Midland case (see above) and the related *Vermont Yankee* case, which involves nuclear waste disposal issues under NEPA. And on Feb. 28, the Court said that it will review the ARCO case*, in which the State of Washington has attempted to pre-empt federal oil tanker regulations by imposing its own stricter regulations which have had the effect of barring ARCO supertankers from Puget Sound.

**Ray v Atlantic Richfield Comp.*, No. 76-930.

Behind The Bylines

Citizen Starr

Recently appointed New York Times editor Roger Starr took the podium as a private citizen and Henry J. Luce Professor of Urban Affairs at New York University, Feb. 25, to debate the head of the New York chapter of the American Institute of Architects on Mr. Starr's favorite topic — "planned urban shrinkage." Insisting that he was speaking strictly as an "urban planning" professor and "not as an editor of the Times," Starr expanded views only slightly more obliquely in recent New York Times editorials, probably from his own pen. For example;

Editor Starr	Professor Starr
Feb 28 — "A Hard Place to Do Business" "The number of jobs in New York City continues to drop... jobs have disappeared... private industry's reasons for their reluctance to view New York with favor is the feeling, not without a measure of truth, that this is a difficult place to do business..."	Feb 25 — "I'm talking about 'transgenerational dependency'... children who grow up (in New York) in an atmosphere where they don't know what work means... It's essential to have job training with (forced) migration for people who don't respond to opportunity, or this city will become a dumping ground. We must end federal grants which anchor these people to the city... This is the national interest..."
Jan 29 — "In Luxury Sinking" "An English architect... has invented something called 'garbage housing.' This is not meant as a pejorative term but as a literal label for houses built with old beer bottles, cans and the general detritus of industrial and consumer society. The idea... is to beat the tyranny of costs with a simple act of conservation and ingenuity. Its avowed purpose is to find a rational approach to housing the poor..."	Feb 25 — "My own agency, HDA (Starr served in New York's Human Development Administration for two years under Mayor Beame — ed.), relocates people to okay, not great, apartments after fires... In a planned economy people are moved, they have no choice... Now we have to cut services to areas, to plan for diminution and a city with less people... We must accept shrinkage, we can't avoid it..."

We are grateful to Mr. Starr for these frank explications of his expressions: but his audience of architects and social planning students was understandably aghast at his 'modest proposal' for reducing the city's population. One sympathetic listener counselled a crestfallen, sulking Starr in the cloakroom after the debate, "Roger, maybe it's your semantics."

New York Times Has Heavy Lie Insurance Coverage

"I'm not worried, I've been sued before... in similar circumstances. It's no problem. We have insurance against this type of thing."

Such was the reply of New York Timesman David Binder to a question from this column concerning a threatened libel suit against the Times to the amount of $100 million by Venezuelan President Carlos Andres Perez. Perez is outraged over Binder's "report" of CIA payments made to over a dozen third world leaders, published in that paper Feb. 19. Perez, a leader of OPEC, attacked the Times' report as a lie and the product of a conspiracy within the "highest levels" of the U.S. government to coerce his government into compliance with Carter policies. Perez's reaction forced an apology from

President Carter and a "personal" presidential retraction of the Times' report as "completely unfounded." Perez, however, is pursuing his thesis with the hefty libel suit, according to reports from the Spanish press service, EFE, last week.

Binder would not comment on the circumstances of previous legal suits, but it is a matter of public record that his career as a Timesman since 1961 has centered around reporting on "East Bloc affairs" and "ideological differences between various Communist countries," taking Binder to every crisis spot in Eastern Europe, beginning with the 1961 Berlin Wall.

Times legal counsellor Greenfield is taking the Perez suit with a grain of salt — "We get these reports (of libel suits) especially from third world countries all the time... let me tell you, they don't mean a thing." Greenfield, however, was concerned when told of Binder's previous journalistic run-ins with the law. "Well, er, uh, that must have been before he came to work at the Times."

Defense Of The Constitution

Even one of Jimmy Carter's journalistic "best friends," the Cox chain's Atlanta Constitution Journal "home" paper, is finding Times-style reporting too much to swallow. In a letter to the editor of the New York Times, Cox chain chairman Garner Anthony and the Atlanta paper's publishers charged that the Times in its Sunday Magazine section of Feb. 7 lied in reporting the circumstances under which a Constitution-Journal employee left that paper after reporting on discrimination in Atlanta private clubs, including those patronized by Griffin Bell. The Times article made it appear that the reporters' critical article so embarrassed the pro-Carter paper that its publishers forced him to resign.

Unconcerned with the questions of truth involved, New York Times' editors refused to print the Cox "letter of correction" to the editor — due to "considerations of space." The Constitution-Journal and Cox chairman Anthony took out paid ads in the Washington Post, Washington Star and other national newspapers instead. Five days later the Times also carried the paid ad.

'Law Of Supply And Demand' For Oil Was Dictated By Rockefeller

Blair, John
The Control of Oil
400 pages, hard cover, $15.00
Pantheon Books, 1976
201 E. 50th Street
New York, N.Y. 10022

There is no question that John Blair's recent book is the best-informed economic analysis of the petroleum industry available. The book thoroughly and irrefutably documents how from the beginning of this century a handful of major companies have systematically manipulated the oil market, their competitors, legislators and foreign governments, not primarily to maximize their profits, but to exercise control over the world's main source of energy. With the appearance of Blair's book, there can no longer be any question that the "law of supply and demand in a free market" has never existed over the past fifty years as far as the oil industry is concerned, nor that the "energy crisis" itself is in large part due to the politics of these same few companies.

John Blair died last December after more than 30 years of government service centered around anti-trust actions against the petroleum cartel. Blair himself was an advocate of expansion of energy supplies to meet growing needs of industry and consumers. His book provides all the information needed to show that the leading Rockefeller family majors, Exxon and Mobil, have worked throughout the past half century as the Wall Street banking community's "inside men" in the petroleum industry, to restrict production and wreck development projects. He also provides the facts on how past efforts at industry "reform" have been turned by the Rockefeller majors to the detriment of the country and their own and Wall Street's good account.

It is ironic, and unfortunate therefore, that Blair's book is being made the Bible for the latest of the Rockefeller majors' reform swindles: divestiture. The book has received rave reviews from such notorious corporatists as John Kenneth Galbraith and Richard Barnet of the Institute for Policy Studies. The divestiture proposals advanced by Galbraith, Senators Edward Kennedy and Frank Church and others are part of plans to destroy the ability of the non-Wall Street producers to expand production and to bring the entire industry into line behind the Carter-Schlesinger energy policy of enforced "conservation" and a 30 percent reduction in per capita energy consumption in the U.S.

Furtherance of such policies was far from Blair's mind in writing *The Control of Oil.*

The Dirt in the Oil Business

As the book repeatedly demonstrates, the "law of supply and demand — which is tirelessly invoked these days by every oil man in support of price decontrol of domestic oil and natural gas as the key to relieving the U.S. energy shortage — has hardly ever been operable in the industry, largely because of the activities of the top, Rockefeller-controlled companies. History, as he shows, has not borne out the theory that higher prices lead to expanded output from existing wells and increased discovery of new oil.

In fact, as Blair documents, the major oil companies, led by the top Rockefeller grouping, have systematically controlled expansion of supply to meet a pre-ordained "market demand." They have ruthlessly suppressed any significant opposition which threatened either their established market positions or the price structure. In fact, during recent recessions with demand decreased, prices have actually been increased — in some cases, along with supply, as occurred, for example, in 1970.

The systematic control of oil supply to extract a high price was initiated in 1928 as part of the settlement of a market and price war between Shell and Mobil. A series of agreements among the top multinationals made between 1928 and 1934 have evolved throughout the postwar period into a highly sophisticated "systems analysis" approach under which aggregate Middle East and African oil output from 1950-1972 conformed almost precisely to a 9.55 percent yearly increase — an amazing statistical feat. The top oil companies have methodically maneuvered to prevent independents or lesser majors from upsetting this system, utilizing everything from selective price-cutting and supply restriction to manipulation of governments, covert intelligence operations, and assassination. The case study of the evisceration of the Libyan independents is a paradigm for this dirty business. In 1973 Occidental Petroleum's Armand Hammer was forced to beg for supplies of crude from Exxon's chairman John Kenneth Jamieson after the Rockefeller interests manipulated cutbacks in Libyan output.

In the United States, these same companies forced the 1928 settlement, the Achnacarry Agreement, upon an unwilling industry — enraging Texas entrepreneurs in particular — through a series of price wars, legislation, and federal government actions. By 1933, opposition to price-fixing and control of production was broken, and the Interstate Oil Compact Commission — signed into law by President Franklin Roosevelt — began functioning as an informal supply control mechanism for the industry.

Parallel to the present situation, Blair points out, the issue of conservation was a key rationale used to support the establishment of crude production quotas. In the

1920s, enlightened oil men proposed a system of prorationing to prevent the physical waste of oil reservoirs resulting from a too rapid rate of recovery.

At first the Rockefellers vehemently opposed this restriction on their income. But by the end of the 1920s, with an oil glut, they reversed their position, changing the concept from "conservation of resources" to "prevention of economic waste" (i.e. prevention of low prices). Through cutthroat maneuvers which slashed prices by 90 percent, and through the buying up of tens of millions of barrels of oil at bargain basement prices, the top companies brought the Texas entrepreneurs to their knees and got their "conservation" legislation passed.

In more recent domestic developments, the top oil companies eviscerated the "private branders" and international independents who once again were encroaching on their markets. Private brank marketers were gradually taking away a substantial portion of the majors' gasoline markets between the late 1950s and 1972 by significantly underselling "name" service stations through lower operating costs. In this period their market share grew from between 5-10 percent to around 20-25 percent of the U.S. market, causing a marked downturn in the rate of profit of the top companies.

Periodic price wars did not stop the "predatory" spread of the private branders. But within a one year time period — 1972-1973 — Blair shows, a sharp and deliberate restriction of refined oil did. Refinery capacity utilization fell around 5 percent in the early part of 1972, with Exxon cutting its refinery production by nearly 10 percent. By summer, shortages began to appear; by 1973 deliveries to many private marketers fell by 50-75 percent or more; and by fall 1973, independents had to raise prices to such an extent that some "found themselves victims of the ultimate price squeeze: to cover their costs they were forced to charge retail prices actually higher than those of the majors." Of course, most either went bankrupt or were absorbed by their adversaries. And to boot, the U.S. experienced its first taste of the "energy crisis" in the gasoline shortage of 1972.

The independents and lesser majors who tried to go international in the 1950s to take advantage of lower-cost crude met a similar fate. From 1957-59 the rates of return of the top companies in the eastern U.S. had dropped precipitously in the wake of the recession and increased cheap imports by the independents. In 1959 the government enacted import controls and quotas, under the rubric of "national security," purportedly to prevent disproportionate reliance on unstable foreign sources. This not only immediately necessitated a cutback in imports by independents, but the various exemptions accorded certain interests resulted in quotas actually being half that allotted. To add insult to injury, a forerunner of the current entitlements program was enacted which allotted to inland refiners — who never had imported oil — "tickets" which imported oil refiners were required to buy. Thus the price of imported oil was effectively raised to parity with U.S. oil, waning domestic reserves were drained that much faster, and the Rockefeller grouping was able to recover its market positions. In addition, growing industries like petrochemicals were forced to slow their development because of the higher price of oil, again giving the lie to the cartel's claims of a generally fixed, linear growth of demand.

In his chapter on "The Price Explosion," Blair demonstrates not only that the OPEC price increase served the interests of these multinational companies, but that these increases could never have held without the prior gutting of the Libyan independents and other U.S. firms which had tried to move in on the multis' markets. Contrary to the cries from Exxon and company that they did all they could to prevent the OPEC increases, the facts show that the price rise has more than offset any troublesome "participation" or increased taxation side effects. As Blair sarcastically notes, referring to pre-embargo moves by OPEC:

> Founded in 1960, OPEC's previous chief claim to fame had been its success in immunizing the oil-producing host countries from the downward trend in world market prices....Since the principal effect on the majors was simply to increase their foreign tax credits (and thereby decrease their tax payments to the U.S. Treasury), this accomplishment involved something less than an all-out struggle with the imperialist West. (p. 261)

In addition Blair cites output statistics that show conclusively that no oil shortage or "energy crisis" ever existed in 1973-74. In fact, Middle Eastern production over the first nine months of 1973 was higher than ever before, and with the embargo and production cutbacks of the last three months of that year, production "miraculously" attained precisely the historical 9.55 percent annual growth rate. A most interesting "coincidence."

Blair's Critical Errors

Despite his accomplishment Blair commits errors which are to a significant degree responsible for the fact that his book is now being used in support of the divestiture hoax.

He confines himself to such general categorizations of companies as "the seven sisters," "majors," "lesser majors," and "independents," failing to rigorously distinguish those forces within the industry who are fundamentally committed to monetarist-oriented policies of restriction of growth from those who are fundamentally committed to industrial expansion. Although he rightfully reserves special venom for the Rockefeller-controlled companies of Exxon and Mobil, he tends to lump all of the majors in with these two, who must rather be singled out as primarily Wall Street "Trojan horses" within the oil and energy industry.

Moreover, Blair leaves out of consideration these companies' connections to the Wall Street banking community. Consequently, his recommendation of antitrust divestiture action is blindly focused on the industry as a whole, and, as stated, would leave its connections to Wall Street untouched. In addition, Blair's emphasis on energy conservation projects such as lighter automobiles or oil shale development actually reinforces the production cutback schemes being promoted by Exxon and Mobil, while completely overlooking the possibilities of nuclear fission and fusion development.

With the exceptions of Exxon and Mobil, and to a less certain extent Socal and Texaco (by virtue of their cohabitation with Exxon and Mobil in the Aramco consortium), every oil and gas company in the United States not directly controlled by these companies is fundamentally committed to the development of new energy resources to meet the needs of expanding industry. The pronounced movement of the other "sisters" and "majors" into new and frontier energy projects is proof of this assertion. What Dr. Blair ignores is that these majority companies have all too often been bludgeoned into going along with Rockefeller's Exxon and Mobil — or in some cases have themselves stupidly adopted Rockefeller's policies as being in their own self-interest.

For example, his chapter on the implementation of pro-rationing shows clearly that the practice of the oil industry in general and Texas oil men in particular of restricting production to extract higher prices was forced on them by the Rockefeller grouping. From 1932-1935 the policy of John D. Rockefeller was to mercilessly wipe out the intense opposition in Texas that greeted his attempts at restriction. Oil men up and down the state condemned the price war his companies were waging to gain production curtailment, even during a period when there was a real glut of supplies. During the heated debates in the Texas State Legislature in the 1930s, protests against the comingling of conservation and "economic waste" were loud and strong. For example, State Senator Joe Hill:

> It is the rankest hypocrisy for a man to stand on this floor and say that the purpose of proration is anything other than price-fixing. I sit here in utter amazement and see men get up and blandly talk about market demand as an abstract proposition, and contending that it has got no relation to price-fixing. (p.161)

Nevertheless, with the corporatist Roosevelt in the White House, and the price war, Texas was crushed.

The imposition of import controls is another important illustration of how the Rockefeller companies manipulate and divide the industry. Ultimately the import controls benefited only the Rockefeller grouping, yet they had the wide support of the majority of U.S. independents, who feared — unlike their Texas forerunners — that low-priced foreign crude would bankrupt them. Undoubtedly, the international majors publicly opposed import controls, since they were large importers.

But who benefited? Only Mobil and Exxon in the not-too-long run. Their international and U.S. markets were protected from the independents' foreign crude, and their own losses could be easily made up through domestic production and re-allocation. The international independents were badly hurt; the economy in general was unduly restricted by the higher cost of oil; and even domestic U.S. independents lost out because 1) this restriction slowed the economy and their own long-term grwoth, and 2) independent marketers became more dependent on Exxon et al. for gasoline.

> The following information was inadvertently excluded from an EIR review of *Wall Street and the Rise of Hitler* (EIR Vol. 4, No. 6).
>
> Sutton, Anthony
> *Wall Street and the Rise of Hitler*
> 240 pages, hard cover, $8.95
> '76 Press
> P.O. Box 2686
> Seal Beach, California 90740 U.S.A.

Blair's proposal of free market competition achieved by vigorous anti-trust action does not bother the Wall Street banks which control the industry as presently constituted, as the favor his book has found with Galbraith et al. shows; their financial control would be left intact, and mainly independents would be adversely affected. His support for "conservationist" and "free market" prices dovetails nicely with the "higher prices-enforced conservation" recipes being put out by White House energy czar Schlesinger, Mobil Oil, etc.

With these caveats in mind, the book is an otherwise valuable contribution to the understanding of the manipulations that have led the current high cost and short supply of energy.

— *Steve Parsons*

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