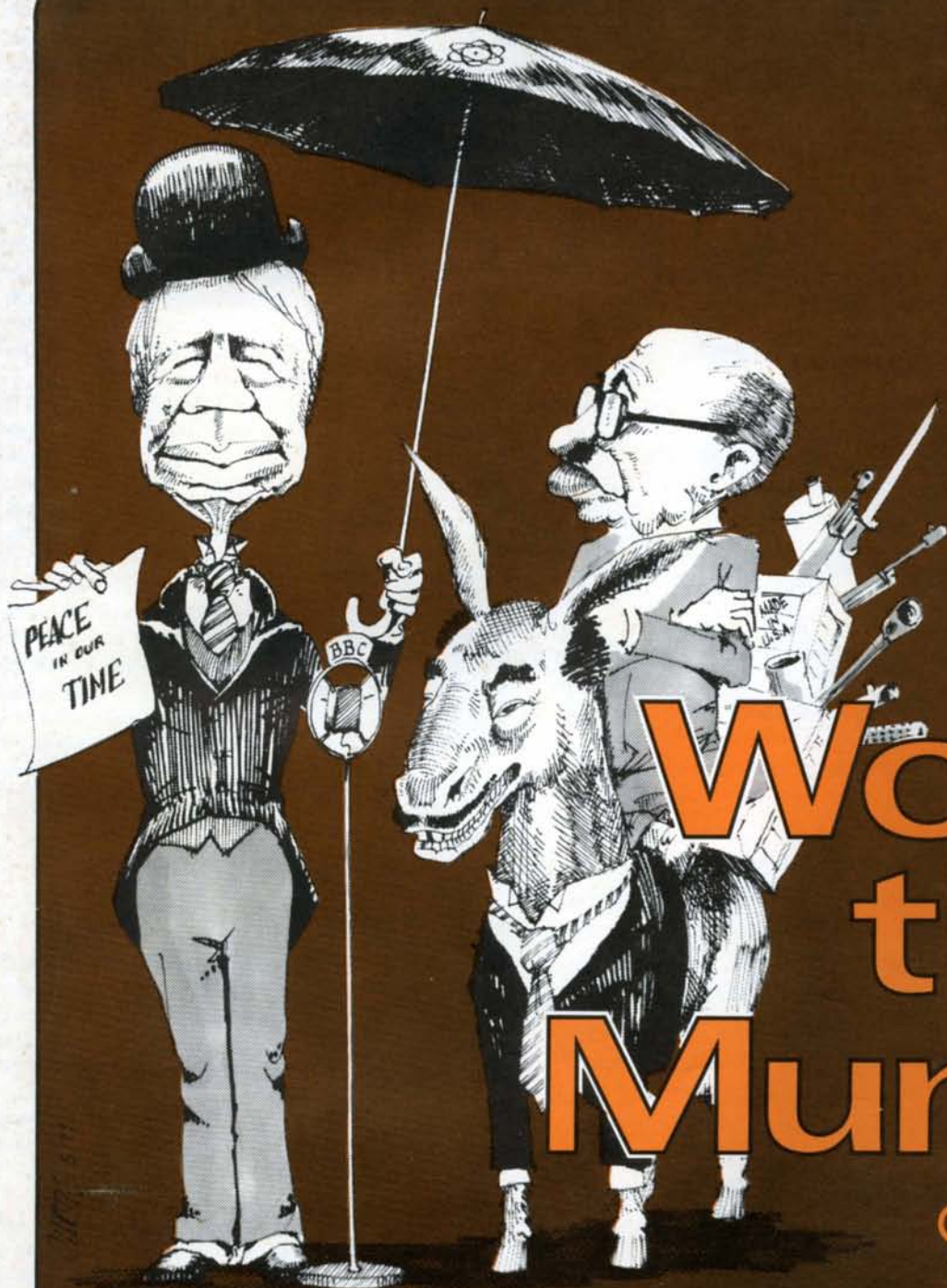


EXECUTIVE INTELLIGENCE REVIEW

April 3-9, 1979

World steel industry
in crisis-Part 1



Worse than Munich

Carter declares:
'peace is war'

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EXECUTIVE INTELLIGENCE REVIEW



Worse than Munich

“Peace is aggressive, attacking: peace ... gathers its weapons and pierces the defense. Peace, like war, is waged.” With these words borrowed from George Orwell’s “doublespeak,” President Jimmy Carter proclaimed what many had feared: openly the Camp David peace treaty has set the world on a rapid course toward thermonuclear confrontation. What does the treaty mean? A package of reports assembled by Middle East editor Robert Dreyfuss examines the geopolitical strategy underlying the treaty: the “Bernard Lewis plan” for fragmenting the Arab and other Islamic states along tribal and religious lines; the massive influx of military aid and the buildup of Israeli and Egyptian forces, which is projected to lead to formation of a “Middle East Treaty Organization” as an extension of NATO, as well as heavy Israeli and Egyptian military involvement throughout the Middle East and Africa. Finally, a point-by-point analysis of what the treaty actually says.

Page 16

IN THIS ISSUE

The UDF program for Europe

Earlier this year, the Union for French Democracy, the coalition of parties backing French President Giscard d'Estaing, adopted an ambitious program for the new European Parliament which calls for measures to wield the industrial might of Europe as a new industrial superpower, and a \$100 billion program of Third World development. At a moment when some Europeans are waffling in their support of the European Monetary System, our EUROPE section takes a timely look at the program, including substantial excerpts from the document itself, and a profile of the coalition which adopted it.

Page 39

Small boys in a big playpen

Wonder why the New York Council on Foreign Relations crowd figures it will have no trouble slipping the Republican presidential nomination to General Alexander Haig, a man whose only perceptible recommendation for the job stems from his service as Henry Kissinger's batman? The critical look at the field of rival GOP contenders in our U.S. REPORT will help provide the answers. Featured in the package is an interview with Wall Street lawyer Rita Hauser, who candidly reveals that the CFR is in complete control of the campaign of former Texas governor John Connally.

Page 30

EXECUTIVE INTELLIGENCE REVIEW

THIS WEEK

The danger of believing lies5

ECONOMICS

Did BRD bankers resurrect London?7

Backdown on EMS commitment to development lending

Bankers call for energy austerity9

And one economist warns of a coup in Saudi Arabia

International Credit ..10 Domestic Credit12

Foreign Exchange10 Banking13

Gold11 Corporate Strategy ..14

Commodities12

MIDDLE EAST

Worse than Munich16

Carter declares: 'peace is war'

London's divide and conquer plan17

'Peace' pact equals massive militarization21

The METO strategy: turn from Geneva25

World reaction: Camp David could lead to World War III28

The Camp David treaty: what it really says26

U.S. REPORT

Small boys in a big playpen30

Inept GOP contenders disgrace the party of Lincoln

Psywar needed for Haig to win — terror expert30

Hauser: Connally can knock out Reagan31

Congressional Calendar32

LABOR

If the Teamsters strike, blame Kahn34

Labor Periscope36

MILITARY STRATEGY

Soviets answer NATO strategists37
Encirclement, counterforce will lead to war

'Limited war' is first strike plot37
*Warns Soviet Major-General Simonyan,
while Novosti accuses NATO
of rehearsing for nuclear war*

EUROPE

The UDF program for Europe39
*How the EMS can break
with the IMF strategy*

The UDF program — a plan
for global economic growth42

ECONOMIC SURVEY

World steel industry in crisis49
*Part I: cartelizers implement
'rationalization' of world steel*

The Davignon plan for Europe's steel51

French foes of the EMS advise
United States steelmakers52

Steel and the 1979 oil hoax55

LAW

The UAW vs. the NCLC57
Appeal raises key questions of legal ethics

Brief for plaintiffs-appellants58

Facts Behind Terrorism63

World Trade Review64

**World steel industry
in crisis**

Apart from the Soviet sector, the world's steel output is declining, many producer nations are plagued by obsolete capacity, and even the Japanese, the world steel sector's wunderkinder, are mapping ways they can cut back their output without damaging their furnaces. Which way will the steel industry turn? A three-part series beginning this issue examines the two options available for steel, beginning this week with a look at the Davignon plan for cartelizing and cutting back European steel output. Forthcoming installments will look at the U.S. steel industry, and corporations' tendency to diversify into other areas than steelmaking, and will conclude with an examination of the high-technology options available to steel producers.

Page 49

**Appeal raises major
legal questions**

A case with major implications for the labor movement, the Department of Justice, and businesses who may have been unfairly hounded by government regulators will soon come before the U.S. Second Circuit Court of Appeals. The case: an appeal by the National Caucus of Labor Committees of an order permitting the United Auto Workers to retain as counsel in a lawsuit against the NCLC an attorney who, as an official of the Department of Justice, had earlier participated in a federal investigation of the organization.

page 57

<p>EXECUTIVE INTELLIGENCE REVIEW September 10, 1978 <i>The Boom! Record Cover of the</i></p> <p>Why the World Bank Pushes Drugs Pushing heroin, marijuana, and cocaine as the Third World's main cash export crops</p> <p>New Solidarity International Press Service \$10</p>	<p>EXECUTIVE INTELLIGENCE REVIEW November 2, 1978</p> <p>Saving the dollar—  —without a recession</p> <p>London plans U.S. financial park The new world monetary system: parallel group</p> <p>New Solidarity International Press Service \$10</p>	<p>EXECUTIVE INTELLIGENCE REVIEW November 12, 1978</p> <p>Japan exports the A... will... in the</p>  <p>New Solidarity International Press Service \$10</p>
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The danger of believing lies

The bigger the lie, the taller the headlines. The last week of March, 1979 began with the hard-to-beat chutzpah of heavy banners proclaiming that the March 26 signing of a war treaty between Egypt and Israel was "PEACE." Even the *New York Times* took note of the "Orwellian" character of Jimmy Carter's effusive promises to "wage" peace off the Middle East treaty.

As the week progressed, it became evident that whatever was being waged, was being waged against the American population. Headlines shouted that due to an OPEC decision on oil prices, the United States would declare "war" on the Arab oil producers, while swallowing energy consumption cuts of 30 to 40 percent. Two days later, the press announced that radioactive clouds were gathering over a number of Eastern U.S. nuclear power stations, and nuclear energy was portrayed not as a solution to energy shortages, but a dire threat to humanity.

The coincidence of the nuclear plant "accidents" with certain movie scripts is fully coherent with the scarcely veiled aims of the Camp David scenario. Those who refuse to "believe in conspiracies" may find themselves buying lies — at extreme peril to their survival.

Camp David is part of a **conspiracy** to enforce economic austerity regimes on the developing sector through regional military alliances. The model is the policy of Nazi Finance Minister Hjalmar Schacht. The Schachtian policy for the advanced sector is immediate, drastic energy austerity to be imposed through a combined oil shortage hoax and "nuclear proliferation" scares.

The center of the conspiracy is, as in the case of Schacht's backers,

the City of London. As twice before in this century, London's geopoliticians aim to prevent the threat to their power posed by a potential alliance of industrial republics, by "conquering the Eurasian heartland" — encircling the Soviet Union. That policy led to two world wars.

But the would-be encirclers maintain that this time World War III will not result. According to layers associated with veteran "Soviet handler" Averell Harriman, the Moscow leaders are "too mature" to respond to provocation. The same Harriman networks, and their ostensibly opposite numbers among the William F. Buckley "conservative" crowd, are spreading the line that this publication and our contributing editor Lyndon LaRouche, whose presidential campaign is taking the truth about the war danger to the American population, are "agents of the KGB."

To dispel such dangerous lies, our **MILITARY STRATEGY** report this week reproduces the text of a Soviet general's article showing that current Western strategic pos-

ture is forcing Moscow rapidly to the brink of war. We believe that the press' responsibility is above all to print the facts.

Helmut Schmidt's West German government was told by the **International Monetary Fund**, Britain and the United States that any public **attack on the IMF** would be considered an **infringement of "Western military security,"** say informed European sources. Indications are that the Federal Republic is backing down under this blackmail, and the core of the war-avoidance policy for which the new **European Monetary System** was shaped is now threatened. Key is a postponement in setting up the European Monetary Fund to finance high-technology exports for Third World development.

As a result, the London-centered forces behind the IMF have succeeded in reviving the "Common Fund" raw materials rationing agency proposal, which would **loot the advanced sector's surplus** through high raw materials prices, and channel the money into debt repayment. (See **ECONOMICS**)

The Week in Brief

Despite the postponement of French President Giscard d'Estaing's visit to Moscow, originally slated for this week, the **Soviets and French** are broadcasting their countries' continued **close cooperation**. Both sides report the cancellation was due to Soviet President Brezhnev's lung problems.

Soviet government paper *Izvestiya* published an interview with Giscard stressing the consolidation of

detente, disarmament and the cooling off of world hot spots as areas of strategic cooperation between the two nations. Giscard's included emphasis on **economic deals** was reinforced by the recent signing of several France-USSR agreements in the areas of advanced **electronics and space technology**.

The French press reports that the Soviet leaders want Giscard's visit to underscore the danger rep-

resented by Peking's war drive, an indication that Moscow hopes France will lead the European Community to take a **much stronger stand against China.**

Meeting in Geneva on March 26, the 13 ministers of the Organization of Petroleum Exporting Countries (OPEC) took a **decision on oil prices that produced relief** in business and financial circles. Contrary to crisis mongering in the press, the decision to impose a 9 percent price hike on crude oil for the second quarter is **technically not a second price rise** for 1979. Rather, OPEC decided to apply the last two remaining small quarterly increases decided at the December 1978 OPEC meeting to the second quarter.

But the fact that the cartel voted up an additional **premium** (surcharge) on its oil of up to \$4 a barrel, to be imposed on a country by country basis, is a clear signal that **pricing moderation may not last long.**

The **Saudis**, who are the leading moderate influence, look especially to France and West Germany to take an aggressive policy stance on two key issues. Saudi Arabia expects the Europeans to **challenge the Camp David** pact which is set up as an openly hostile alliance against OPEC. And they want Europe to adopt an energy policy based on **cooperation with the producers** to solve both short-term price and production questions, and long-term energy problems. That includes the delicate issue of imposing **discipline** on oil companies that **profiteer** with OPEC oil.

According to reliable Indian sources, **Pakistan** has been handed a **nuclear device** by Great Britain. The sources predict that the Ziaul Haq-led military junta in Pakistan will explode the device to **divert attention** from the **hanging of former Prime Minister Bhutto** (MIDDLE EAST Report).

The Indians identify this as part of an **Anglo-Chinese expansion** in

South Asia that may well include a Pakistani attack against Afghanistan or in Kashmir, along the Indian border. The Chinese have made large **arms sales** to Bangladesh and Nepal, all bordering India, as well as funneling arms into Pakistan via the recently completed Sino-Pakistan highway.

Have the Soviets chosen **Afghanistan** as the focus of a possible demonstrative action against the "encirclement" strategy of the **Washington-London-Peking axis**? A number of signals from Moscow suggest that.

The signals are clear enough that the U.S. State Department began fabricating the story that Soviet actions to defend the Taraki government, with which it is tied by treaty, constitute "**expansionism**" that must be answered.

A Radio Moscow commentary monitored March 29 singles out Iran, Pakistan, China and "**the American and British secret services**" who "have their hand in training mutineers and terrorists, and coordinating their actions" to attempt to **overthrow the Afghan government.**

Pravda implied in a commentary that the Chinese and Western-coordinated attacks are hooked into Camp David via **Egypt**. According to Pravda, "Egyptian representatives in Pakistan are regularly meeting with the leaders of the **Muslim Brotherhood**, supplying them with large sums of money."

No matter who wins the May 3 national elections, British internal politics are expected to undergo a **major strategic reorientation**. The Bank of England is betting on the return of a **Tory government**, and sees **war** as the best motor for the **faltering British economy.**

Margaret Thatcher, the Conservative Party leader, tabled the March 28 confidence motion that ended the Callaghan Labour government. She pledged in a speech

five days before the vote to strengthen **Britain's world role**, especially in the **defense area**. Prospective Tor Foreign Secretary Francis Pym elaborated in a recent press briefing, even the 3 percent increase in defense spending pledged to NATO "may not be enough."

Less known is the fact that the Labor government committed itself to an **identical war push**. Presenting the 1979-80 defense budget the day before being defeated, Labor Defense Secretary Mulley proposed a **\$17 billion defense program** with over 40 percent going directly to arms production and re-equipment of the armed forces.

Consider this, Dr. Kissinger: The **\$430 million arms package** rushed to the Middle East last week by the Carter government to "stop communist aggression" may end up in the hands of a unified Yemen linked to Soviet-allied Syria and Iraq. Such is the implication of the announcement March 29 from Baghdad that **North and South Yemen** have agreed to form a **unitary state** under President Saleh, currently the head of state of North Yemen.

As we go to press, there are reports from the Arlington, Va. hotel where the Teamsters and the trucking industry are negotiating the terms of a new national master freight contract that an agreement is imminent. This follows reports that inflation czar Alfred Kahn was forced to do an abrupt aboutface in mid-week and relax his stranglehold on the negotiations. Kahn was reported to "ease" the Carter Administration's wage-price guidelines to allow a more realistic settlement.

At the time that Kahn's shift was taking place, U. S. Labor Party Chairman Lyndon LaRouche met with several Teamster leaders at the negotiations.

Did BRD bankers resurrect London?

Backdown on EMS commitment to development lending

West Germany's leading financiers almost tripped over each other in retreat from their longstanding positions on the development policies tied to the new European Monetary System, at last week's annual conference of the Federal Association of German Banks in Bonn (see the Deutsche Bank's response to *Executive Intelligence Review's* questions at end of article). What emerged at this leading public forum — and through private channels in Western Europe — is that Western European leaders have spiked short-term plans to use the EMS to assemble a large-scale pool of development credits, and bowed before the authority of the International Monetary Fund.

The emergence of a new monetary system to replace the International Monetary Fund defined the most important world financial developments of the past six months. With the resolve of the Western Europeans snapped, for the moment, dramatic swings have begun in various markets. The major changes in the works include:

- Escalating efforts by the World Bank to bring off an investment program resembling the old Kissinger "International Resources Bank," in anticipation of a dramatic rise in commodities prices (see *Commodities*);
- A major shift of credit market activity from the so-called hard-currency-denominated Eurobond markets into London (see *International Credit Markets*);
- A reflow of funds back to the United States from newly-unsettled portions of the hard-currency market (see *Domestic Credit Markets*);
- All-out banking warfare in Western Europe centered on the Italian central bank (see *Banking*);
- A major push by Great Britain and the European Commission to cartelize yet another European industry, namely electronics (see *Corporate Strategy*);
- Predictions of another downward ratchet in international trade at a Lloyds-of-London shipping seminar in New York City; and
- A renewed blush in the international gold price (see *Gold*).

However, the impetus for the entire flurry of developments started at the highest level of Atlantic Alliance politics. American and British officials put it bluntly to the West Germans, starting at the end-February Interim Committee meeting of the Inter-

national Monetary Fund, that an attack on the IMF would be considered treason against the North Atlantic Treaty Organization. Certainly — as we reported in a previous issue's cover story — it would run at cross purposes to the Anglo-American view of what NATO and the IMF should be.

What Britain and the United States found intolerable was the credit feature of the European Monetary System, including proposals to accelerate the coming on-line of the European Monetary Fund from two years hence to a few months, and French President Giscard's proposal to directly involve non-European countries such as Mexico. The EMS was intended to assimilate a multi-hundred-billion dollar pool of credits through the issuance of gold-backed, low-interest rate securities — a proposal that the West German Bundesbank had in an advanced stage of preparation six weeks ago, according to senior Bundesbank sources. The use of this credit pool for grand-scale development efforts in the Third World rested on what Giscard dubbed a political "Grand Design," an interlocking set of political agreements with the developing sector, the Arab world, and the Soviets.

Word has gotten out, however, through the international banking community that the Europeans agreed to freeze the timetable on replacing the IMF — a freeze variously described as lasting through the next three months, according to a West German Development Ministry official, and two years, according to Deutsche Bank board spokesman Friedrich Christians.

The backdown on the credit-issuing side of the EMS is part of a political package that Western Europe appears to have swallowed whole. The other leading ingredients of this package include the European Community's waffling endorsement of the Egypt-Israel treaty under American pressure, despite the almost universal view in European official circles that the document is more a war treaty than a peace initiative; and the sudden postponement of French President Giscard's well-publicized and long-prepared visit to Moscow this month.

Judging from the West German conference results, West German central bank governor Otmar Emminger has accepted a set of economic parameters in which the export takeoff implied by the EMS "Grand Design" will

not happen. That underscores his concern about domestic inflation rates in France, where export orders have been flagging, and where the Barre government economic program has failed in its effort to generate capital investment in an austerity environment (*Executive Intelligence Review* will publish a survey of the French economy in April).

The Royal Institute of International Affairs circuit, the London *Economist*, and the U.S. National Security Council have all spelled out predictions of government turnovers in France and West Germany before summer. In the West German case, Emminger's austerity strategy begins, on the political end, with the ascension to power of Britain's Tory opposition leader Margaret Thatcher, according to sources close to the central bank governor. An aide said, "We are all waiting for Thatcher." Right-wing leaders of West Germany's Christian Democratic Union identify Thatcher as "the leader of our movement."

Often, British predictions of European government crises are wishful thinking. In this case they are probably accurate, presuming that the current policy drift continues. France, already suffering significant internal political disturbance after major steel layoffs in Lorraine, cannot afford politically to have a major round of layoffs in the heavy industry sector, and cannot afford economically to avoid it.

Thatcher's election to 10 Downing Street, apparently ensured by the March 28 vote of no confidence in Prime Minister James Callaghan's Labour Government, could become emblematic of a European-wide wave of austerity. The March 29 meeting of the Bundesbank's central bank council is expected to announce a tightening of monetary policy in West Germany. Emminger himself more or less predicted this in a March 27

article in the Düsseldorf financial daily *Handelsblatt* (see page 9).

Thatcher's game, from the British side, has already been announced in the London financial press: the key to her financial strategy is the removal of exchange controls that now prevent domestic holders of sterling assets from investing directly in foreign securities. Currently, they must pay a 40 percent premium to buy dollars from a restricted investment pool. Thatcher intends to open up a flood of British investments into cheap — but strategically placed — American banking equity. Since the Bank of England will intervene to maintain a fairly stable rate for sterling despite the outflow, it will convert a significant portion of its exchange reserves — some analysts believe up to \$10 billion — into sterling to permit sterling holders to make major dollar investments.

First on the list of such investments is American commercial banks, judging from the tenor of discussion at a conference on Banking in America held in London last week. The conference, sponsored jointly by the Washington-based Government Research Corporation and the City of London Business School, featured, among others, House Banking and Currency Committee Chairman Henry Reuss and Controller of the Currency John Heimann. Reuss said simply, "If we want to attract dollars back into the United States, we must give foreigners something to buy," referring to American commercial banks. A poll by *EIR* of state banking associations in the United States shows that many regional banking groups are suppressing their hostility to a wave of foreign takeovers for the simple reason that many of their members want to sell out to British buyers.

— David Goldman
Economics Editor

German economist warns of coup in Saudi Arabia

This report has been sent to Executive Intelligence Review by Mr. E. R. Schmidt of the Federal Association of Economic Advisors (Bundesverband der Wirtschaftsberater) of Bavaria, West Germany. We publish it without comment:

From a professional source which cannot be identified, I learned recently that certain requests for collateralization have been brought up by financial institutions, clarifying without doubt a certain momentary fear which I can also confirm from my activity as economic advisor and business manager of the Federal Association of Economic Advisors for Bavaria. In the cases of loan bookings with only limited credit reliability, the

major German banks have even expressed a demand for additional collateralization, citing explicitly political circumstances.

I personally take the standpoint that through these credit policy measures, the danger which is addressed in consideration of a coup in Saudi Arabia — however great the danger may be — may only be aggravated. If the western world wants to avoid an oil crisis — completely unpredictable in its consequences — and wants to aid Saudi Arabia, certainly a proven valuable ally in the past, then the West must, everywhere and with full clarity, declare its support for the presently governing administration. Otherwise, without question, the growth of power by the coup-backers will be unstoppable.

It is not decided whether the development will be promoted by the interests of the dueling parties behind the battle around the monetary system; without doubt, each will use the situation for his own goals.

Bankers call for energy austerity

The following interview with the incoming and outgoing presidents of the Bundesverband Deutsche Banken, (the Federal Association of West German Banks) was conducted by Executive Intelligence Review's special correspondent. The Association had just elected Harald Kuhnen of Sal. Oppenheim, a major investment bank closely allied with N.M. Rothschild's of London, to replace the Deutschebank's Friedrich Christians as president.

EIR: What is your opinion of the oil and energy austerity policy of James Schlesinger in the USA? The Wall Street Journal has just published an article stating that the deregulation policy is inflationary, and will only be met by a further tightening of U.S. interest rates.

Christians: We have to distinguish the effects of oil price developments in different countries. For the USA, Schlesinger's policy of energy saving makes a good policy. But we could not compare that situation to the BRD. In the USA, oil prices are kept artificially low. We are unhappy that the energy bill, of which so much was expected, has only ended up as such a tiny little mouse. There are indeed special U.S. problems in this area....

Kuhnen: I think we have to see a perceptible reduction in the oil consumption of the USA.

EIR: What about the future prospects for the European Monetary System? Turkey is in trouble because of IMF austerity demands. Isn't this a chance to extend the EMS to countries like Turkey and Mexico, to give EMF development policy a first sample of implementation on behalf of Third World countries?

Christians: You must distinguish between the IMF, the EMS, and the European Monetary Fund (EMF). We here agree with the IMF conditions for Turkey and other countries; they are needed. Now for the EMF, it's far too early to speak of that. The European Monetary Fund will only be formed in two years time. Finally on the EMS, you must see that what Giscard did in Mexico, with the discussion of link between the EMS and Turkey, was only a diplomatic gesture, and has no early prospect of implementation. Mexico has a powerful neighbor and one it doesn't like, so Mexico turns to Europe, but countries like Mexico cannot become members of the EMS for 10 to 20 years. As for Japan, remember that the EMS has only been functioning for

15 days, so we cannot take any of these big perspectives for the future. First, the EMS must itself be consolidated in Europe; we need a relation with Austria and Switzerland, because they are part of Europe. But it will be years before the Japanese become part of the EMS. We just do not need any grand challenges at this moment.

EIR: Isn't the EMS that way out for the U.S.? The USA could overcome all its economic problems with the balance of payments deficit and the dollar if it linked up with the EMS, couldn't it?

Kuhnen: It is a great mistake to think that we could widen the EMS now. We cannot take additional risks like that. But of course, we do hope that Britain will soon participate in the EMS.

Otmar Emminger's austerity scenario

The following austerity scenario was outlined by West German Central Bank Governor Otmar Emminger in Handelsblatt March 27:

Domestic money-supply expansion in West Germany has already reached alarm-stage one. Inflation now endangers the prospects for economic recovery. All signs now indicate that the year 1979 will place major demands on the monetary policy of the Bundesbank.... Price developments in the foreign economic picture also come into this, proceeding from the rise in the price of oil principally, but also in the case of other raw materials. It is by no means apparent that this inflationary impetus can be dealt with in the same way as in the past eighteen months, that is, through the exchange rate of the deutschemark....

The coming into effect of the European Monetary System changes the parameters of this complex situation, from both a foreign economic and a monetary policy standpoint. The EMS contains both opportunities and risks.... Above all, if we fail to adjust the internal currency parities of the EMS at the right time or by the right amount, we cannot exclude the emergence of internal European monetary crises, similar to the final stages of the Bretton Woods system....

If, in such a situation, the necessary trust and confidence between the partner governments does not exist, then the autonomy of the Bundesbank will be in danger, because of the expansion of the money supply due to continuous foreign exchange market interventions.

INTERNATIONAL CREDIT MARKETS

British rig markets to 'buy America cheap'

The last few weeks' developments on international markets have confirmed the scenario put forward by the Bank of England's senior advisor, Sir George Bolton, at a British banking conference in mid-January. That scenario, covered exclusively by *Executive Intelligence Review* at the time, "predicted" that funds would tend to flow away from those countries which had low interest rates, but lacked domestic petroleum resources — West Germany, Japan, Switzerland. Instead, the funds would flow toward those countries which had high interest

rates as well as their own energy resources — Britain, Canada, and, to some extent, the U.S. — to fall back on in the event that "radical" Islamic destabilizations in the Middle East disrupted foreign oil supplies.

When *EIR* first published the Bolton scenario, we cautioned that it would hold true *only* in the event that West German and French government and business leaders failed to follow through on plans to turn the European Monetary System into a global program for capital-intensive Third World

development. Since then, European leaders have tended to drag their feet on the development issue and Bolton's projections have become real:

Item: Euphoria swept through Britain's stock and government bond markets last week as Prime Minister Callaghan's Labour Party government crumbled and speculation grew that Tory leader Margaret Thatcher would shortly occupy 10 Downing Street. The heavy inflow of funds, including much foreign money, into British markets was spurred not only by Thatcher's apparent impending victory, but by a second round of OPEC price hikes, expected to increase Britain's North Sea oil earnings and give a temporary boost to the overvalued pound sterling. The pound stabilized at over \$2.05 last week, compared to \$1.98 less than two months ago.

On March 27, the *Financial Tim-*

FOREIGN EXCHANGE

Dollar stability —at a price

Although the U.S. dollar is appreciating against the Japanese yen and is likely to remain stable against the West German mark during the next three to six months, this stabilization has been achieved largely at the expense of U.S. industry and the long-term viability of the U.S. currency itself. The reasoning behind this apparent paradox can be grasped by reading "between the lines" of a recent column published by Brookings Institution

economist Robert Solomon in the March 28 issue of the *Journal of Commerce*.

In this article, titled "Dollar's Stability Raises Questions," Solomon notes that the recent oil price spiral has not brought down the dollar simply because the other major industrial countries are also affected. The fundamental question determining world money flows now is not how big the oil price hike is but "how the oil-exporting coun-

tries use their enlarged dollar receipts." According to Solomon, the dollar has been placed at a relative advantage because: first, its drastic depreciation over the previous two-year period under Blumenthal's "malign neglect" policy has enhanced U.S. export competitiveness, possibly inducing OPEC countries to spend more of their oil surplus on purchase of goods and services in the United States rather than Europe and Japan. Second, and, more importantly, "low-absorber" OPEC countries, like Saudi Arabia and Kuwait, will likely place their huge financial surpluses either in the dollar or in the Eurodollar markets, since "the largest financial markets are dollar markets and interest rates on dollar assets are much higher than on other assets." A third factor favoring the dollar, Solomon states, is the signs that the U.S. economy is about to enter a recession in a period when other major economies are still ex-

es All-Share Index soared to an all-time high of 266.71, following reports (later borne out) that Callaghan was certain to lose a crucial vote of confidence in Parliament. "Gilt-edged" (government) bonds also rose, bringing the *Financial Times* Government Securities Index up to 74.15 on March 27, a 14.7 percent rise from the level of early February.

Item: The Toronto Stock Exchange Index reached a new all-time high of 1464 on March 27. The index has risen 11.8 percent since the end of 1978, with oil, mining, and banking issues leading the way. The Canadian dollar, which declined precipitously last year, has risen from \$0.8350 in mid-February to \$0.8560 at present.

Item: German stocks, as measured by the Commerzbank Index, have fallen some 4.7 percent since January. Market analysts cite rising inflation, caused by higher

fuel prices, and fears that Bundesbank chief Otmar Emminger intends to raise interest rates.

Lifting British exchange controls

Many will remember the December 1977 issue of the London *Economist* which featured a map of the United States and the price tag bearing the words "America for Sale Cheap." The March 24 issue of the *Economist*, with "Iron Lady" Thatcher's face on the cover, signals the next phase of the Bank of England's scenario for reorganizing world markets.

In December 1977, the *Economist* suggested that British banks and related institutions would take advantage of the cheaper dollar to buy up U.S. banks and corporations at bargain-basement prices.

The March 24 issue of the *Economist* now proposes that a Thatcher government take the opportunity of

a momentarily buoyant pound sterling to relax Britain's foreign exchange controls so as to allow British institutions to expand their overseas investments.

As the *Economist* itself emphasizes in the March 24 issue, this expansion overseas is prompted by the growing danger of bankruptcy at home and a crisis in sterling. British manufacturing industry is notorious for its stagnant productivity and the relative poor quality of its products, particularly in high-technology areas. The Bank of England's "strong pound" policy thus has the effect of pricing British manufactured goods out of world markets.

The *Economist* proposes that a Thatcher government "solve" this dilemma by removing exchange controls, allowing the pound to ease down gradually.

— Alice Roth

panding, thus temporarily reducing the U.S. trade and current account deficits.

In brief, the dollar is to be stabilized based on trade warfare and a substantial reflow of funds back to the U.S. markets ala the London *Economist's* old "buy America cheap" scenario. The following developments in last week's foreign exchange markets underscore the point.

First, the British pound sterling jumped from \$2.03 to over \$2.05 within a matter of days based on expectations that Margaret Thatcher will replace James Callaghan as Prime Minister. Thatcher is expected to ease Britain's foreign exchange controls to permit expanded British investment abroad, especially in the United States.

Second, the Japanese yen came under heavy pressure on March 29, based on reports that London experts expect the currency to fall to the 210 to 220 level against the

dollar as a result of OPEC's latest price hikes. The yen fell to nearly 209 even though the Bank of Japan dumped \$450 million.

Third, the Bundesbank raised its discount and Lombard rates by one percentage point as an "anti-inflationary" measure.

In a related development, the U.S. Commerce Department announced that the U.S. trade deficit was \$1.3 billion in February, less than half the \$3.1 billion deficit reported for January. The decline, however, was mainly attributable to a 17.5 percent decline in the value of imported oil during February, apparently reflecting the shut-off of Iranian supplies and oil companies' drawing from domestic stockpiles. The value of oil imports could surge again in March and April due to price hikes. The U.S. is especially dependent on the Nigerian and North African light crudes which are being sold at a \$4.00 surcharge above the new OPEC base price.

GOLD

Camp David euphoria hits gold price

Gold continues to oscillate within a \$240 to \$246 an ounce range. Day-to-day movements in the gold price are governed largely by the dollar's stability, which tends to depress activity in the metal, and rapidly shifting perceptions concerning the immediacy of war in the Middle East or elsewhere. Once the false euphoria over Camp David dies out, which should occur imminently, and the danger of war resulting from the treaty becomes more apparent to the investors, the gold price could easily take off — even despite the dollar's relative strength against other currencies.

— Alice Roth

COMMODITIES

U.S. pushing hard for Common Fund

In the final hours of the conference of the UN Commission on Trade and Development (UNCTAD), held in Geneva March 12-20, U.S. officials pushed through a compromise agreement for the founding of a Common Fund for raw materials buffer stocks, which proves to be identical with former U.S. Secretary of State Henry Kissinger's 1976 proposal for an International Resources Bank (IRB).

Kissinger's IRB was launched unsuccessfully at that time in an effort to ensnare international commercial bank investments into a

global raw materials pricing and investment scheme, resuscitating the nearly-expired International Monetary Fund (IMF) and World Bank.

Kissinger proposed that an international bank be founded which would direct investment in the Third World exclusively into raw materials extraction, putting a halt to Third World projects in energy development, urban construction and new types of technology. Kissinger suggested that the safety of raw materials investments could then be guaranteed by raw materials pricing agreements at levels which

would ensure export earnings.

In a background discussion March 28, a member of the U.S. delegation to Geneva revealed that a major source of conflict during the recent Geneva UNCTAD meeting was the demand by a number of African countries that the Common Fund be supplied with funds for generalized Third World investment projects, not just raw materials extraction.

According to this source, the Africans insisted that a "second window" be set up which could provide low interest loans for construction of factories, such as jute processing plants, which the World Bank had already refused to finance.

The U.S. response was to emphatically assert that the Common Fund must not compete with the World Bank in any way, nor should it ever get involved in factory or plant construction. If a second window were to be financed, the U.S. delegation added, then it

DOMESTIC CREDIT MARKETS

Credit in the U.S.: calm before the storm

The release of the Consumer Price Index for February, which signaled a 15 percent annual rate of inflation, and the announcement by OPEC last Tuesday of a 9 percent price rise for benchmark crude, did not cause a ripple in the U.S. credit markets last week.

The apparent calm in the credit markets is hardly symptomatic of a promising situation, however. While money market analysts are talking about the new trend toward lower interest rates, this apparent calm has been due to the continued heavy influx of funds, foreign and domestic,

into short-term dollar investments in recent weeks.

In addition, if a Tory government comes to power in Britain, it is likely that one of its first acts will be to lift controls on capital outflows and accelerate the "Buy America Cheap" program outlined in the December 1977 *Economist*. This also means that a growing proportion of the available funds in U.S. credit markets will be coming from London.

William V. Sullivan and Nicholas Marrone of the Bank of New York pointed out last week

that private money market rates declined between 39 and 181 basis points since January, despite hefty business demand for credit, because of the large volume of funds seeking short-term "defensive" investments. They report that over this period three-month dealer-placed commercial paper rates declined from 10.60 to 9.80 percent; three-month certificates of deposit in the secondary market fell from 10.85 to 10.15; and three-month Eurodollars moved down from 12 to 10.56 percent — a drop of 144 basis points. The erratic easing in Eurodollar rates since January has also been influenced by the stabilization of the dollar and the unwinding of short positions that took place after the arrival of the European Monetary System.

The rate-depressing flow of money into short-term bonds and money market instruments has been accelerating over the last several

should only be allowed to allocate funds for management, research, marketing and feasibility studies and training on matters related to commodity sales.

At 2:00 a.m. March 20, the U.S. delegation succeeded in ramming through a compromise "guideline" for the Common Fund, by suggesting that it not be put up for final vote until the end of this year. If U.S. corporations are wondering why the price of copper and other metals has been skyrocketing in recent months, the answer can be found by taking a look at the implications of the U.S. adopting Kissinger's IRB proposal.

The speculation on metals stocks was kicked off by a number of London investment banks, which work closely with the IMF on Third World policy. The copper price takeoff (which tends to push the entire market forward) has been sustained since mid-November by

financial panic produced by a combination of factors including: rising oil prices; copper strikes in Peru and threatened strikes for April in Canada; rumors of a major destabilization and guerrilla war pending in Zaire; record copper sales to Red China from the West to supply its war machine against Vietnam; and bad weather this winter in the U.S., leading to several cases of "force majeure" on deliveries.

This week, Asarco, Inc., the largest U.S. copper smelter, pushed its producer price to a record \$1.02.

London investment banks are using this boom to push raw materials investment in a handful of Third World countries — at the expense of other types of investment.

If U.S. and other commercial banks go along with London's game, then the first phase for actual implementation of the IRB-Common Fund will be underway long before the official UNCTAD

vote at the end of this year.

In New York, on March 27, the policy-setting Council of the Americas opened a week-long conference tour for Peruvian Finance Minister Silva-Ruete, to get U.S. investors to move in on Peruvian mining and oil development. As reported in the *Journal of Commerce*, the Council is pushing Peru's credibility as an investment target by asserting that the Peruvian government has dropped all ambitious, non-mining development plans, and has followed an IMF program for austerity and cut-backs.

Indicating that preparations for a boost in raw materials extraction in Latin America have been underway for some time, New York's St. Joe Minerals announced the same day that it had just approved an \$80 million investment in new copper mining capacity by its Chilean subsidiary.

— Renée Sigerson

weeks because investors believe that yields are currently as high as they are going to go. The recent issue of Morgan Guaranty's *World Financial Markets* also pointed up the pronounced trend of money leaving low interest rate sectors, like the yen, for high interest rate, oil-producing countries like Britain and the U.S. The new buoyancy of U.S. oil stocks is part and parcel of the same trend.

But whatever calm prevails in the credit markets over the easing of interest rates and exodus of funds to the U.S. markets is deceptive. Corporate liquidity steadily worsened over 1978 as the nonfinancial sector acquired a near-record amount of new short-term debt to keep up with its inflating costs. First Pennsylvania pointed out last week the cash liquidity ratio — cash and marketable securities to current liabilities — of the aggregate corporate sector stood at .27 percent at the end of last year. Although this is still up

from the trough of .23 percent reached in the third quarter of 1974, it is significantly below the .34 percent reached at the end of 1976.

Statistical deception

The deterioration has been somewhat hidden by the publicity about a number of cash-rich corporations. While corporations' bank loans have been growing only moderately, they have been borrowing record amounts in less obvious ways, such as via the commercial paper market. According to Bankers Trust's measure of short-term borrowings (commercial and industrial loans, finance company borrowings, and nonbank commercial paper), credit demand from business rose by \$6 billion through March 7, for outdistancing the record years of 1974 and 1978.

In addition, U.S. corporations have been making much heavier use of the Eurodollar market for short-

term funds.

But whatever form a short-term liability takes it is still a short-term liability. As a result, this record expansion of short-term business credit adds up to a rapidly worsening liquidity picture.

Predictably then, when the new downturn begins, a lot of corporations are going to get burned — many more than in 1974-75. And U.S. corporations are going to be increasingly reliant on the London market for their short-term credit life line.

— Lydia Schulman

BANKING

Bank of Italy indictments: an opportunity not to miss

The indictment on corruption charges of Paolo Baffi, the Governor of the Bank of Italy, could develop into either a disaster or a unique chance for Italy to regain control over its domestic and international currency operations. In the present governmental vacuum, the cessation of the bank's functioning may have significant destabilization

potential. But, if the right forces run the operation in the right way, the long-time British control over the bank could be broken at last.

The indictment charges Baffi with "complicity and private interest in official actions." It carries the same legal weight as an arrest warrant, but the prosecuting judges did not jail Baffi because of "his ad-

vanced age and the possible negative international repercussions." The Bank's Deputy Director and the head of its Vigilance Committee, Mario Sarcinelli, was arrested and jailed on the same charges on March 24.

The indictments stem from an investigation which the bank opened in the autumn of 1977 into the disposition of special low-interest loans which various Italian banks made to the chemical conglomerate SIR. The central bank, specifically its Vigilance Committee under Sarcinelli, is responsible for safeguarding the interests of depositors in the other institutions involved. The investigation was designed to determine whether the subsidized loans to SIR were misused or fraudulently applied by the chemical giant.

The Bank of Italy investigation closed in the spring of 1978. In September, the Vigilance Committee

CORPORATE STRATEGY

International battle in the electronics industry

While most corporations key their activities to market share in a given field and gauge their success relative to the "competition," there are many instances where corporation policy is wielded as the instrument of national or supranational interests. This is nowhere more true than in the electronics industry.

On the international level, electronics battles have less to do with international market shares than with the politics behind the method and purpose of doing business. The big battle shaping up currently is between the Anglo-American con-

ception of electronics application and that of the Japanese, who are now looking to the European Monetary System (EMS), and especially France, as allies.

Characterized by one market watcher as "1984 versus the 21st Century," the Anglo-American/Japan-EMS fight is essentially the arena for using electronics for larger-scale control of world markets, especially banking (electronic funds transfer), the Anglo-American approach, as opposed to the large-scale industrial application and very rapid techno-

logical development favored by the Japanese and French.

How "private enterprise" is involved in this war is instructive. Take the case of Intel, a highly successful U.S. semiconductor manufacturer. Intel's board chairman, Robert Noyce, demanded in the March issue of *Electronic Business* a four-point program that would strike at the heart of the Japanese zaibatsu industrial system.

Noyce demanded: an "active market" for U.S. semiconductor products in Japan; an end to the two-tier pricing system which allows differing Japanese domestic and export prices; opening the Japanese telecommunications system (Nippon Telephone and Telegraph) to outside bidders; and "sincere affirmative action by Japan to change the culturally ingrained 'buy Japan' attitude."

These demands, it turns out, have nothing to do with improving Intel's competitive position. Intel grew by 66 percent in 1978 over its

met twice to review its report. By January of 1979, a top lawyer of the bank recommended no legal action be taken and Baffi rubber-stamped the decision. In March, Sarcinelli turned the files on the case over to the Rome magistrate Antonio Alibrandi at the judge's request. Now Alibrandi and his colleague Luciano Infelisi are charging that the bank failed to report evidence of wrongdoing to them.

Sarcinelli was interrogated in his cell on March 26, and defended himself on the basis that the bank's investigation found no evidence of wrongdoing. Therefore, there was no judicial reason to turn the files over to the magistracy. The Vigilance Committee did so only at the judges' request. His lawyer is trying to get the charges dropped, or at least to secure his release on "provisional liberty."

Meanwhile, the bank was shut

down for 24 hours on March 26 in an unprecedented protest strike. The senior management, including Baffi, are threatening to resign *en masse* if the charges are not dropped. Italy's left-wing press is writing in defense of the two bankers, including the Communist Party daily *L'Unita*, which charges that the whole thing is a political move by the extreme right. The more centrist press, such as Milan's *Corriere della Sera*, is mooted an attempt to discredit the ruling Christian Democrats.

The repercussions of the Bank of Italy indictments may seriously affect the future of SIR, which has been in the red since 1975. One of the banks involved in the case is IMI, the largest medium-term credit institution in Italy, which holds a large part of SIR's debt. IMI has been trying unsuccessfully for the past year to put together a consortium of banks to bail the chemical

consortium out. IMI's strategy would have SIR in the black by 1982. But if the magistracy's charges of corruption are borne out, the consequences could be devastating not only for SIR, but for its creditors as well.

On the other hand, if Baffi is ousted and if a successor is appointed who would clean out the rest of the economic agents of the British crown in the bank, then not only SIR but the rest of the Italian economy would be in a much better position. If the lira is able to take a strong independent role within the EEC and the European Monetary System, then the chances for getting the EMS functioning are great. In that case, there would be a real future for chemicals, and banking, in Italy.

—Mary Sonnenblick

23 percent growth the previous year, and is the fastest growing company in the sprinting semiconductor market. Furthermore, in the Jan. 5 issue of *Electronics* magazine, Intel's Executive Vice President, Andrew S. Grove, claimed that with mandated microcomputer installations in autos due in 1980, the semiconductor industry will not have the production capacity to meet the demand.

Surely then, Robert Noyce can only be representing a "national interest" in his demands on the Japanese — who are now in Washington negotiating this very issue with Special Trade Representative Robert Strauss's aides. In fact, the U.S. produces domestically 96 percent of its semiconductor consumption (Japanese imports amount to 1.6 percent), and the U.S. industry has cornered over 60 percent of the world market. In comparison, Japan supplies only 90 percent of its semiconductor needs domestically. Perhaps the Japanese should be

complaining instead.

To shortcircuit the EMS

Not only is the Anglo-American strategy to block the Japanese from markets in their most advanced technology, but to preclude alliance with the EMS nations.

In a letter to *Electronic News*, March 19, Robert C. Scrivner, chairman of Northern Telecom (Canada), a Commander in the Knights of St. John (British) and propagandizer for the "wire society," said, "Everyone is shooting at the U.S. market while keeping domestic markets closed up tight against competition. If the Japanese situation (Nippon Telephone and Telegraph procurement practices) is forced to open up, then the European national cartels will be next."

Three days later in London, the *Financial Times* Conference on "Tomorrow in World Electronics" heard the EEC Commissioner for Industry, Viscount Etienne

Davignon argue for an EEC-wide electronics program. This program, like the Davignon steel plan, would shut down "ailing industries" and shift investment towards electronics to "combat U.S. and Japanese competition."

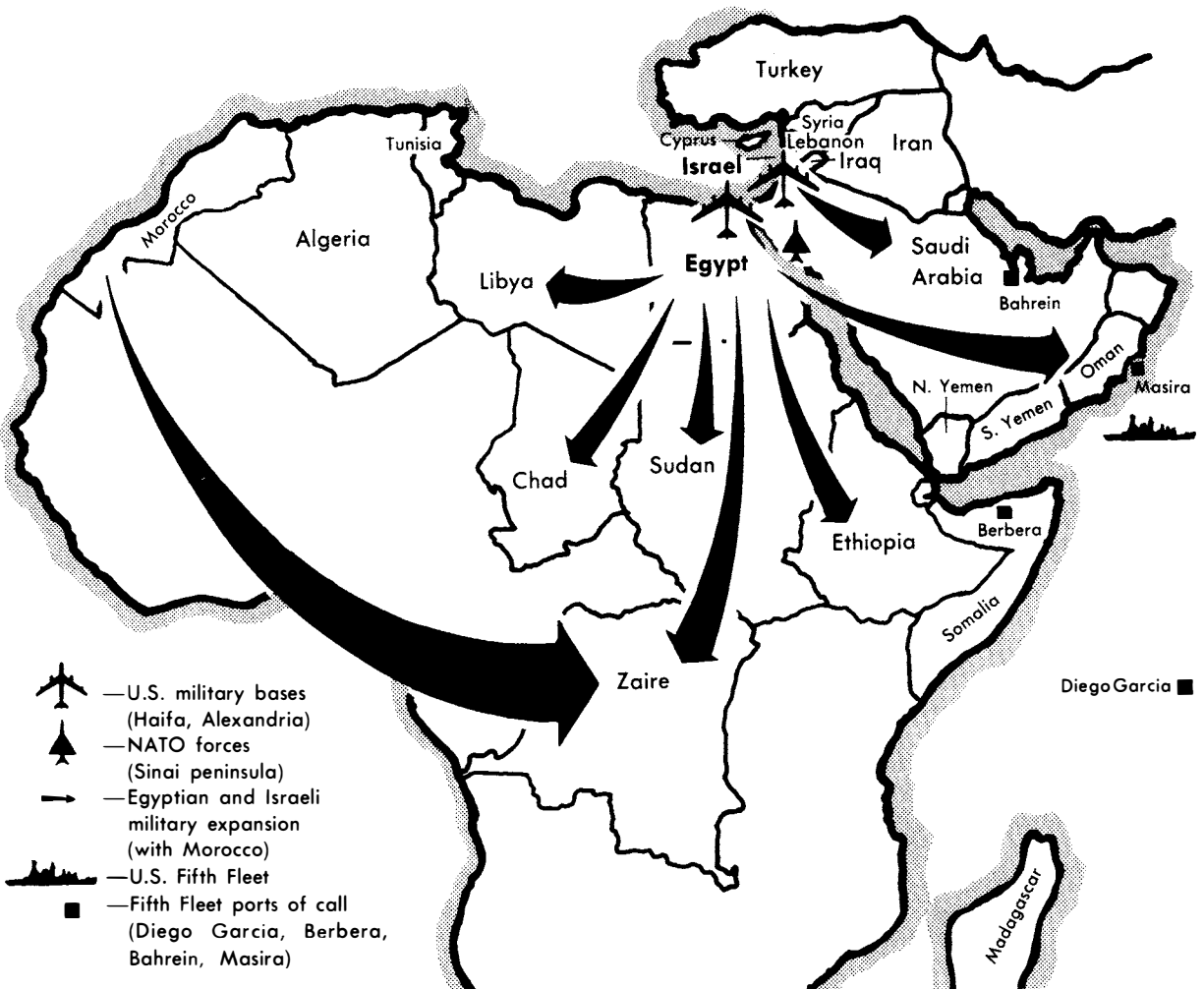
The *Financial Times* then editorialized on March 23 that "where the EEC Commission can and should play an important part is in curbing national protectionism...there is an urgent need to open up public procurement (especially in agencies like the Post Office)..."

That these attacks similarly focus on the national communications systems, indicates not only a thrust against the French plan for the semiconductor industry — which President Giscard sees as key to French high-technology exports — but against a Japan-EMS alliance as well.

—Leif Johnson

Worse than Munich: Carter declares, 'peace is war'

Waging peace:
Egypt and Israel plan far-flung military operations



Plans connected to the Camp David peace treaty call for a vast military expansion by both Israel and Egypt, with the latter's army revamped as a small, tightly knit mobile strike force. Egyptian expansion, in the form of "assistance" or outright invasion, is projected for a number of African countries, as well as Oman. Scenarios are also being mapped by London, Washington, and Tel Aviv planners for Israeli intervention into Syria, Iraq, and Saudi Arabia, most likely under the pretext of "protecting oil supplies." In addition, U.S. bases are being projected for Haifa and Alexandria, and there is a prospect of NATO troops replacing the United Nations forces in the Sinai. An influx of arms is expected into North Yemen, the Sudan, and Somalia, and the Suez canal will be opened as a strategic waterway for a new, U.S. Fifth Fleet in the Indian Ocean.

London's divide and conquer plan

While an enchanted America cheered Jimmy Carter's "success" in getting Egypt and Israel to sign the peace treaty — reminiscent of the crowds that applauded the fabled emperor's new clothes — the Middle East careened toward a war that threatens to engulf the entire world in a thermonuclear holocaust.

It is generally acknowledged that Carter's vaunted treaty leaves untouched the basic issues in the Middle East: the question of Palestinian statehood, the issue of the West Bank, the Jerusalem problem. But even more, the treaty is only a cover for a tightening of the U.S.-Israeli security relationship and for a great NATO military buildup across the entire "arc of crisis" from North Africa through Pakistan.

Egypt's President Sadat, who has now sold his soul to the devil, is already being discarded. According to information from intelligence sources, Sadat has been targeted for assassination by a British intelligence operation conducted through the Muslim Brotherhood, an act that is to be blamed on the Iraqis or the PLO and used as a pretext for Israel to launch a war against the Arab East.

As the Arab states meet to plan strategy against the Camp David threat, British and Israeli intelligence has already set into motion Phase II of the Camp David process: the balkanization of the Middle East according to the design of Bernard Lewis, the Oxford Zionist now based at Princeton. Among the states slated for attack are Libya, Syria, Iraq, and Saudi Arabia — while the Soviet Union, which has close ties to some of these Arab states and which is seeking links to the Saudis as well, quietly discusses how to support its allies.

Although the results of the Baghdad Arab summit are not yet known as we go to press, virtually every Arab state has roundly condemned the Camp David treaty as a threat to the vital interests of the Arab world. Where Europe stands is still an open question, despite French opposition to the treaty. Most shocking is the lack of American opposition to Carter's public-relations hoax.

We present below a comprehensive survey of the real story behind the Egypt-Israeli pact and its expected impact on the Middle East and the world.

Within the next year, British and allied oligarchs in London and Jerusalem hope to subvert the Middle East, particularly those politically moderate or industrially ambitious countries, into squabbling feudal fiefdoms. They have calculated that all resistance would be destroyed to the imposition of a supermilitary alliance linked to NATO surrounding the Soviet Union's southern flank. The Camp David agreements mark a crucial institutionalization of this divide and conquer tactic in which National Security Chief Zbigniew Brzezinski and other administration officials in Washington are fully involved.

The major architect of this strategy is Bernard Lewis, a British-born professor now at Princeton University. Lewis has conceptually outlined the triggering of tribal and religious rebellions from the subcontinent to the Mediterranean. This geopolitical strategy is in line with Lewis's well-known thesis that indigenous tribalism and sectarianism determines the politics of a region.

Lewis's strategy also fits well with investigations the Defense Department acknowledges have been made by the Israeli intelligence unit, the Mossad, on the feasibility of tribal and religious, and regional conflicts.

Below is a description of what has become known as the "Bernard Lewis Plan" for the Mideast.

Iran. Since the overthrow of the Shah by forces allied with Ayatollah Khomeini, Iran has been plagued by increasing separatist insurgencies which have seriously impaired Premier Mehdi Bazargan's ability to centralize his authority. The Iranian daily *Kayhan* has gone as far as to report that these insurgencies, which include the Baluchis, the Azerbaijanis, the Turkmen, and Iranian Arabs in the Arabistan region of the Persian Gulf, are the work of foreign agents bent on transforming Iran into another Lebanon. But they have not identified the roles of British or Israeli intelligence.

The situation on Iran's northwest border remains tense, although a truce was worked out with Tehran and the heavily armed Kurds. Within days following the truce, the Turkmen in the Northeast began an uprising over land rights. This week Iranian Arabs in the oil-producing Khuzestan region militantly demanded regional autonomy under the name Arabistan. Increased militancy in this area could lead to a renewed shutdown in Iranian exports of oil.

According to well-informed Arab and Iranian sources, the Kurds and the Turkmen are "armed to the hilt" with Uzzi submachine guns and other weapons

peddled through Israeli blackmarket networks, which are remarketing weaponry previously resold following the 1973 Mideast war.

The volatile climate is further complicated by the fact that the major ethnic and tribal minorities in Iran are not of the same religious belief as over 90 percent of Iran's 35 million people. This creates a rivalry which is expected to be exacerbated if the Shiite Muslim Khomeini succeeds in winning his referendum for an Islamic Republic.

Khomeini, as the *Executive Intelligence Review* has documented, is working with Muslim Brotherhood-dominated Islamic fundamentalists within the Arab world as well as those associated with the reactionary Jamaati Islami. Last week, a Soviet Persian language broadcast to Iran openly warned against this new upsurge of Islamic fundamentalism, emphasizing that the Muslim Brotherhood was created by British intelligence.

Equally important for Iran's future is the presence of a clique of ultra-radical "advisors" around Khomeini, who are associated with Ibrahim Yasdi, Saad Ghotbzadeh, and Abdul Bani-Sadr. They are London's "inside men" in controlling both Khomeini and challenging the nationalist forces allied to Bazargan which only further enhances the climate for separatist upsurges.

Throughout the Mideast such leftists have consistently backed the "rights of minorities" and effectively acted as a key support to London's separatist insurgencies.

According to the British Broadcasting Company, which before Khomeini's return to Iran, functioned as his mouthpiece into Iran, the Azerbaijanis who share the country's northwest border with the USSR, are now planning an insurrection and are heavily arming. This rebellion is particularly dangerous given the history of Azerbaijani separatism and their relations with the USSR. While there is no evidence today of any Soviet input, various British-allied segments of the U.S. political elite, notably Averell Harriman, are "predicting" Soviet influence will dramatically increase in Iran as a pretext for a possible superpower showdown.

Pakistan-Afghanistan. The fate of Pakistan's imprisoned Prime Minister Zulfikar Ali Bhutto — presently slated to be executed approximately April 1 — will be a crucial determinant of whether the region will erupt into Islamic fundamentalist feuds. The efforts of the Pakistani Jamaati Islami and the regime of Pakistan's chief martial law Administrator Ziaul Haq have been geared toward collaboration with Iranian leaders, notably Ayatollah Khomeini and Ayatollah Sharif Madari, to overthrow the Afghan government of Premier Noor Mohammed Taraki.

Any armed insurrection against Taraki could have global consequences since his government has a friendship treaty with the Soviet Union. The destabilization

'Camp David will balkanize

Jordan's Crown Prince Hassan, the brother of King Hussein, spoke out forcefully against the impact of the Camp David separate peace agreement in an Op-Ed in the March 25 Washington Post. Below are excerpts from that statement:

We see the autonomy plan for the West Bank and Gaza Palestinians, currently viewed by some as the only realistic starting point for Mideast peace, rather as a further catalyst for the kind of regional instability and upheaval that we all fear.

The autonomy plan to us is another manifestation of the self-perceived Israeli requirement to ensure its current security by the control of the land, water and human resources of the occupied West Bank and Gaza. By splitting up these areas into three

there is ominously reminiscent of an assertion by U.S. National Security Advisor Brzezinski that "Islamic fundamentalism can stop communism."

Taraki himself minced no words in publicly stating that the Muslim Brotherhood is behind the offensive against him and that it is headquartered in London and Paris. Regional figures, as well as the Soviet Union, are well aware that Peking is also behind the current offensive. Last week Moscow charged that the aggression against Taraki is directed by the American and British secret services.

The destabilization is in part being carried out by a clique of Jamaati-allied Afghan exiles who are being stirred for the rebellion against Taraki. A recent meeting of Afghan exile groups held in the northeast frontier province of Pakistan, which borders Afghanistan, called for a holy war against the Taraki government. There are also reports of antigovernment elements being supported by the Iranian military in the city of Herat in Afghani territory on the Iranian border. Radio Moscow reported that Afghan forces found large stocks of U.S. and Chinese manufactured arms in Herat.

Although President Carter recently exacerbated the delicate situation by openly accusing the Soviets of arming Afghanistan, the dismemberment and war confrontation scenario may yet take some maneuvering to pull off. Even in Baluchistan there is a division between a Maoist, anti-Soviet Baluch movement based in the Marri tribe, which has been the source of the secessionist guerilla movement, and a moderate secular Baluch movement.

Turkey and Iraq. On Iran's Northwestern borders, both

Mideast'

or four minuscule and semiautonomous entities based on historical references to Jerusalem, Judea, Samaria, and Gaza and northern Sinai, Israel is impelled by its security concerns to encircle these proposed Bantustan-like areas with rings of Israeli settlers....

The possible fresh movement of tens of thousands of refugees from occupied Palestine into Jordan and the Arab oil states coincides with what appears to us in the Middle East as a determined radical push aimed at the intensification of the global conflict that has reached a flashpoint in Africa recently and has manifested lately on the fringes of the oil-producing Arabian peninsula, particularly in the Horn of Africa, Yemen, and Iran.

Events such as we see in Iran today, many weeks

after revolution there, make us wonder seriously whether Arab public opinion would be able to withstand a similar determined push by organized groups basing their claims on ideological or ethnic grounds. A polarization of the Arab world into global ideological extremes would shake the very fiber of the commitment of the Arab man in the street toward his nation, his concept of pan-Arabism and even the very God he worships. Such a reaction would likely isolate him and increase the feeling that the only identity he has, be he Kurdish, or Azerbaijani, be he Maronite, Druze, Palestinian, Jordanian, Armenian or Eritrean, is to a lesser entity, a lesser unit and a lesser loyalty — the loyalty of tribalism....

The Camp David approach threatens to accelerate the destabilization process in the Middle East that is a function both of indigenous radicalization trends and global rivalries. We still hope that our friends in the United States would see this as clearly as we do.

Turkey and Iraq have felt the impact of growing sectarian violence. Both countries are threatened by a spill-over of Kurdish unrest from Iran.

According to the Iranian daily *Kayhan*, Feb. 28, Iraqi air power was used to put down limited violence by the Kurds just inside Iraq's border with Iran last month. The Kurdish issue in Iraq is complicated by the fact that the Iraqi Communist Party, whose leader last week announced plans to quit the National Front in protest over ruling Baath Party policy, has always supported the "rights of minorities" such as the Kurds. A Kurdish uprising would now intersect tensions between the Iraqi Communist Party and its long-time allies the Baath Party, which has more than once forcefully dealt with the Iraqi Kurds.

Informed sources indicate, that the Iraqi leadership which is Sunni Muslim has become increasingly anxious about Khomeini forces triggering Shiite rebellions in Iraq. Yasdi-ally Rouhani, who is Khomeini's spokesman in Washington, told the *Village Voice* last month that other regimes in the area would feel the effect of Khomeini's takeover, and named Iraq and Saudi Arabia.

In last December Eastern Turkey briefly erupted into a melee of bloodshed as Sunni and Alevi (Shiite) Muslims battled. At the time Bernard Lewis was reported to have told a journalist that the upsurge confirmed his thesis that sectarianism was the basis of "the realities of the region." Lewis's remarks paralleled the incident which involved Kurdish mercenary tribesmen who had threatened to wage renewed strife against the Ecevit government.

Behind the insurrection was the well-known opposi-

tion figure Arpaslan Türkes, the leader of the self-professed fascist party, the Nationalist Action Party. Türkes, according to Washington sources, maintains clandestine links to both the People's Republic of China and the Mossad, the Israeli intelligence agency. Türkes's prime function is to smuggle arms for the British and Israelis into remote areas of eastern Turkey and other countries of the region.

Lebanon and Syria. Lebanon may well face another round of bloody civil war very soon if Syria removes its peacekeeping forces, as Damascus has stated it is preparing to do. Lebanon has been the victim of a powerful and well armed clique of Maronite Christians associated with the Falange and the National Liberal Party of Camille Chamoun, a top British and Israeli conspirator who maintains his links to London through his association with the semisecret elite Order of the Knights of St. John of Jerusalem.

The Maronites have been nothing more than a front for the Israelis in Jerusalem's efforts to eliminate the half a million Palestinians from Lebanon and are a key proponent of cantonizing tiny Lebanese enclaves which would create an independent Maronite entity.

To date, the Saudis have removed their peacekeeping troops from Beirut, and France has also pulled out half of its forces. This occurs against a background of increasing Israeli overflights of Lebanon. Tensions between the Palestinians and the Maronites are still far from resolved, and the Camp David agreements have already prompted PLO chief Yasser Arafat to warn of an upsurge of terrorism.

Sources indicate that though Syrian President As-

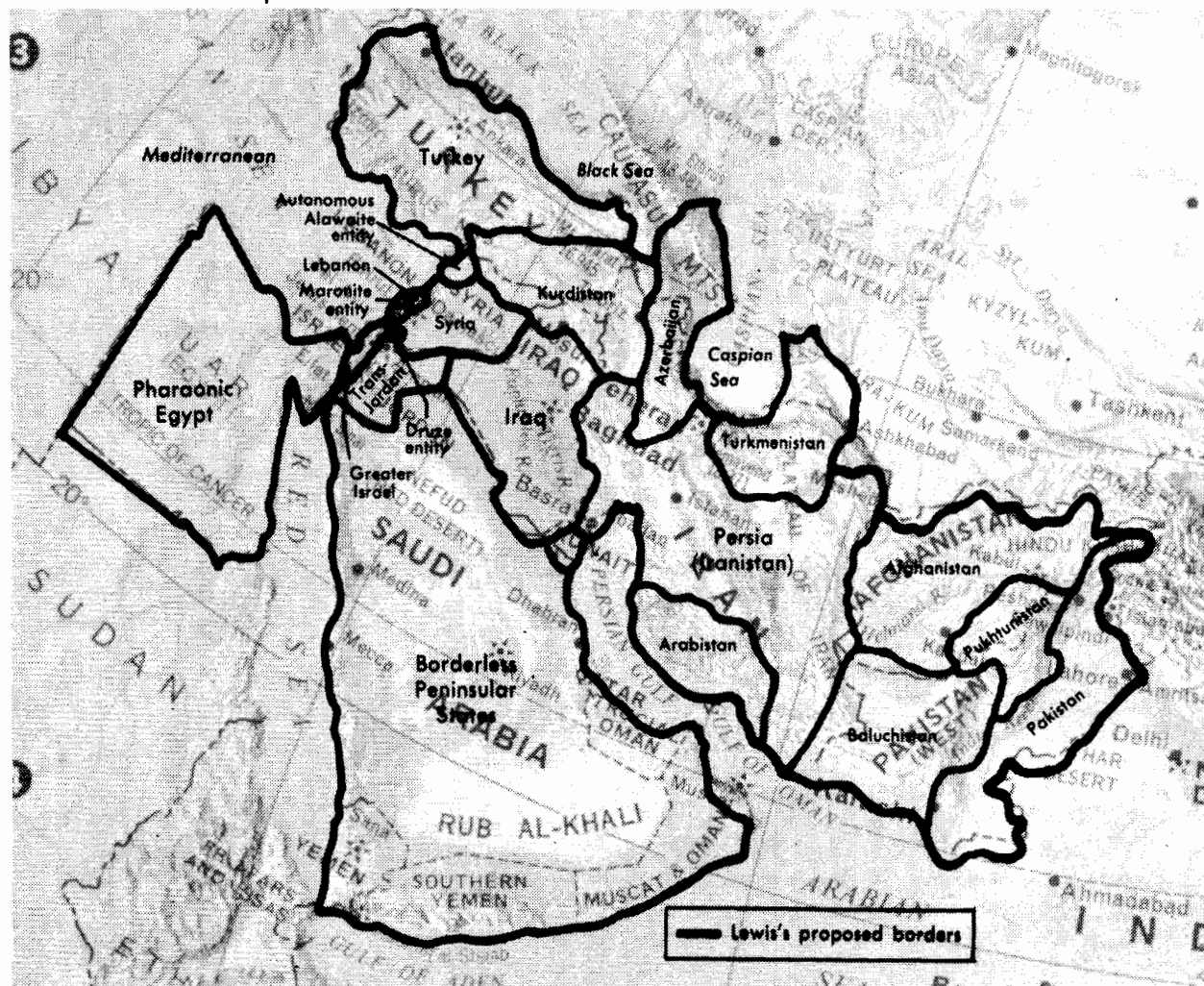
sad is firmly in control, insurgencies from Lebanon and Iraq could have an impact on Syria. Both the Kurds and the Turkish Allevis spill over into Syria, and there have been reports of increased tensions between the Shiite Allowite leadership from which Assad comes and the Sunni population. According to a source with the Defense Department, the Mossad has a carefully prepared profile on an upsurge of Allowite separatist insurgency.

Saudi Arabia. Saudi Arabia is reported by numerous sources to be threatened by a coup against the powerful Crown Prince Fahd. While the population of Saudi Arabia is small, there are a number of non-Arab tribal for-

mations under the control of Fahd's adversary, Second Crown Prince Abdullah, a top Muslim Brotherhood member. A number of sources with close ties to British intelligence have stated their preference of Abdullah over Fahd. Under conditions of increasing regional instability the likelihood of its reverberating into Saudi Arabia increases. A shift in power in Abdullah's favor would assuredly mean a major drop in Saudi Arabia's oil output and accompanying price hikes, and an end to moderate politics in the Mideast.

— Judith Wyr

Britain's "new" Middle East: the Bernard Lewis plan



The Bernard Lewis plan, named for its author, British, Princeton-based Middle East specialist Bernard Lewis, is a plan to fragment present Middle Eastern nations along tribal, ethnic and religious lines. Key to the plan is the breaking of Arab unity envisioned in the Camp David peace treaty, and the use of British and Israeli subversion to incite tribes and religious groups. Note that, in its latest revisions, the plan moots tribal and ethnic rebellions in portions of the Soviet Union as well as throughout the Arab world.

'Peace' pact equals massive militarization

The just signed Egypt-Israeli peace treaty is a vehicle for a massive military buildup in the Middle East which seems certain to provoke accelerated Arab-Israeli conflict and threatens, as Arab spokesmen are publicly warning, to produce direct U.S.-Soviet confrontation.

The bases for this assessment are both the content of the Camp David *policy package* — which poses a direct (and unnecessary, from the standpoint of U.S. interests) threat to both the Arab countries and the Soviets — and the fact that the arms-laden U.S.-Egyptian-Israeli deal behind the treaty is aggravating a series of hotspot situations which, individually or in combination, will propel the U.S. and Soviets rapidly toward war.

The most alarming aspect of the arrangement is that it provides for an American nuclear umbrella over Israel.

Any doubts about this were dispelled by a front-page banner-headline *Washington Post* article detailing the contents of the still not officially released U.S. "memorandum of understanding" with Israel. This document,

says the *Post*, guarantees "an increased American presence in the Middle East and new emergency aid for Israel" and special American "naval action to block a sea blockade and emergency military resupply efforts" to Israel should Egypt break the treaty. And it contains a U.S. pledge to organize and maintain "an acceptable multinational force" of NATO-member countries to police the Sinai area if the United Nations Security Council refuses, as is likely, to endorse the Camp David Pact by providing a UN Security force for the area.

The dangerous content of the Camp David arrangement was further elaborated in a precisely worded March 27 *New York Times* editorial entitled "Battle Plans for Peace." Citing President Carter's affirmation that America must now "wage peace," the *Times* noted that the U.S. "has become in all but name their ally in a risky enterprise.... Americans should understand ... how deeply they are now committed to the support of that process, diplomatically and economically. *The enemies of the process stand to become enemies of the Un-*

Sadat for sale

An article in the March 9 Baghdad Observer entitled "Sadat Hires Out the Egyptian Army to Highest Bidder," details Sadat's plans to reorganize the Egyptian Armed Forces into a mobile strike force in behalf of American-Zionist interests.

Ever since Sadat embarked on his long journey for peace with the Zionist enemy, the major problem facing him has been: What to do with the Egyptian army, numbering more than a quarter million soldiers?

It is well known that the first American-Zionist condition for peace was that the Egyptian ruler should disassemble his armed forces and render them incapable of an effective role, even if his regime were to collapse and be replaced by a patriotic regime willing to enter the battle of liberation against the Zionist entity....

The recent Iran events have basically contributed to heightening Sadat's vanity. He proposed to U.S. Secretary of Defense Harold Brown that he replace the Shah in playing the role of sentinel of imperialist and Zionist interests in the area....

....Thus he sent the army chief of staff, General Badawi, at the head of a military delegation on a one week visit to Zaire to "study the possibilities of military cooperation" between the two countries following the mass demonstrations in the capital Kinshahsa, which have threatened the regime of President Mobutu with internal collapse.

At the same time, Sadat sent to the Sultanate the so-called "vanguard" army group to replace the Iranian troops which were stationed there to defend the sultan's throne against the internal insurgents.

Furthermore, an Egyptian force had left for Sudan more than two months ago to reinforce the Egyptian force which had been stationed there for years, for the sole purpose of protecting the regime of President Numeiry against the internal dangers threatening it.

ited States... The opportunities now opened are as risky as war itself." (Emphasis added.)

The same day's *Times* ran a feature from its military correspondent, Drew Middleton, entitled "Treaty Opens the Door to New Power Balance," which detailed how the creation of a "new power structure in the Middle East" had been created based on "Israel and a rearm-ed Egypt" and "supported by expanded U.S. military involvement and arms deliveries."

This level of the militarization drive is to be accompanied by arms buildup campaigns directed toward North Yemen, Oman, and Somalia and toward the establishment of U.S.-NATO naval facilities at Haifa and Alexandria in the Mediterranean and in several potential sites in the Indian Ocean-Arabian Gulf area.

Crisis zones

Regional crisis spots have heated up considerably in the wake of the treaty. France's *Le Figaro* on March 27 reported a new offensive in southern Lebanon by Christian forces against Palestinian and leftist forces. The leftists in turn were put on high alert in anticipation of Israeli "retaliatory raids"; two bloody terrorist incidents inside Israel for which the Palestine Liberation Organization claimed responsibility in Beirut were to be used by Israel as a pretext for the Israeli move.

High-level Arab sources in Brussels, Belgium have indicated to this news service that the Lebanese situation is to be the excuse for Israeli strikes against both Syria and Iraq with the aim of destroying Iraq's oil supplies.

On March 27, *Baltimore Sun* Washington correspondent Charles Corddry reported that "Washington intelligence sources" were circulating reports about Libya "moving troops eastward" toward the Egyptian border to prepare for "border harassment" against Egypt. Corddry's sources claimed that a Soviet general and several Soviet officers were coordinating the operations. This could in fact be the signal for a long-feared Egyptian strike against Libya similar to the one that Sadat launched in July 1977.

The gendarmes

The crux of the Camp David treaty is the establishment of Egyptian and Israeli military power as regional "strike forces" to move into oil-producing regions at the behest of NATO.

To achieve this, the two countries will be provided with massive arrays of weaponry and military-directed financial aid.

Israel, already the most highly militarized country in the Middle East, is slated to receive \$6 billion in Camp David Pact aid above and beyond the country's yearly \$2.975 billion allotment from the U.S., \$1 billion of which goes for armaments.

The additional \$6 billion breaks down as follows:

- Speeding up the sale and delivery of arms by 1980, including 75 F-16s, more tanks and armored personnel carriers and air-to-surface and air-to-air missiles. Total: \$3 billion.
- Providing payment for the Israeli evacuation of the

Sen. Helms: Mideast accord a war plot

Senator Jesse Helms (R-NC) entered a stinging criticism of the Mideast "peace package" into the Congressional Record of March 27. Following are excerpts of Helms's statement.

...The heart of the problem is that the treaty is not a comprehensive settlement, that major questions remain outstanding, not only between Israel and Egypt, but also among Israel, Syria, and the rest of the Arab world. These outstanding questions are already eroding the stability of the agreement. The treaty may not be a step toward comprehensive agreement at all; it may be a step that makes comprehensive agreement unlikely...

...The Soviets need fear only one development; that the war could spread and include Soviet and American military forces in direct confrontation and war. But, to limit this risk, they need merely keep their own military personnel in the Middle East to

unofficial advisory status, and let the Arabs and the non-Soviet East bloc personnel do the actual fighting. And this is within their control.

Unfortunately, there is always the possibility that one side or the other may make a dreadful miscalculation with events spiraling out of control into general war. Although the possibility of this happening should not be underestimated by us, the Soviets may well believe that they can keep this risk under control.

For that reason, Israeli military planners will now be compelled to make the next war not a limited one, but the broadest conflict possible. It must be so decisive that it alters the fundamental situation in the Middle East. Anything less than that could be fatal to Israel's territorial ambitions.

Now, a successful war from the Israeli point of view must include most of the following elements:

First, the end of Arab OPEC and the Arab oil weapon.

Sinai area, with the money slated for military-related infrastructure projects and the building of new air bases. Total: \$3 billion.

Combined with Israel's drastic austerity situation, the military focus of the aid will lock Israel more than ever into a garrison-state, regional gendarmerie role.

Egypt will receive close to \$3 billion in military aid, according to Washington sources. This is to be centered around the shipment of F-5s, F-4 Phantoms, armored personnel carriers, surface-to-air missiles, jeeps, trucks and other vehicles.

The crucial factor in Egypt is to be the transformation of that country's citizen-republican army into a truncated force of two "elite" divisions comprising 5000 men each, to be used as "strike force" intervention units into the region. According to one top Zionist lobby source with extensive Pentagon connections, "Egypt does not need a big army, and there is no way anyway that the Egyptians can logistically run any big military operations. At this point, the only useful thing for us to think about is to create special divisions that can be used for roles in Africa and in the Arabian Gulf."

The transformation of Egypt's army in the direction of a mercenary force is the one potential major hole in the agreement. Will the mass base and junior officers of the army tolerate such an operation? A columnist for the English-language *Baghdad Observer* thinks not, and traces the reason back to the original ways in which Henry Kissinger hoodwinked Egyptian President Sadat into dismantling his own armed forces (see box).

Second, the eviction of many of the Arabs from the West Bank.

Third, the utter destruction of the Arab armies.

Fourth, the destruction of Arab morale.

Fifth, the active involvement of the United States in actual military operations in conjunction with Israel.

This war plan, while ambitious, is necessary for Israel. A war which would leave Saudi Arabia and other Persian Gulf oil fields unscathed would only mean that economic sanctions against the U.S. in the postwar environment would create new pressures on Israel to withdraw from the captured territories. It would also mean that plenty of money would be available to rearm the Arab armies.... There are a number of scenarios by which it might be accomplished (U.S.-Israeli military linkup) beginning with encouraging the U.S. to upgrade its military capability to intervene abroad. Joint contingency planning exercises between American and Israeli military planners for a seizure of the Saudi oil fields would also be important.

'Islamic Pact' — on the Soviet border

Simultaneous with the consolidation of the Camp David military buildup, the British-NATO geopoliticians are working for a further military reorganization across the entire Soviet southern rim. At the center of these plans is the formation of a military alliance among those nations undergoing the so-called Islamic revolution, an "Islamic Pact," which would function as a de facto replacement for the defunct Central Treaty Organization (CENTO).

Pakistan dictator Ziaul Haq has offered himself as the anchor of such an operation and has sent his ministers off to meet with the Muslim Brotherhood networks throughout the East. His foreign minister Aga Shahi has been touring Turkey on behalf of the concept which he is billing as "independent" and even "anti-West."

Despite the standing anti-West rhetoric, recent events make it amply clear that the role of such a formation would be to provide the pretext for extended U.S.-NATO military presence in the region. Zbigniew Brzezinski has indicated on many occasions what the salutary effects of the Islamic "revolution" could be for anticommunist actions, while Pakistan has already declared itself to be the base of operations for Muslim Brotherhood-run attacks against Soviet-backed Afghanistan. The Pakistan leader's public relations drive promises to be the introduction to a full scale war between the two countries.

NATO military push

The U.S.-NATO military side of this scenario has begun to be implemented in concert with the Camp David deployments. The *USS Constellation*, deployed into the Indian Ocean on the basis of the flimsiest of pretexts concerning an "immediate" Soviet threat to the Gulf area, will now remain in the area, and, according to Indian sources, will become the anchor of a new "Fifth Fleet" in the region with U.S. military bases expanded in places like Diego Garcia and Bahrein. At the same time U.S. military personnel and equipment from Iran are now being deployed to British bases on Cyprus, where it is well known that the British maintain an active nuclear capability. This combined Cyprus/Indian Ocean deployment is calculated to add to the Camp David capability of "mobile and flexible" response to regional dangers concerning oil or Soviet "provocations."

These activities are calculated to draw a response

from the Soviet Union, especially as the joint Pakistani-Iranian attacks against Afghanistan continue. Soviet and Afghan media have been carrying a continuing series of reports identifying especially U.S. and British support for the Muslim Brotherhood terrorists threatening the Taraki government. The Indian government, also working under defense assurances from the

Soviet Union, has responded further to this threat to the security of the region. According to well placed sources, the Indian government has recently filed an official protest with the government of Great Britain charging the British with supplying nuclear bombs to the government of Pakistan.

The price of peace for Israel, Egypt

The Camp David peace treaty is likely to be the straw which breaks the camel's back. In this case, it is the Egyptian and Israeli economies which stand to lose. The aid package to both is either for military hardware or defense-related expenditures — no transfer of high technology, no direct investment into consumer goods or nonmilitary capital goods production. The net effect, given the debt situation and inflation rates in both countries, is a downward plunge to bankruptcy.

Consider the statistics characterizing the Israeli economy, only slightly better than the Egyptian. The inflation rate is 48 percent. The cost of living last year increased 48 percent. The Israeli pound was devalued again last week to a rate of 20.5 to a dollar. Military spending already accounts for 29 percent of Israel's Gross National Product and the aid package will incur an additional cost of 90 billion Israeli pounds.

U.S. government aid to Israel was set by the Camp David accord at \$3 billion, of which only \$.8 billion is an outright grant. The aid is on top of the approximate \$2 billion the U.S. gives yearly to Israel.

Where is this aid slated to be spent? Not in consumer goods production. In fact, the Begin government last week cut subsidies to basic consumer foodstuffs, sending prices skyrocketing. The government's economic advisors have suggested that consumer goods prices be increased from 30 to 40 percent above inflationary in-

creases in order to cut consumption and demolish "inflationary" savings of the Israeli citizenry.

The aid package will go to cover the cost of rebuilding the fortifications and infrastructure of Israel's defenses in the Negev desert and the construction of two airbases in the Negev to replace the two that Israel constructed in the Sinai which they are now relinquishing to Egypt.

Then there are the secondary expenses of writing off the investment in the Sinai settlements and relocating Jewish residents. By giving up the Sinai, Israel is also giving up the Abu Rudeis oil field which accounted for 20 percent of Israel's oil supply.

But it is the terms of the aid package which might very well shove the economy over the edge. The \$2.2 billion in loans is payable over a 20-year period following a 10-year grace period. The rub is that beginning in 1982-1986, Israel's schedule for repayment of foreign exchange debt goes from the 1981 level of \$1,285 million to a combined interest and principal amount of \$2,810 million. This figure, which excludes internal debt and both internal and external private debt, will be supplemented with the commencement of payments on the Camp David aid package beginning in 1989.

This is simply an impossible burden with only one way out at this point: a war against Saudi Arabia, Jordan, Iraq, and Syria.

The METO strategy: turn from Geneva

What looms behind Camp David's thin veneer of political respectability is a geopolitical military fantasy known as the Middle East Treaty Organization (METO).

Uniting Israel, Egypt, and the U.S., METO is slated to extend the role of NATO throughout NATO's so-called southern tier, thereby acting as a buffer against the Soviet Union.

The author of this cold-war military pact is Zionist lobby spokesman Edgar Bronfman, the chairman of Seagrams, Inc., the U.S. end of the international drug-and dirty-money linked Seagram's liquor empire. Working with National Security Council head Zbigniew Brzezinski and Henry Kissinger, Bronfman has orchestrated the entire Camp David "peace" project with the express purpose of forcing the economic, political and military policies of London and Washington financial interests upon the Arab world.

The background

The Zionist lobby's main task in the autumn of 1977 was to stop at all costs the momentum building within certain U.S., European, and Arab circles to relaunch a Geneva conference. In October 1977, U.S. Secretary of State Cyrus Vance and Soviet Foreign Minister Andrei Gromyko issued a joint statement calling for a Geneva conference and for meeting the "legitimate rights of the Palestinians."

It was at this time that Edgar Bronfman and other Zionist lobby forces surfaced. In 1978, Bronfman and Burton Josephs, then head of the Anti-Defamation League, traveled to Washington to launch the METO operation. In conversations with the White House staff in January 1978, Bronfman and Josephs called for the creation of an anti-Soviet "Grand Alliance" in the area consisting of Israel, Egypt and the United States.

Soon after this operation was launched, Senate Foreign Relations Committee chairman Frank Church similarly called for the creation of a "Grand Alliance" of the aforementioned countries to defend U.S. interests and to thwart Soviet incursions in the area.

With the Zionist lobby mobilized in Congress, Bronfman called for a formal METO alliance for the Mideast in a July 1978 New York Times op-ed.

Aiding him in this operation were Eugene Rostow, Rita Hauser, and Arthur Goldberg. Rostow, who was a key pro-Israel State Department official during the 1967 Arab-Israeli war, and New York City lawyer Rita Hauser are currently members of the confrontationist lobbying group, the Committee on the Present Danger. In addition to being a top Zionist lobby strategist,

Goldberg helped author UN Resolution 242 while serving as U.S. ambassador to the United Nations.

Enter Egypt

While the U.S. side of the Zionist lobby was softening up the Carter Administration for Camp David, Israeli networks, in coordination with certain circles inside Egypt, Morocco, and Saudi Arabia, were laying the groundwork for the eventual Egypt-Israel-U.S. deal.

In Morocco in 1978, a series of very important meetings took place which brought together Egyptian counselor Hassan Tuhami, then Saudi Intelligence head Kamal Adham, and Israeli Foreign Minister Moshe Dayan.

A recent feature in the Paris daily *Le Monde* indicates that Tuhami was one of the chief stringpullers from the Arab side. According to reporter Eric Rouleau, Tuhami's career was temporarily brought to an abrupt end by Gamel Abdel Nasser because of his strong ties with the fundamentalist Muslim Brotherhood. Forced to withdraw from active political life, Tuhami developed a strong dislike for Nasser's progressive and pro-Soviet policies. Resurrected through Sadat's ascension to power in 1971, Tuhami has been active in divesting Egypt of any last vestiges of Nasserism.

In addition to his role in Camp David, Tuhami is also responsible for the 1978 border war between Egypt and Libya. Tuhami's presence is clearly evident today as Sadat once again threatens an invasion of Libya.

Strike forces and gendarmes

In actuality, the Egyptian move into Libya was the first action of the developing METO alliance. Not surprisingly, U.S. Zionist lobby Senator Jacob Javits was in Egypt at the time of invasion. Since that time, Javits' colleague in the Senate, Henry "Scoop" Jackson, has found inspiration in Egypt's actions for the issuance of a March 1979 proposal for Egypt and Israel to form "joint strike forces" to "protect the oilfields" in the area, irrespective of whether the oil-producing states request such "protection." Jackson's proposal was issued on the eve of the recent visit by President Carter to Egypt and Israel to firm up the tripartite Egypt-Israel-U.S. alliance, and Carter himself has commented favorably on the use of Egypt's armed divisions for "regional stability" operations.

According to the Jackson-Javits-Bronfman designs, once states like Saudi Arabia are blackmailed and destabilized to the point of accepting the tripartite arrangement, they will come humbly under the U.S.-NATO blanket and begin to put METO in place. With British client regimes like that of Oman joining in, the stage is to be set for the establishment of the METO arrangement officially.

— Mary Jane Coates

World reaction: Camp David could lead to World War III

Reactions to the Camp David pact for a separate peace between Egypt and Israel were not ambiguous. The pact was viewed as a dangerous signal that the foreign policy of the United States was geared to a strong NATO-style military presence in the Middle East. Commentary by Syria and the Soviet Union directly said that the agreement could spark World War III. Other countries directly stated their dissatisfaction.

The following selections include reactions of government leaders and influential press commentary on the significance of the pact.

Soviet Union

A joint Syria-USSR communiqué issued following last week's meetings in Damascus between Soviet Foreign Minister Andrei Gromyko and Syrian President Hafez Assad, condemned the Camp David accord for "aiming to legitimize the occupation of Arab territory by Israel and to increase tension in the Middle East." Gromyko and Assad charged "the imperialist powers with seeking to extend their military presence in the Middle East region and call upon the Arab world to find a fundamental and global solution of the Mideast problem." The communiqué stressed the necessity of Israeli withdrawal from the occupied territories and the need to meet the inalienable rights of the Palestinians, including the right to establish an independent state. Gromyko and Assad also announced their decision to oppose any attempt to weaken Soviet-Arab friendship.

In the Soviet daily *Pravda* of March 25, Pavel Demchenko wrote the following commentary:

"An acquaintance with (the treaty's) documents shows that they take the Middle East problem away from genuine peace and that they hold the danger of

new explosions, since the roots of the crisis are not pulled out and the right of the Palestinian people to create its own state is ignored....

"It is immediately striking that the Western press these days is devoting more and more attention to the military side of the question. The agreement of Israel and Egypt to conclude the treaty depended on huge supplies of American arms to these two countries.... Washington intends to give Israel and Egypt police functions in the Middle and Near East, in particular those which the Shah's regime in Iran formerly carried out.

"But this is only part of the problem, only one link in the Pentagon's strategic plans.

"American newspapers...conclude that 'an important decision' (in the Middle East) matured in Washington a long time ago. Despite the fact that the U.S. has found 'allies' in the person of the Peking leaders, the American strategists understand that on the whole, imperialism is losing one position after another.

"(In the Middle East) even such states as Saudi Arabia...have begun to slip out of the American grasp....

"In these circumstances, it was decided to reconcile Egypt and Israel no matter what the price, so as to tie them tighter to the American military machine and take other steps at the same time. The most important such step is the intensification of direct American military presence in the Indian Ocean, in particular in the oil-rich Persian Gulf. A detachment of navy ships was sent there. And the order was given to fly in arms and American instructors to North Yemen.

"Commenting on these steps, the *Christian Science Monitor* wrote that 'Carter, at last, is taking measures to save Arab oil.' And it went on to express the evil thought that the epoch in which the U.S. would 'refrain

from direct participation in conflicts' in the wake of the humiliating defeat in Vietnam, was over...."

Syria

Syrian Foreign Minister Abdel Halim Khaddam warned that the "conflict will deepen" in the Middle East and that "the rest of the Arab world has no choice but to turn to the USSR" for help. "If a new Middle East war breaks out, it will lead to World War III," said Khaddam.

In an interview with *Newsweek*, Syrian President Hafez Assad said that the treaty "gives us a pretty good picture of Washington's intention to let the region sink deeper into conflicts as a means for U.S. policy to achieve its targets.... There are also U.S. attempts to create an atmosphere of tension in the area."

Iraq

An article in the March 9 *Baghdad Observer*, written under the headline "1979: A Year of Limited Wars" had this to say:

"It is only March 1979, but with what is going on here and there it doesn't seem that it will be a healthy year. One can predict that it will be a year of limited wars, which in fact differ from that of a total war. Because from the present conflict one can say that these wars are fought for objectives less than the total destruction of the enemy and unconditional surrender.

"The development of nuclear and other weapons of mass destruction by the superpowers has forced them to keep war limited in scope and intensity...

"... Neither side in a limited war is likely to be able to win a victory in the traditional sense, since efforts by either to employ forces are balanced by counteractions from the other. Unless one side in this is willing to accept defeat, hostilities will escalate to the point of suicidal nuclear exchange

"To those who are involved or are thinking of doing so, we would like to remind them that this year is the international year of the child. So let it pass for the sake of the young ones. I shall conclude my article with this piece of poetry: 'His Name Is Today.'

We are guilty of many errors and many faults.
But our worst crimes are abandoning children.
Neglecting the fountain of life.
Many of the things we need can wait. The child cannot.

Right now is the time his bones are being formed.
His blood is being made, and his senses are being developed.

To him we cannot answer tomorrow.

His name is today."

Saudi Arabia

The official position of the Saudi Council of Ministers regarding the separate peace agreement between Egypt and Israel was announced by the Saudi Minister of Information Dr. Muhammed Abduh Yamani. Here is his statement reporting on the March 19 Council of Ministers meeting.

"... It is affirmed that the attitude of the kingdom is permanent and remains as it was — that is, to seek right, justice and peace for the entire issue, and that security and peace will not be realized except through complete withdrawal from all the occupied Arab areas, including holy Jerusalem, and granting the Palestinian people their legitimate right to self-determination."

Jordan

In a startlingly blunt statement, King Hussein of Jordan accused Washington, and in particular Zbigniew Brzezinski, of "armtwisting" the Arabs into endorsing the Egypt-Israel separate peace while giving a March 20 press conference in the capital city of Aman. Here are portions of his remarks as reported by the *Washington Post* and *New York Times* March 21:

"... Never has there been such misunderstanding between the U.S. and Jordan...

"I cannot understand why they (the U.S. delegation led by Brzezinski) came. When Washington sends people to get support for the great step forward, it is not taking into consideration the real feelings of the people. It is asking people to acquiesce or support a totally unacceptable situation....

"... Moreover the role spelled out for us in our absence was a very humiliating one; to put it mildly, to be the policeman in the occupied territories and to help in the security field. And so we asked, whose security? Against the occupied territories? For what end? What length of time? This is where we and Washington have been at opposite ends.

"We must return to the United Nations Security Council. I don't see any alternative."

The Camp David treaty: what it

It has often been stated since the publication of the Egyptian-Israeli treaty that Egyptian President Anwar Sadat has "sold out" the Palestinian Arabs. Many Arab leaders, including Syrian President Hafez Assad, have described Sadat as a "traitor" to the Arab cause. In the following section, we intend to document — quoting from the treaty text itself and from its annexes and appended letters — the exact extent of Sadat's capitulation to Israel in exchange for the promised withdrawal from the Sinai Peninsula.

The core issue in the Palestine conflict is a resolution of the partition crisis of 1947. At that time, an internationally accepted United Nations resolution called for the establishment of two states, one Jewish and one Arab, in the territory of historic Palestine. At the time, the Arab states — dominated by the British Crown — refused to accept the UN resolution. In recent years, virtually every Arab state has come to support a policy of making peace with Israel if the Israelis accept the establishment of an Arab Palestinian state on the occupied West Bank and Gaza, both Palestinian territories occupied in 1967 by Israel.

Should Israel announce its willingness to accept the creation of a Palestinian state and to withdraw its forces to the lines that prevailed before the June 1967 war, then the Arabs — especially including the Palestine Liberation Organization — would be prepared to make peace with Israel in a comprehensive settlement.

Not only does the current treaty *not* include any reference to the full withdrawal of Israel to its former borders, but Sadat has fully legitimized the permanent Israeli occupation of the West Bank and the Gaza area. In the treaty appendix, in a letter from Begin and Sadat to Carter, the following is stated:

Israel and Egypt set for themselves the goal of completing the negotiations (for West Bank and Gaza autonomy) within one year so that elections will be held as expeditiously as possible after agreement has been reached between the parties.

The self-governing authority... will be established and inaugurated within one month after it has been elected, at which time the transitional period of five years will begin. The Israeli military government and its civilian administration will be withdrawn, to be replaced by the self-governing authority, as specified in the (Camp David) "Framework." ...A withdrawal of Israeli armed forces will then take place and there will be a redeployment of the remaining Israeli forces into specified security locations.

We must now consider the following points from this most important section of the treaty documents:

(a) Nowhere does it state that the parties are bound to conclude an agreement on autonomy within one year, only that it is a "goal" to do so. Thus, if the Israelis object to the process, or if Arab Palestinians of the territories cannot be found to serve as negotiators, then the autonomy process may break down permanently. Should this happen — as it must, since the treaty does not even try to resolve the fundamental issues at stake — then Sadat has no legal recourse. During the negotiations, Sadat said that he would demand a fixed date for the autonomy process; that demand was abandoned.

(b) Nowhere does it state when elections must be held, only that they will be held "as expeditiously as possible." This vague phrase means that the period for implementing the treaty can be stretched indefinitely by the Israelis.

(c) The appendix mentions a "transitional period" of five years, but it does not mention anything about what should happen after the five years. Israel's government has stated officially that it plans to assert its sovereignty in — i.e., annex — the West Bank after the five-year period.

(d) The appendix states that "a withdrawal" will take place from the West Bank and Gaza after the autonomy, but that the "remaining Israeli forces" will be redeployed. In other words, the treaty itself conceives

really says

of a permanent Israeli army occupation of the West Bank and Gaza, with no provision at all for total Israeli withdrawal. Thus, Sadat has acquiesced in the fait accompli of the Israeli West Bank annexation.

This above has been referred to as the famous "linkage" issue. It is clear that, from the treaty text itself, there is simply no linkage at all.

Into this plan the Israelis and Egyptians have invited Jordan to join. The appendix letter states:

The Hashemite Kingdom of Jordan is invited to join the negotiations. The delegations of Egypt and Jordan may include Palestinians from the West Bank and Gaza...or other Palestinians as mutually agreed.

But the Jordanians and the Palestinians have both flatly rejected the offer to join the negotiations, since to join means to acquiesce in the permanent Israeli occupation of the lands from which Israel is supposed to withdraw.

The danger, of course, is that as Sadat becomes progressively isolated from the other Arabs, he will be compelled to strike a harder bargain with the Israelis. But the Israelis, under the treaty's provisions, are not bound to Palestinian autonomy. In that case, Sadat — or, if he is overthrown, a successor regime — will be faced with the necessity of unilaterally breaking the treaty.

In regard to the second major treaty issue, the treaty states in Article VI:

In the event of a conflict between the obligations of the parties under the present treaty and any of their other obligations, the obligations of this treaty will be binding and implemented.

This is the famous issue in which Egypt, until the last stage of the negotiations, insisted that its Arab League treaty commitments held it responsible to come to the aid of another Arab state — i.e., Syria, Lebanon, Jordan — should that Arab state be attacked by the Israelis. But

Article VI clearly relieves Egypt of that commitment. This week, in fact, Egypt formally suspended its own membership in the Arab League.

A third major complication in the treaty is that it states:

The parties will request the United Nations to provide forces and observers to supervise the implementation of this annex and employ their best efforts to prevent any violation of its terms.

But the UN has formally declined to participate in the Egyptian-Israeli treaty. Since an attached letter states that President Carter will ensure that Washington

will exert its utmost efforts to obtain the requisite action by the Security Council, and if the Security Council fails to establish and maintain the arrangements called for in the treaty, the President will be prepared to take those steps necessary to ensure the establishment of an acceptable alternative multinational force...

it is therefore clear that Washington is prepared to introduce U.S.-allied military forces into the Sinai area over Soviet and Arab objections.

Concerning the issue of timetables, there is little doubt that the Israelis can also retain their control over even the Sinai itself despite the commitment to withdraw. According to the treaty accord,

Israel will complete withdrawal of all its armed forces and civilians from the Sinai not later than three years from the date of exchange of the instruments of ratification of this treaty (in a) phased withdrawal....

But the treaty, by allowing Israel to retain control over major portions of the Sinai for years, means that Israel will not give up control over the Sinai until long after the unresolvable issue of the Palestinians has wrecked the treaty itself once and for all.

— by Robert Dreyfuss

Small boys in a big playpen

Inept GOP contenders disgrace the party of Lincoln

The revelation by Wall Street lawyer Rita Hauser, a New York State collaborator of James Schlesinger, that she is running the presidential campaign of Texan "Big John" Connally lock, stock and barrel, has thrown embarrassing new light on what was an already disgraceful field of GOP presidential contenders. In an interview (page 31), Hauser not only bragged that every word to come from Connally's mouth lately had been planted there by herself, but that the sole purpose of the surprising support that the Texan has been receiving lately from New York Council on Foreign Relations-connected circles is to sidetrack the conservative movement behind former California governor Ronald Reagan.

But Reagan himself has cut a sorry picture lately, and no front-running GOP contender has shown much awareness, let alone concern, of where U.S. national interests lie.

With the crowded field of inept Republican hopefuls splitting the party, it is hardly surprising that the New York Council on Foreign Relations and the Zionist lobby expect that their boy General Alexander Haig can easily grab the GOP nomination, and from there make the final leap into the White House. A brief look at the competition (opposite) shows that Haig has little to worry about from his GOP challengers, and helps explain why some Washington wags have nicknamed the GOP the "Grand Old Playpen":

Psywar needed for Haig to win — terror expert

General William Yarborough, a top expert on international terrorism, outlines in the following interview his colleague Alexander Haig's "psychological" strategy for winning the Republican Party's presidential nomination.

Q: Your colleague, General Haig, has been advocating a major buildup of NATO forces for some time now. Do you agree with him?

A: Very definitely. Yes. And NATO's on some shaky premises now. I'm one of those who feel that NATO is purposely being kept as a focal point by the Soviets, who have no intention, really, of ever invoking that option, because the rest of them are so much less dangerous, and they're working, slowly but surely.(...)

Q: What about an Al Haig presidency, there's a lot of talk ... of course, I don't know if he could be sold in the tradition of MacArthur and Ike...

A: Well, my friend Fritz Kraemer (Henry Kissinger's mentor — ed.), whose judgment I value very highly, thinks he's outstanding and would do a good job. I think his problems with the country would be psychological, as any military man's would, but on the plus side

is his proven ability to use staffs to do orderly planning, to work with heterogenous forces, to be a diplomat. He's got a lot of things going for him except for the fact that he's an army officer, and I don't know whether he can overcome that or not.

Q: You don't think that could be turned into an asset.

A: Well, with a proper psychological approach, done over a period of time. I don't know that there's that much time.... It would have to be a deep laid, psychological plan which is already beginning to unroll.

Q: What would you see as key to the strategy in the psychological planning, in terms of the campaign for it to be successful, to take the country?

A: I would think a layman's interpretation of the massive job that he's been doing over there with all of its facets, relating it to the domestic scene and, secondarily, to the world's posture, because so many people think of a general in terms of the cartoon guy, who only thinks of shooting and communications. There's a hell of a lot more to it, especially in a job like that.

Q: Do you think that he could win support from industry?

A: ... I have the feeling that he's been dealing all along with aspects of industry, but I don't know, there's still a pretty damn rough deal ... Eisenhower wasn't all that good....

John Connally: Clever, but an amoral scoundrel, Connally is a small-time fixer who is being fixed by the big leaguers on Wall Street. Although he began his campaign with a few promising remarks about the need for high-technology exports and expanded nuclear and oil development programs, his campaign was completely retooled after only a few days' stay at Harvard's Kennedy Center. Now, Connally is shaking his rattle at Japan and Germany for their strong economies and railing against the nasty "oil sheikhs."

Connally apparently hopes to toddle into the White House via meetings and fund raisers on Wall Street and at leading Zionist organizations, such as the April 5 fund raising meeting organized by Hauser at the American Jewish Congress.

Ronald Reagan: Controlled by a gaggle of social-democrat William F. Buckley's smart young men — John Sears, Lyn Nofziger, Mike Deaver and Peter Hannaford — Reagan seems to have regressed to somewhere in the vicinity of his "Knut Rockne" days. Reagan's refusal to address any major issue in the month since his nondescript appearance at the Republican National Committee meeting in Indiana makes him a sorry choice for the honest members of his executive committee and campaign apparatus.

George Bush: A man who has only 1 percent support in most polls, former CIA chief and China hand, Bush is strictly a bush-leaguer. Bush, who hides behind a conservative Texas image, is the scion of the old New England patrician family. In fact, he is allied to the Kennedy wing of Democratic Party politics. His father, Connecticut Senator Prescott Bush, sat on the board of Brown Brothers, Harriman, Averell Harriman's family bank, and is one of Ted Kennedy's leading allies today. Bush doesn't have to court the New York Council on Foreign Relations' aid: he sits on its board of trustees.

Howard Baker: Surrounded by unsavory campaign advisors, including Rhodes scholar Senator Richard Lugar (R-Ind.), his campaign manager, Baker is a vain and lightweight intellect hopelessly smitten by the presidential bug as a consequence of a few moments on national television in the course of being ruled out as President Gerald Ford's running mate in 1976. Baker's foreign policy advice comes from Edward Luttwak, an unstable British subject and Israeli intelligence agent whose policies are modeled on Henry Kissinger's and what he glowingly terms the "grand strategy" of the decayed Roman Empire.

Robert Dole: Better known as "Senator Who?", Dole apparently hopes that the jokes he made at Walter Mondale while serving as Gerry Ford's running mate will carry him into the White House.

— Barbara Dreyfuss

Hauser: Connally can knock out Reagan

Rita Hauser, member of the British-backed Warburg law firm of Stroock, Stroock and Lavan and a leading spokesman for the New York Council on Foreign Relations and the Zionist lobby, is making policy for John Connally in his bid for the Republican presidential nomination, the following are her candid comments on the Connally campaign.

Connally contacted me in December and asked me to endorse his campaign. I met with my friends here, the CFR and others, and we decided that the most important thing is to get Reagan, knock him out. Connally's the only man who can do that....I've been in regular contact with him ever since; he calls me at least weekly and I just met with him two days ago. He's doing very well, everything I tell him he's incorporated. Have you followed what he's said about the Soviets? He's got an updated Nixon foreign policy, which is the same as the Committee on the Present Danger... Although he doesn't like Kissinger personally, he's using all of Kissinger's ideas, funneled through me....

I've been the main person organizing his campaign, getting endorsements, I got (former Attorney General under Eisenhower) Herbert Brownell to endorse him....Three weeks ago, I organized a fundraiser on Wall Street...yes, we got some big investment house money....

His Texas and Southwest oil friends are a negative, but maybe we can use them as a way to get the Mexicans and Saudis in line...Yes, he's a wheeler-dealer, but we're surrounding him with our members, briefing him on everything, organizing seminars, he's doing very well...

And let's be realistic. Sure, we're for Israel, but now we can use Camp David to get the Saudis in line, and Connally can do that...I got the American Jewish Congress to hold a little party at their headquarters on April 5 and I think they'll go for him in a big way....

Look, I don't think we have to worry too much about Connally. He's very hard; remember what he did to bring the Europeans and Japanese in line when he was Treasury Secretary?

Personally, I think Al Haig is the man, but he's got no backing, not the charisma Connally has. I like George Bush, too, but he's got a similar problem....

Congressional Calendar

Legislation threatens industry — it's Kennedy again

Watch out for several anti-industry bills that Senator Edward Kennedy (D-Mass.) is guiding down the legislative pipeline next month. The effect of these pieces of legislation would be bankruptcy for some selected industrial concerns, and a vulnerability to savage Naderite attacks for all.

One is the Illinois Brick Bill (S.300) which would open up a company for numerous law suits "in the consumers' interest." The legislation would permit consumers to sue and collect treble damages from a corporation that has been convicted of acting in violation of antitrust laws, even if they did not buy directly from that company.

Although people dealing with the bill claim that there would be a ceiling on the total amount of damages to be divided between all consumers involved, the bill now is so vaguely worded as to allow for massive damages. An example of the impact that the bill would have is illustrated by the antitrust suit against IBM. If the company loses the 10-year-old case the Justice Department is prosecuting against them, then they will be liable to pay treble damages to potentially every individual who received services from a bank relying on IBM equipment. "The companies will howl bloody murder. So what?" one staffer pushing the bill declared.

Senator Kennedy, who recently

took the lead of a special "antitrust" commission designed to devise all manner of anti-industry bills, is aiming to have this bill marked out of the Senate Judiciary Committee on April 23. In the House, Kennedy's ally, Peter Rodino (D-N.J.), chairman of the House Judiciary Committee, is coordinating the bill's passage there.

Congressman Robert McClory has an almost identical bill that makes very specific that the overall damages a company pays is limited and cannot be increased down the chain of consumers. Markup of both bills is awaiting a final unscheduled day of hearings, in the House Judiciary Committee, which Congressman Caldwell Butler has requested in order to review his third proposal. Butler's planned legislation is to allow consumers to file suit against a corporation only in behalf of the U.S. government. Any damages awarded would then be in government hands and consumers seeking financial redress would then have to go to court and request the damages from the government. Markup in the House is expected around the end of April.

Another critical bill introduced by Kennedy is the Small Business Protection Act. (S.600). The legislation prohibits the merger of corporations with assets of over \$2 billion and severely limits mergers of smaller companies. Hearings are scheduled on the bill for March 29 and April 5 in the Senate Judiciary Committee. The bill is awaiting ac-

tion in the House Judiciary Committee.

Congress considering 'Incumbents Protection Act'

Testimony was completed this week on H.R. 1, a bill which would permit public financing of congressional races. The bill, referred to by many Capitol Hill sources as the "Incumbents Protection Act," was drafted by the Democratic Study Group and by Common Cause; it was introduced with 125 cosponsors. Despite this seemingly impressive lineup of support from primarily Democratic Congressmen, word is out that the bill has been so discredited by the last ten days of testimony that it apparently has little chance of passage.

The diminished chances of the bill, of which House Administration Committee Chairman Frank Thompson initially said, "I will do everything in my power to see this comes to the floor of Congress," are primarily due to the blatant advantages its provisions would give to every incumbent, not to mention its absolute unenforceability.

The Federal Election Commission, which last year noted that public financing of congressional elections would place a significantly greater auditing and compliance burden on that agency, and suggested that other compliance measures might be explored, reversed its position in testifying on the bill last week. FEC Chairman Joan

Aikens pointed out that the bill's requirement to release matching funds within 48 hours of a candidate's submitting documentation made it virtually impossible for any verification to be made. Aikens also insisted that the provision of the bill which would eliminate the \$150,000 expenditure ceiling for a publicly financed candidate once his opponent had spent \$75,000, was equally unenforceable. In all, most observers agree, the bill, which would publicly finance candidates, would give every candidate essentially an unlimited expenditure ceiling as soon as his opponent came anywhere near waging a creditable campaign.

It appears that the Operation Big Vote forces that created the Federal Election Commission, public financing, and clamped a stranglehold on presidential elections, will have to make a different, more subtle attempt to extend their policy to congressional elections.

Administration proposes agency to enforce austerity

On March 7 President Carter sent to Congress notification of his intent to create an International Development Cooperation Administration (IDCA) to coordinate overseas economic development programs. The aim of this presidential reorganization of previously existing agencies, the Administration says, is to ensure "that the efforts of U.S. bilateral

programs and those of the multilateral development institutions are complementary." In short, all U.S. aid is to be tailored to the specifications of the World Bank-International Monetary Fund enforced austerity and backwardness in the developing sector.

U. S. aid policy has heretofore been conducted primarily on three tracks. First PL-480 (Food for Peace) and disaster relief programs, which are represented as charity. Second, the Export-Import Bank and the Overseas Private Investment Corporation (OPIC), both of which subsidize U.S. trade and investment abroad. Third, the programs conducted under the Agency for International Development in collaboration with the State Department, the U.S. contribution to the United Nations and various subsidiaries, and the World Bank-IMF appropriations. Since 1973, and increasingly since the Carter Administration took office, this latter track has been oriented around the World Bank concept of "meeting basic human needs" — a euphemism for labor-intensive low-energy bootstrap schemes, deliberately aborting industrialization in the developing sector.

"India has plenty of cow dung — why do they need nuclear power," as one Congressman puts it.

The IDCA would institutionalize this as permanent U.S. policy. IDCA will get policy

jurisdiction over AID, the UN programs, a newly created Institute for Technological Cooperation designed to sell the Third World on "soft" technologies, OPIC, World Bank appropriations (in consultation with the Treasury Secretary). It will get budget approval from the Secretary of State, giving the State Department full political control of U.S. aid programs.

The annexation of OPIC to the "human needs" bailiwick is particularly significant, since it is that agency which has insured U.S. firms' private investment in capital intensive projects abroad.

The formal reorganization proposal will be sent to Congress in April and will become law within 60 days unless opposed by Congress. It is expected to receive legislative endorsement with little coherent opposition, as it was extensively debated last year. As the President notes, the reorganization is the brainchild of the late Senator Hubert Humphrey.

—Don Baier

If the Teamsters strike, blame

The International Brotherhood of Teamsters leadership may be forced to call a nationwide strike this weekend of more than 300,000 over-the-road drivers covered by the IBT's master freight agreement. If that happens, the blame falls squarely on the shoulders of the so-called anti-inflation czar Alfred Kahn and a few gullible leaders of the trucking industry.

Investigations by this news service have substantiated charges leveled by both the Teamster leadership and certain trucking industry officials that Kahn's "meddling" in the negotiations has produced the current impasse. According to sources knowledgeable about the inflation czar's thinking, Kahn, aside from his commitment to enforcing the Carter "7 per cent wage-price" austerity guideline, has a "real, deep-seated

hatred" of both the Teamsters union and the trucking industry, whom he privately labels as "greedy bastards."

A source close to the negotiations reports that negotiators for the trucking industry had been willing to place a wage and benefit offer on the table several weeks ago in excess of the wage-price guidelines; the offer would then have served as the basis for further negotiations. Kahn got wind of it through his own sources, and went on the offensive, browbeating trucking officials with various threats, including a full scale Administration offensive for trucking deregulation. As a result, the industry officials pulled back their offer and the negotiating process has been going nowhere fast.

Kahn is in full control of Administration policy concerning the Teamsters contract. He has the strong

'Teamsters are our No. 1 enemy'

The following are remarks made to a reporter last week on the eve of a possible Teamsters strike, by a spokesman for the Council on Wage and Price Stability.

...Sure there have been other contracts that have pierced the guidelines. But the Teamsters are talking about smashing them completely. Right now, the Teamsters are our number one enemy....

I can tell you that whatever happens, this office and Mr. Kahn are not going to give in and say that a 12, 11, 10 percent/yr wage increase would be okay.... We have a commitment here to hold the line and we

have chosen the Teamster contract as our test....

I know that given the 14 or 15 percent rate of inflation, it might sound like we're asking for the Teamsters to take a wage cut. But if they take something near 7 percent, then maybe we could drop the inflation rate down to 8 percent. You know workers in Argentina got a 4 percent per month COL, but the inflation there is 140 or 150 percent so what good is it? That's where we are headed if we don't hold the line on the Teamsters.... Our biggest job is to reduce workers' expectations. The days of the fat contract are over...."

Alfred Kahn

backing of Federal Reserve Chairman William Miller, Treasury Secretary Werner M. Blumenthal, and Energy Secretary Schlesinger. Everyone else "defers to Alfred," as one aide put it, even the White House. Labor Secretary Ray Marshall is the nominal head of a cabinet-level task force on labor-management negotiations. But his own aides concede that he has no real power, and tell reporters to check all information on contracts and their "acceptability" with Kahn and Barry Bosworth, who as head of the Council on Wage and Price Stability, is now a subordinate of Kahn's. Marshall, said one DOL official who requested anonymity, has less power than "Kahn's boy Gentry" (Jack Gentry, Kahn's labor-management person).

This is not to imply that individuals such as Marshall differ with Kahn on the intent or content of the Carter austerity program. They don't. And while aides to Marshall worry that Kahn may force a strike, they mistakenly believe that it may be possible to finesse the Teamsters into going along with the guidelines.

"Taking a long strike"

Kahn is fully willing to "take a strike" by the Teamsters, a long strike if necessary. He has convinced President Carter and others that the anti-inflation program can only be salvaged if the Teamsters are forced to hold to the guideline. Kahn and the Council on Wage and Price Stability have deliberately decided to "look the other way" at recent contract settlements between the railway clerks and Conrail, covering 20,000 workers (39 percent over 39 months) and between United Airlines and its machinists covering 15,000 (30 percent plus an unlimited cost of living escalator over three years). "We don't want to take the heat off the Teamsters," said a Council spokesman. "We need a show of force to save the guidelines."

With the inflation rate now running somewhere near 15 percent, by the government's own estimates, Kahn's

austerity guideline program is a total failure. Only the most gullible of fools could believe that a negotiated Teamster wage/benefit package in excess of the Carter guidelines is "inflationary." Kahn continues to push this line — and back it up with threats — while at the same time endorsing Carter Administration policy to jack up the price of fuel. Trucking industry officials should especially realize that "high" wage/benefit settlements have produced a stable, disciplined and productive workforce and industry. The master freight agreement, far from being inflationary as Kahn claims, has in fact helped force the industry to modernize and thereby achieve greater productivity. Kahn makes no bones about the fact that he would like to see the trucking industry broken apart by deregulation and the master freight agreement destroyed. This would do far more to produce inflation and chaos than any "high wage-benefit" Teamster settlement.

Kahn's appeal is clearly to certain elements in the trucking industry and in industry circles generally who are both cowed by the threats and enticed by the chance to squeeze some profit by reducing their wage bill — with the government's backing.

Some sections of the trucking industry have begun to see Kahn and the austerity policies that he represents as far more of a threat than the Teamster contract demands.

"I think that bastard wants a strike," said one industry source referring to Kahn. "But I can't figure out why." It should be noted here that Energy Secretary James Schlesinger's scenario planners are fast at work figuring out how a Teamster strike could be parlayed into a national crisis that would trigger rationing of fuels and wartime economic controls.

Other planners are already looking at a phase two, total economic control program.

LABOR PERISCOPE

Teamsters brace for strike, weigh options

As of March 28, the negotiations in Arlington, Va. between the International Brotherhood of Teamsters and the trucking industry on the terms of a new master freight agreement appear hopelessly deadlocked. No one close to the talks feels that an agreement before the present contract expires March 31 is possible.

The IBT executive is weighing strike strategy. They are looking at three options: a nationwide strike; a selective strike against certain companies, while holding open the threat of a national strike; and stopping the clock to allow negotiations to proceed further. Contrary to reports in the media, the IBT executive, as of mid-week, had made no firm decision and was waiting to see the trucking industry's next offer. The first offer made before the union strike votes was below the 7 percent guideline and was promptly rejected. The Teamsters have made no new offer since their demand for a three-year wage and benefit package in excess of 50 percent, well above the Carter guidelines, which was proposed two weeks ago.

Discussions are also taking place about the need for a political mobilization against the Carter austerity program.

Teamster master freight locals voted overwhelmingly to authorize their International Executive Board to call a strike. A survey of the strike vote meetings finds Teamsters low-keyed and serious — and ready to fight. They back their union leadership's unwillingness to knuckle under to the Carter wage-price

austerity guidelines and want their rights and benefits secured under the 12 years of master freight agreements protected.

Reports from the locals indicate that the Teamster members have no stomach for the antileadership provocations of the handful of members of the dissident groupings, PROD, Inc. and Teamsters for a Democratic Union (TDU). PROD-TDU literature litters the ground around Detroit's Cobo Hall, where Local 299 meets. Charges by Local 299-based TDU leader Pete Camarata, given wide circulation by the *New York Times*, that Teamsters are ready to "rebel" against the "sell-out" leadership of IBT President Frank Fitzsimmons, are proven baseless by the strike meetings.

Lawyers for the Teamsters, meanwhile, filed suit in Federal court in Washington to obtain testimony from government officials to show that a possible Teamster strike would not constitute ground for granting a Taft-Hartley back to work injunction. The suit was dismissed the next day. The suit also charged that meddling by Carter Administration officials had stymied efforts to reach a settlement (see above for how Carter Administration is responsible for forcing a strike).

* * *

A bad deal on dereg

Five key shipping groups assembled in Washington D.C. last week to

begin what the American Trucking Assn. termed its "offensive against deregulation." The shippers attacked the legislation proposed by Sen. Edward Kennedy (D-Mass) that would withdraw the antitrust exemption that allows truckers to jointly set rates. Industry spokesmen term deregulation a far greater threat than current Teamster wage demands.

But the industry and the Teamsters union may be in for a shock. Last week both seemed relieved that Kennedy and his Judiciary Committee lost a jurisdictional fight with Sen. Howard Cannon (D-Nev), who heads the Commerce Committee, on who will handle the deregulation legislation. The truckers and Teamsters both feel Cannon "will take the steam out of Kennedy's push."

But Kennedy people are privately very happy about what has transpired. They say that they counted their votes and knew they would lose a floor fight. So they dealt with Cannon's people. Kennedy's crew claims that they have "a gentleman's agreement" to put through a deregulation bill and say Cannon will give Kennedy considerable leeway. "A floor fight would have hurt our chances," said a top Kennedy aide. "Now we'll be able to put through some kind of bill with the broadest possible support."

Kennedy people also claim they have "iron clad" assurances from Alfred Kahn, Carter's inflation czar, that no matter what he promises the Teamsters and trucking industry in private, the Administration remains committed to deregulation as a "cornerstone" of the "anti-inflation" program.

Despite this bluster and the deal, Washington observers don't expect much action this year on trucking deregulation. They expect the Interstate Commerce Commission and Kennedy ally Dan O'Neill to carry the ball, for the time being.

Soviets answer NATO strategists

Encirclement, counterforce will lead to war

An interview with Soviet Army General Semyon Ivanov was released to this news service in Paris by Novosti Press Agency March 22. The General made his remarks, which we excerpt here, on the occasion of the upcoming 30th anniversary of the North Atlantic Treaty Organization (NATO).

(Many) measures have been adopted for the purpose of consolidating NATO's advantages; this was, notably, the goal of U.S. Secretary of Defense Harold Brown in his trip to the Middle East. The American General Alexander Haig, Supreme Commander of the Atlantic Forces, is making a visit to Turkey in order to consolidate NATO's southern flank. It has already been stated often in our press and the foreign press, that the strategic rapprochement of the United States and China is also an act of consolidating NATO, whose end is to create a sort of "third flank" for NATO.

Asked to comment on the staff exercise Wintex-79, Ivanov said,

The goal of the new strategic general staff exercise

should follow from the new program of armed forces development adopted at the Washington session of the NATO Council last May. It is certain that it will also take into account the new doctrines and new strategic conceptions which the U.S. and NATO have adopted. In short, the goal of the exercise is apparently to proceed with a complex test of plans for the transition of the economy of the bloc's members and of their armed forces from a state of peace to a state of war, which is to be accomplished by the civilian and military organs of NATO, as well as of plans for opening operations in the initial period of war in Europe and the Atlantic, using both conventional and tactical nuclear forces....

Novosti: How is it proposed to rehearse the use of nuclear arms during the exercise? At what stage will they be 'used'? He answered:

According to the information we possess, tactical nuclear weapons will be used on the seventh day of military operations. As for the extension of tactical nuclear arms use and the transition to their unlimited use, this is to be carried out during the NATO staff exercises in Europe next November.

'Limited nuclear war' is first strike plot

The following article, "In Search of 'A New Strategy'," authored by Soviet Major General R. Simonyan, Doctor of Military Science, is excerpted from the March 19 edition of the Soviet Communist Party's Pravda newspaper.

There has been a lot of persistent talk in Washington of late about "serious changes" effected by the present administration in the area of military, and particularly nuclear, strategy. "Officials at the Department of Defense and the National Security Council," the *New York Times* noted recently, "have pointed to certain military measures as signs that the government is on the

threshold of a 'revolution' in nuclear strategy...."

The President's concrete directives "on a comprehensive review of American military positions" were laid out in Special Directive No. 18, issued by the White House in the summer of 1977. Two years have passed from the moment that the Carter administration came to power, and although the "new strategy" has not yet received a special name, its basic aspects are clearly delineated. One of them, the conception of "limited" nuclear war, deserves some attention in detail.

Questions connected with the preparation and conduct of such a war (with the Soviet Union named as the enemy of the U.S.) have been the subject of statements by high-ranking officials in the present administration, above all the president's Special Assistant on National Security questions Z. Brzezinski and Secretary of Defense H. Brown. They are also being openly discussed in the American press. The *New York Times*, for example, published a lengthy article by R. Burt, which said

that the White House was engaged in a revision of the strategy for waging nuclear war. "The goal of these measures," noted the author, "is to give the United States the capability of waging limited nuclear war in addition to its capability for general nuclear war."

The question arises: why has the conception of "limited" nuclear war again attracted such attention?

It is well known that according to the strategy of a "credible deterrent," now in effect, the basic variant of nuclear conflict with the Soviet Union is considered to be strategic (general) nuclear war. In the course of such a war, both the armed forces and military targets, as well as economic and political administration centers, are subjected to massive strikes by strategic offensive forces.

The scenario for "limited" nuclear war, on the other hand, provides for inflicting a sudden strike by the strategic offensive forces "only against carefully chosen military targets," such as the launch shafts of strategic rockets, airplanes in the hangars, command points, major troop groupings, and other important military targets. The basic goal of such a war is to annihilate the military — and above all the nuclear — power of "the potential enemy" and put him in a position where he is unable to inflict a crushing retaliatory strike against U.S. territory, or at least to weaken the strength of that strike. But to achieve this goal, it is necessary to have the "potential" capable of hitting these "precision" targets. It is easily understandable that the arsenal of strategic offensive weapons created for strategic (general) war cannot be used for this. After all, to destroy a city it was not necessary to build high-accuracy weapons.

In other words, the "limited" nuclear war conception was required by U.S. militarist circles in order to broaden the spectrum of wars being prepared against the Soviet Union and on this basis obtain the "potential" to conduct limited nuclear war as well as their existing potential for general nuclear war....

It should be noted that the idea of developing a conception of "limited" nuclear war and incorporating it into American military strategy is not new. It has a history, understanding which helps sort out more thoroughly the current maneuvers of U.S. militarist circles who oppose concluding a SALT II agreement and favor further escalation of the arms race.

In 1962, then Secretary of Defense R. McNamara, motivating his "counterforce strategy," or "strategy of excluding cities" as it was called then, stated that, "The main goal of the United States in the event of nuclear war ought to be the destruction of the enemy's armed forces." In 1974, J. Schlesinger (when he was Secretary of Defense) came out with approximately the same thesis, and the conception of "limited" nuclear war was given a shove closer to being adopted....

In truth, a power which sets as its goal the destruc-

tion of the military targets of the "potential enemy," has to strike first, since otherwise its nuclear warheads will land on empty launch shafts and hangars.

The present leadership of the Pentagon, manipulating the thesis on defending "national security interests," is attempting to revive the ancient first strike ideas of the reactionary circles of the American military.

Alongside the theoretical calculations regarding the development of this conception, U.S. militarist circles are working intensively on creating the material and technological base, especially qualitatively new types of strategic arms, for carrying it out. These include, first off, the MX (mobile basing) intercontinental ballistic missile, with a multi-charged warhead (12-14 400 kiloton combat units with independent targetability)....

Another type of strategic weapon for a first strike is the marine based system Trident-2, which has 24 ICBMs with 8 to 10 150-300 kiloton warheads a piece. Long term plans provide for building 14 Trident submarines.... The White House has also announced a decision to arm new MK-12A type warheads, which are twice as powerful and accurate as the present MK-12 warheads. This new warhead will be placed on Minuteman-3 missiles. "Because the accuracy of the MK-12A warhead is doubled," notes the *Washington Post*, "its destructive power is increased by a factor of eight. Doubling both the power and the accuracy of the MK-12A makes its effectiveness against missile shafts grow 16 times, in comparison with the warheads now carried by the Minuteman-3."

The list of first strike strategic weapons would be incomplete, if we omitted the air-launched cruise missile created in the U.S. It will have a 200 kiloton warhead and a sensing system that allows very high target accuracy.

These are the facts, which obviously testify that the Pentagon's conception of "limited" nuclear war presents a huge danger for the cause of peace. Furthermore, its adoption as Washington's official military doctrine would open the road to the use of nuclear arms in conflict situations, and would make nuclear arms a threatening instrument of political pressure in relations among states....

The Soviet people understand better than anybody else, from their own experience, what war is and what huge sacrifices and destruction an aggressor's actions can inflict. The Soviet people cannot remain indifferent to arguments for "powerful, annihilating, preemptive" and other strikes and cannot fail to take necessary defense measures in light of these arguments. Only slanderers can find in these arguments the preparation for an attack on anyone whomsoever....

The UDF program—a plan for global economic growth

On Feb. 18, 1979, the Union for French Democracy (UDF) Congress unanimously adopted a program which it will put forth in the European Assembly to be elected this June. The program calls for the creation of a \$100 billion plus fund for European and Third World industrial development credits, as a special feature of the new European Monetary System (EMS). This program, whose principal architect is French Foreign Trade Minister Jean-François Deniau, ties together into one package the EMS, established, according to its cofounder, West German Chancellor Helmut Schmidt, as “the seed crystal” of a new international monetary system, and the intensive bilateral and multilateral diplomatic efforts that Giscard’s government has deployed over the past year especially to create the concrete foundations for a new world economic order.

It is imperative that this program, which the *Executive Intelligence Review* is pleased to publish for the first time in the United States, and related economic and financial policies be put into effect in Europe as the means for breaking the financial stranglehold exerted by the International Monetary Fund (IMF). The IMF, built on the now-bankrupt Bretton Woods monetary system, must be replaced by a new monetary system that would generate large amounts of development credits at low interest to serve as the basis for relaunching industrial economic activity in the advanced sector and for developing the economic infrastructures and increasing the living standards of the developing nations. The IMF has, on the contrary, served as an economic and financial policing agency determined to enforce debt-collection and austerity — at whatever human and economic cost — to prop up the last vestiges of the City of London and its junior Wall Street partners’ financial empire.

The urgency for Europe to move ahead with this break is underscored by news from high-level official sources in Bonn that West German Finance Minister Hans Matthöffer made a deal at last month’s IMF meeting in Washington shortly before the EMS was officially inaugurated. The “bargain” was that the EMS would refrain for at least the next three months from challenging the authority of the IMF. That this is being pushed down Western Europe’s throat is indicated by

the fact that the Turkish government of Prime Minister Bulent Ecevit has been left in a lurch with no backing for his attempt to reject an IMF dictatorship over his country’s economic affairs. Ecevit has, as a result, been forced to implement a domestic austerity package that conforms to all the major IMF recommendations, with the exception that Turkey is not devaluing its currency.

Even certain Mexican authorities, previously very pleased with the prospects opened up by French President Giscard d’Estaing’s visit there on Feb. 28, are reportedly extremely distressed over the fact that Europe is not aggressively pushing the EMS as the alternative to the IMF. Mexico’s doubts about whether France and Europe as a whole can deliver were formed when the Group of 24 developing nations proposal for a \$15 billion technology transfer fund received no European support at the IMF conference.

France and West Germany similarly blocked with the U.S., Britain and Israel at a UN Industrial Development Organization meeting in Mexico City against an Indian proposal, backed by Mexico and a broad array of Third World nations, which called for massive development of petrochemical industries in the developing sector, using capital goods exports from the industrial nations.

More than simply splitting Europe from the developing sector countries across North-South lines, these compromises will weaken Europe’s ability to resist the enforcement of a prediction in *The Economist* of London that governments would be collapsing across the continent by June of this year.

It’s up to the Europeans. Either the EMS becomes a mere regional adjunct of the IMF pushing Europe-wide austerity, policed by NATO, or its cofounders Giscard and Schmidt live up to the EMS’s promise by developing it into a real instrument for global economic development.

What kind of Europe?

The kind of Europe that Giscard and his allies have in mind to build with the EMS is the opposite of the balkanized “Europe of the Regions” for which Count Otto von Habsburg and the Pan European Union are the principal spokesmen. This Europe would be a Europe of

détente, entente, and cooperation from the Atlantic to the Urals, a Europe taking a leading role in forging a new North-South relationship based on mutual interest in economic development. It is the "Europe of the nations," the Confederated Europe, that former French President Charles de Gaulle and West German Chancellor Konrad Adenauer were forging over a decade ago with their special relationship that is paralleled today by the alliance between Giscard and West German Chancellor Schmidt. This Europe is seen not only as an economic necessity, but as a necessary war avoidance policy.

This Europe, centered around the Franco-German alliance, would be a new industrial giant, with enough clout to be politically capable of bridging East and West, North and South. Membership in the European Community will soon be extended to Spain, Portugal, and Greece. But Great Britain's membership is increasingly being called into question as a result of that nation's attempts to sabotage the European Monetary System, which has gone into effect as a country-to-country agreement, and Britain's refusal to fully implement EMS policy in such areas as Common Agricultural Policy, fishing rights, etc.

What is the UDF?

To really understand what the UDF is, one has to look back briefly to the period since the founding of the Fifth Republic by Charles de Gaulle and the political and institutional legacy he left behind. De Gaulle profoundly altered the shape of France, not only by bringing the country to the takeoff point as a major industrial power, but by using that power to place France at the forefront of the international scene as an independent power. His achievements ranged from the independence of Algeria, ushering in a policy of concerted economic cooperation with the developing sector countries; a rejection of the Cold War and ushering in the era of "détente, entente and cooperation" with the Soviet Union; and, ultimately, the withdrawal of France from the integrated military command of NATO in 1966.

De Gaulle and his policies were opposed with a vengeance by the Anglo-American elites, who, from the Council on Foreign Relations and William Buckley in New York, to the Royal Institute for International Affairs in London, directly conspired for his overthrow. They mobilized internationally and in France itself through covert support for the Secret Army Organization (OAS) and one of its more well-known leaders, Jacques Soustelle. The OAS drew upon disaffected political and military layers who united in their attempt to prevent Algeria from achieving independence by sponsoring repeated assassination tries against de Gaulle, coup d'états, and terrorism against de Gaulle's supporters.

Because the OAS also drew upon layers which had originally rallied to the Gaullist camp, de Gaulle had to

rely for support on networks and building blocks from other political parties. One of the main building blocks was the Independent Republican Party of Giscard d'Estaing. Giscard himself was brought into the Finance Ministry in 1954 and eventually became Finance Minister in 1962. Another key figure who worked with de Gaulle was Prince Jean de Broglie who was among the negotiators of the 1962 Evian accords that made Algeria independent and who, as State Secretary for Overseas Affairs, played a crucial role in de Gaulle's increasingly pro-Arab and anti-Israel Middle East policy. Throughout this period of the early 1960s, Giscard and de Broglie were working to transform the Independents into a movement that would support — albeit, critically — the government of de Gaulle and the constitutional principles of the governing institutions he set up.

The UDF is Giscard's building block today. After several weeks of debate on all levels of leadership, the Deniau program was unanimously adopted by the February UDF Congress. But, the UDF is by no means a homogeneous institution committed in its entirety to the conception of an independent confederated Europe described above. Originally formed last year as a coalition of political parties broadly supporting the policies of the French President, the UDF is deeply factionalized, a fact which is occasionally reflected in the program itself.

The UDF coalition controls 121 seats out of the 491 that compose the National Assembly, or roughly one quarter of the electorate. It is not a party, but is composed of:

The Republican Party. Originally called the Independent Republicans, the party was set up in June 1966 as the vehicle for Giscard d'Estaing's strategy to capture the presidency. A more detailed study of the PR (which commands about half the strength of the UDF) appears below.

The Center for Social Democrats. The CDS is headed by Jean Lecanuet, which — unlike the Republicans — spearheaded the opposition to de Gaulle throughout the 1960s on every issue. By the time of the dismantling of the OAS in late 1962 to early 1963, OAS members and supporters flocked in droves to join the CDS. Today, on the eve of President Giscard's summit with Leonid Brezhnev in Moscow, the CDS is calling on the President to make the continuation of favorable Franco-Soviet relations contingent on Soviet compliance with "human rights" requirements. The CDS's fingerprints are evident in the section of the UDF European program dealing with détente. Lecanuet is President of the UDF and was appointed as one of the coleaders of the UDF ticket for the June European Parliamentary elections. The CDS has only about half the number of representatives elected in the National Assembly as the Republicans do.

The Radical Party. The Radicals are led by Jean-Jacques Servan-Schreiber, whose political fortunes have been dwindling. Last year, he lost his bid for reelection to the

Regional Council of Nancy. Originally something of a fellow traveler of Giscard and widely played up in the American press as a "French JFK," Servan-Schreiber is well known for his attacks throughout the 1960s against the "UDR-State" (UDR is the former name of the Gaullist Party). He continues to advocate greater decentralization of government powers. "Minister of Reforms" in Giscard's first 1974 government, Servan-Schreiber quickly resigned in disagreement over the government's continuation of a pronuclear policy. His weekly magazine *L'Express* was recently bought up by the Rothschild-allied Jimmy Goldsmith of Britain.

The National Center for Independents and Peasants. CNIP is the political party in which Giscard first launched his political career and is led by former Finance Minister Antoine Pinay. The CNIP has dwindled to a tiny faction since the split of the Independent Republicans in 1962, as a result of the CNIP's identification with the French-Algeria cause and earlier open compromises with the World War II Vichy regime.

The Social-Democratic Movement of France. The MDSF is a small right-wing social democratic splitoff from the Socialist Party, led by Jacques Hinterman.

Giscard's Republican Party

The Independent Republicans (now the Republican Party) were originally formed as a parliamentary group in 1962 following nationwide elections that were provoked by the CNIP over the Algerian issue. The CNIP lost so many seats that they no longer had the 30 necessary to form a parliamentary group. The Republicans became a full-fledged party in June 1966 after Giscard's dismissal as Finance Minister by de Gaulle. In addition to Giscard and de Broglie, whose roles as "building blocks" have been reviewed, another key member needs to be identified: Prince Michel Poniatowski. Although not appearing in the party's original organizational chart in any official capacity, Poniatowski has played a crucial role as Giscard's personal advisor.

De Broglie vs. Poniatowski

Jean de Broglie and Michel Poniatowski have exemplified the two opposite poles of thought on domestic and international issues around Giscard, until de Broglie's assassination in December 1976. Domestically, Poniatowski has consistently attempted to use the Republicans in alliance with other parties, such as Lecanuet's CDS, as the spearhead for first destroying de Gaulle's leadership, and then moving in to wipe out the Gaullist party as a major force in politics through the creation of a "centrist confederation." During the mid 1960s, when de Gaulle first launched a policy of détente with the Soviet Union, Poniatowski went on record opposing "the excessive rapprochement with the USSR" as a policy "which presently has no meaning and is even dangerous." Known as an ardent opponent of the independence of Algeria, Poniatowski maintained, in all

likelihood, more than just contacts and "connections" with the terrorists in the OAS. He is most likely the source of leaks to the OAS concerning Council of Ministers deliberations during 1961 and 1962, as the agent "12A" identified in OAS correspondence and documents. Poniatowski was also a ring leader of the Zionist lobby's campaign against de Gaulle's Middle East policies.

Jean de Broglie not only opposed Poniatowski in the internal factional struggles, but, as we saw above, took an active part in carrying out the Algerian policy that "Ponia" was determined to obstruct. Further, de Broglie believed in "the necessity of putting science and technology at the service of development in the Third World." A supporter of European cooperation "from the Atlantic to the Urals," de Broglie called for "political, not strategic solutions" to the problem of East-West relations. As late as 1972, in response to Poniatowski's call for a "centrist regroupment" against the Gaullists, de Broglie reaffirmed his loyalty to "the presidential majority" backing President Pompidou.

It was in 1966, when Giscard was replaced as Finance Minister by Michel Debre, that Giscard decided to play the opposition game engineered by Poniatowski, against the counsel of other advisors such as Jean-François Deniau who urged him to continue building a positive relationship with the Gaullists. Having opted for Poniatowski's strategy for making it to the top as president, Giscard spent the next 10 years carefully shaping his image as "anti-de Gaulle."

Giscard won the presidential elections in 1974, narrowly defeating Socialist Party contender François Mitterrand by less than half a million votes. He had the support of a large faction of the Gaullist group led by Jacques Chirac, the current President of the Gaullist RPR party.

The election of Jimmy Carter to the White House in November, 1976 profoundly shocked Europe — and Giscard in particular. This and the December 1976 brutal street murder of Jean de Broglie, whom Giscard had known well since adolescence, combined as a crucial turning point for Giscard. In March 1976, a dramatic cabinet shakeup took place in which Interior Minister Poniatowski and Justice Minister Jean Lecanuet of the CDS were fired from their posts. At best, Poniatowski was guilty of extreme neglect in the de Broglie affair and those responsible for the investigations have repeatedly attempted, without success, to get him to testify on his personal and official role.

It was following this "March massacre" that Giscard's foreign policy began to reflect the unique heritage given France by Charles de Gaulle. This foreign policy orientation has been increasingly consolidated in the past two years, such that now President Giscard has become a strategic leader in the battle to ensure the prosperous posterity for humanity.

— Dana Sloan

The UDF program for Europe

How the EMS can break with the IMF strategy

Introduction

On June 10, 1979 French men and women will elect by universal suffrage their 81 representatives to the European Parliamentary Assembly, as foreseen in the Treaty of Rome and approved by the French Parliament....

Our country, a small extremity of a vast continent, inhabited by 53 million people in a universe which counts more than 4 billion, will not be able to take up alone the challenges of the modern world dominated by continental states. Today, the United States and the Soviet Union. Tomorrow, China, Brazil, and so many other countries which have precisely what we lack: numbers, (geographical —ed.) space, natural resources. The European Community, however, has the foundations for power, numbers and space; if it is broadened to include Greece, Spain, and Portugal, it will include more than 300 million people over more than 2 million square kilometers. France, like its partners, needs this power, these numbers, and this space to ensure itself a real economic and political independence.

Europe has already brought much to France and to the French. It is not useless to recall this. But we must also stress its shortcomings and be resolved to go beyond the purely commercial stage of the "Common Market"; this program will thus enounce our proposals such that, within a stronger and better organized Europe, France can "win," as the President of the Republic has called for. What is at stake is our prosperity, but also our way of living, our democracy, our civilization.

I. Europe has already brought much to France

Europe is peace. The recent history of Europe is loud with the clash of arms and fratricidal conflicts. The Franco-German antagonism, notably, has plowed and bloodied the soil of our continent. Twice since the beginning of the century, it has degenerated into worldwide conflagrations. Half of our compatriots were not yet born in 1945, but they cannot ignore that less than 40 years ago Adolf Hitler was parading in Paris.

Today, the hypothesis of a military confrontation between the countries of western Europe seems absurd. But this is precisely because we have been committed over 25 years to the construction of Europe. *The material solidarity, economic interpenetration and political convergence between the European nations which created the European Coal and Steel Community and the Common Market, have contributed to rendering an intra-European war physically impossible.* This is the first concrete, fundamental contribution of Europe: the best insurance for peace on our continent, and in the world....

The real "market of the century"... *France now carries out half of its foreign trade in Europe, against less than a quarter in 1958.*

An organized market of great size makes real prices go down and increases buying power. It pulls down production costs and retail prices, while the elimination of customs tariffs brings down the final price ... each time the production of a product doubles in volume, its cost drops by 20 percent...

Because it deprived itself of the EEC market and its necessary competitiveness until 1973, Great Britain went through a period of economic degeneration. Between 1958 and 1973, its growth was twice less strong than that of France. British leaders finally became conscious of this, and then decided to negotiate their membership in the EEC.

Europe has contributed to a considerable improvement in the standard of living of the French... The buying power of wage earners in industry and commerce alone has doubled between 1958 and 1977. (The report then details the great increases in auto, truck, television, household goods and telephone use in France over the same period — ed.)

Europe has made France the third agricultural exporting power of the world . . . *The common agricultural policy has stimulated and supported the exceptional investment and modernization efforts accomplished by the French farmers.* The number of tractors has more than doubled between 1958 and 1977, from 623,000 to 1.4 million, that of threshers has been multiplied five-fold: 209,000 in 1977 against 42,000 in 1958.

Between 1967 and 1971, agricultural productivity increased 7.7 percent a year, that is to say, much faster than in the industrial sector.

One French farmer fed seven people in 1955; he fed 25 in 1978.

At least one third of our farmers' revenues is directly linked to the Common Market....

Europe is solidarity. It cannot be repeated often enough: the French have benefited from European solidarity, through the channel of multiple institutions....

— Unemployed and workers forced to reconvert: the European Social Fund has contributed to the professional readaptation of workers leaving the agricultural or textile sectors, to the professional skills of migrant workers... The European Coal and Steel Community has collaborated with programs for the adaptation of workers in steel and iron mining in Lorraine. It recently consented to Peugeot-Citroen its most important reconversion loan (450 million francs) for the creation of a motor production factory near Hagondange, creating more than 4,000 new jobs in northern Lorraine for the 1979-1985 period.

— Troubled French businesses and economic activities have been aided....

— The European Investment Bank has aided the least favored French regions....

A shock absorber of the crisis. During the 1930s, the European nations, which were not linked to each other by any economic organization, thought that they could

better resist the "great crisis," each on their own, by erecting high tariff barriers. They suffered all the more. *Since 1973, the European Economic Community has spared us from the most disastrous consequences of the crisis which has affected all the industrialized countries...* preventing us and our neighbors from giving in to the illusory and dangerous temptations of protectionism and autarky.

II. Do better: what we want and what we don't want

1) Much still remains to be done

Europe has still not given a joint response to the crisis. Since the The Hague conference in 1969, where President Pompidou had launched the idea of a European currency, until the spring of 1978, European economic and monetary union has not progressed much. It would have helped France confront the profound and durable transformation which has affected the world economy over the last six years, and which is not over....

Until the European Council in Copenhagen of April 1978 when, on the request of the President of the French Republic, the construction of a European Monetary System was decided, no Community economic policy of scope had been undertaken which could support economic activity and reduce price increases and unemployment.

Too many indispensable joint policies have remained in

The governing bodies of the EC

The European Parliament

On June 10, 1979, the members of the European Parliament, which meets in Strasbourg, will be elected for the first time by direct suffrage. Before, the 198 representatives to the Parliament were chosen from the members of the national parliaments and assemblies. The new Parliament will have 410 members, elected for five years. Some of the new Parliament's members may also be full members of their respective national parliaments. From France, 81 members will be elected.

The functions of the new representatives will include adopting or rejecting the European Community's budget, advising the Community's decision-making Council of Ministers on proposals for Community-wide laws, discussion and criticism — when appropriate — of European Commission and Council decision, and, in extreme situations, compelling the Commission to resign.

European Council of Ministers

The Council of Ministers is the principal decision-making body of the Community. While the Foreign Ministers of each country are its "main" members, other ministers — agriculture, finance, and so forth — may represent their countries under appropriate circumstances. The presidency of the Council is held in turn for six months by each member state. At the present time, the presidency is held by France. The Council is, in effect, the one body that truly represents the national interests of the member states.

The European Commission

The European Commission is a collegiate body of 13 members, responsible for proposing Europe-wide policies and implementing decisions. The Commission is required by treaty to act independently of the national governments and the Council of Ministers. Decisions require only a simple majority. The current President of the Commission is Roy Jenkins of Great Britain.

embryo. There is still no European currency. Europe does not defend itself enough against the excesses of world competition. The quadrupling of oil prices in 1973 should have aroused the Europeans to relaunch their joint energy policy, which lay dormant since the failure of Euratom; the energy crisis instead became an occasion for them to lay out their divisions. European cooperation has often lacked in high-technology industrial sectors which require a broad framework. Scientific and technological research more often than not remains a strictly national affair...

Europe is still too inegalitarian.... Europe has not sufficiently corrected social and regional inequalities...

Europe has not imposed itself enough on the international scene. The voice of a Europe without a common diplomacy does not carry in a world in which great affairs are so often decided outside of Europe. Cooperation between the Nine in foreign policy matters has made progress, but remains insufficient. *It is not good for the destiny of the planet to be played solely between the two superpowers.*

Everything we can do to organize Europe and increase its influence is in our interest, as it is in the interests of a better world balance.

Yes, we need Europe, just like Europe needs France. We have a role, a place to hold which is essential. Let's not play like losers!

2) Which Europe?

We reject an isolationist France. One Frenchman out of four lives from exports. To finance its raw materials and energy purchases, France must export... France needs the European dimension, if only to realize projects whose requirements in research, investment and financing go beyond our own capacities.

In the world in which we live, *our country cannot envisage a return to isolation, which would mean a terrible economic and social regression, price increases and the aggravation of unemployment.*...

We reject a bureaucratic superstate. Europe will not be a bureaucratic superstate in which national identities would be dissolved... Most of our partners now share our vision, of a *European organization which would not substitute itself to the states, but which must respect their unity and their diversity. Our conception is that of a Confederal Europe in which the European Council sets the orientations of the Community, with respect for the sovereignty of the States, and in which the Assembly gives the people of the Community the possibility of participating more actively in the construction of European unity.*

The election of the European Assembly by direct suffrage on June 10 is a change in its mode of designation, but not in its powers....

In the framework of a clearly established confederal conception, it will be possible and necessary to reinforce the efficiency of certain Community mechanisms, notably

on the level of management, a level which must be distinguished more clearly from the setting of great objectives and from decisions of principle.

It is also important for us that the institutions of the Community not secrete a plethoric bureaucracy, composed of experts with great technical skills undoubtedly, but who escape from the control of those who are subjected to their decisions...

We reject the domination of multinationals and uncontrolled liberalism. The internationalization of exchanges and economies has naturally led to the development of multinational firms. We do not malign their contribution to prosperity; they have, over the course of the last 30 years powerfully contributed to our economic growth, investments, to our exports, to the creation of jobs...

But they hold considerable and excessive — to the extent that it is not counterbalanced, controlled — economic power...

We thus propose that multinational firms be subject to a "European charter" in conformity with the principles defined by the International Labor Bureau and the Organization of Economic Cooperation and Development, which include certain constraints, such as the need to communicate for judgment plans for collective layoffs, the scrupulous respect of the rules of competition under reinforced European control, and the obligation to contribute to each country the share of taxes on profits realized in that country. It is a European code of behavior which must be established. One of its dispositions would be to prevent the multinationals from carrying out layoffs if they do not make the commitment to reemploy as many workers as they lay off in the same country...

(A polemic follows against the European proposals of the French Communist and Socialist parties—ed.)

The Common Market remains indispensable, as the best adapted foundation for economic prosperity which must be restored. Because there is no social progress — nor cultural progress — in misery and recession. Because our most essential liberties will become mere formalities if they are not based on conditions and standards of living which permit their real exertion....

III. For a new European civilization

Europe is not the miracle solution, but there is no solution without Europe....

1) Getting out of the crisis

Fighting together against unemployment. With 6 million people looking for jobs, unemployment is disfiguring Europe ... *We reject the inevitability of unemployment, and everything must be done to guarantee full employment. Europe must contribute to this with a more offensive policy.*

French aid to developing sector 1974-1976

	1974		1975		1976	
	Amount	Evolution	Amount	Evolution	Amount	Evolution
Government aid	7,774.8	+ 16.9%	8,972.0	+15.4%	10,255.1	+ 14.3%
Other aid from public sector	916.3	+164.8%	1,430.3	+56.1%	1,231.8	- 13.9%
Private sector aid	7,497.6	+ 35.9%	6,503.4	-13.3%	13,921.1	+114 %
Total	16,188.7	+ 29.4%	16,905.7	+ 4.4%	25,408.0	+ 50.3%

Total French aid to the developing sector (shown above in millions of Francs) has increased by over 50% between 1974 and 1976, the first three years of Giscard d'Estaing's Presidency. While the private sector is responsible for the greatest increase in 1976, French government aid has been steadily increasing by around 15% yearly.

Source: Les Notes Bleues, Service de l'Information du Ministère de l'Economie

Employment comes first from the vigor of our economy and our capacity to export. It depends largely on a Community-wide organization of growth. One point of growth in West Germany means a half-point increase in our exports. The implementation of the European policies defined in this program to create a zone of monetary stability, reduce our energy dependence, intensify our scientific and technological research, affirm our industrial competitiveness, reinvigorate the small and medium-sized firms, renovate the least favored regions, give value to the resources of the Overseas Departments and Territories or equip the Third World, will improve the employment situation.

To finance these policies we propose that the nine member countries of the Community launch a plan for the development of employment by investing together, over five years, sums which could amount to 500 billion francs (approx. \$100 billion—ed.).

Half of this amount would come from national efforts coordinated on the European level, the other half from Community borrowing, the Community itself borrowing these sums on the basis of the credit that the considerable monetary reserves of its members provide it. These loans, denominated in ECU, would be retroceded to the member countries and serve to finance a vast program of industrial, regional, community or infrastructural investments of European dimension (for example the tunnel under the Channel, completion of the modernization of the waterway between the Mediterranean and the North Sea) which represent a particular interest from the standpoint of employment. This action would complement the corrective policies being carried out by the French and European authorities and would effect a common effort of limited duration. These loans could also finance a European Fund for Industrial Reconversion which would aid national efforts for the creation of jobs in the old in-

dustrialized regions which have been struck the hardest by unemployment, such as Lorraine or Pas-de-Calais and the North.

We propose in addition that these measures benefit those categories of workers who have been most affected by unemployment, notably youth....

A European zone of monetary stability. During the 1960s, the creation of a European monetary union was neither urgent nor a necessity....

The disorganized currency fluctuations beginning in 1971-1972 have particularly harmed the European countries. Among the three great regions of the Northern hemisphere... Europe is the only one to have felt an internal instability of exchange rates. The foreign trade of the member countries of the Community, more than half of which is within the Community, has been affected by these fluctuations and uncertainties.

These monetary fluctuations have profoundly altered the functioning of the common agricultural market, notably through the mechanism of the monetary compensatory amounts. If they were to continue, they would compromise the functioning of the industrial common market. They create monetary insecurity which is not favorable to business investment nor foreign trade....

In addition, the currencies of the Community react to the dollar's fluctuations in a dispersed fashion; they become the successive targets of "speculators" who can provoke the devaluation of one currency or the revaluation of another.

It is necessary to organize in Europe a zone of monetary stability and security within the great commercial, economic and financial space that the Community constitutes; we must organize and implement a concerted central bank policy toward the dollar.

The stability of exchange rates will be the principle of the European Monetary System....

A European Monetary Fund will be responsible for regulating exchange rates and supplying conditional credits to those countries having balance of payments difficulties.

The ECU will be the reference unit of the system and will be used for settlements between the monetary authorities of the EEC, for launching large Community loans and for the composition of certain contracts. It has the vocation of becoming a European currency.

For all European countries, for France, monetary stability is essential. It will help reduce inflation; it is one of the conditions for economic and social development....

Defend France against the excesses of world competition.

The necessary adaptation of our industry to the new conditions of international competition cannot be abandoned to the play of unfettered liberalism. The combined effect of savage price wars, of competition from the Third World, the East bloc countries, Japan and the United States threatens to lead, in certain sectors, to economic catastrophes with intolerable social and regional consequences....

2) A European dimension to fortify the French economy

A Community energy policy. The crisis has not only hit the French economy with full force, but all the European economies, which are particularly vulnerable because of their lack of energy resources and their foreign dependence. The EEC members have reacted in a dispersed manner, implementing specific national energy policies. Not a well adapted reaction, since the energy problem, by its very scope, goes beyond the national scale; it is a problem of European dimensions, which calls for a global solution on the European scale.

What has been called the energy crisis of 1974 was only in fact a crisis of adjusting to a brutal price increase. *The threat of a real energy crisis is before us.* It would be a crisis of shortage, which experts foresee around 1990, and which would have catastrophic consequences.

Beyond national differences, *a community of interests in front of the energy challenge exists between European economies....* Europe has a high rate of dependence on the outside world which neighbors 60 percent, and 96 percent for its principal source of energy, oil....

Greater consciousness of this community of interests between European partners must lead to increased solidarity on their part:

Solidarity toward the member countries affected by supply difficulties.... the progressive implementation of an energy common market....

Solidarity vis-à-vis the rest of the world: The EEC should, more than in the past, reach joint positions in relation to its oil suppliers, essentially the OPEC countries....

The setting of great energy objectives on the Euro-

pean scale for 1985 in Bremen on July 7, 1978 constitutes a first step in the direction of giving energy policy a European dimension: reducing its rate of energy dependence to less than 50 percent, decreasing the share of oil in its global energy consumption, limiting net oil imports, a vigorous policy of energy savings.

It was also decided that Europe would pursue the extension of its nuclear production capacity while continuing work relative to questions of ecology, security and protection, and that it would aim at a highest possible level of production of other fuels.

However, many of these objectives have had to be revised downward because of the less favorable perspectives for the development of domestic energy resources and more particularly because of the slowdown in the execution of the nuclear program. A policy of informing the citizenship on the scale of Europe is more than ever necessary, as well as an immense effort in innovation and investment. The indispensable decisions whose fruit will be born in 10 years must be made now.

The European countries must particularly reinforce their cooperation in those great projects whose cost goes beyond national capacities: this is notably the case with operations on the nuclear fuel cycle, research in nuclear or nonnuclear (solar, geothermal) substitution energies; it is also the case for studies in new networks, nuclear fusion or setting up supply lines in the area of gas.

The \$100 billion program whose launching we propose would serve to finance these projects, among others.

Promote a Europe of innovation. Scientific and technological research is more and more costly. Despite great progress, France and Europe furnish an insufficient effort ... The French must become more conscious of the fact that scientific and technological invention, by increasing our independence and our competitiveness, will enhance our resistance to the crisis.

The European dimension can enable the creation of research centers equivalent to those of the United States to work in sectors not easily accessible on the national scale, such as energy, computers, telematics, ocean and space research, etc.

Intensify European industrial cooperation.... If European industrial cooperation once appeared to be a luxury, it is now a necessity....

One field above all others which requires a reinforcement of European solidarity is that of industries of the future.... The constitution of really European industrial entities, the determination and negotiation of specializations in such and such a sector with our partners, the use of coordinated policies in public bidding to favor European groups: these are new policies which are needed in sectors such as computer, electronics, aerospace construction, space technologies, the production of electricity and nuclear fuels, modern technology for ocean exploitation, etc., and, in a general way, each time

the mass and risks of investment is outside the grasp of one nation alone.

The success of the Airbus is there to attest the merits and necessity of cooperation in the aerospace industry....

Consolidate and complete the common agricultural policy....

Allow small and medium-sized firms to benefit from the European dimension.... Let us constitute, in the image of the European Investment Bank, a European Bank for the small and medium-sized industries, aimed at financing regroupment operations for export, etc. . . .

3) Reinforce solidarity in Europe

Reduce regional inequalities....The credits of the European Fund for Regional Development should especially go to less developed regions, roughly speaking to those to the West of a line going from Cherbourg to Montpellier, either to arrest the depopulation of certain rural zones in difficulty, like the Massif Central, or to affirm the maritime vocation of France within the EEC by financing the modernization of the ports on its Atlantic side and the progression of their industrial activities, or to support zones recently industrialized....

Enlarging the EEC: a chance for France as a whole. We are favorable to the enlargement of the EEC to Greece, Spain, and Portugal, but only under conditions of *precautions, transitions, and safeguards*.

It is normal and desirable for Spain, Portugal, and Greece to become full-fledged members of the Community. Because these three countries are authentically European in their history, their culture, and their civilizations. Because anchoring them in a liberal democratic Europe will remove the threat of a return to the dictatorships they have just rid themselves of. Because Spain and Portugal constitute "cultural channels" through which Europe can better communicate with the Latin American continent. . . .

France is the necessary land passage between the Iberian peninsula and the rest of Europe. France can cease being the "terminal" of Europe and *become the center of the enlarged Community*....

The opening of this market of an additional 55 million consumers will stimulate our industrial activity....

But this enlargement cannot be made to the detriment of our Mediterranean farmers....

Associate the Overseas Departments and Territories to the economic development of Europe.... We must promote new activities, such as the exploitation of ocean resources....Their position around the globe endows them with remarkable possibilities for participation in international maritime commerce. It is appropriate to upgrade these possibilities by modernizing and enlarging their ports....

Europe at the service of social progress, improvement in working conditions, and new relations in business. (The

program calls for: facilitating part-time work, retirement at 60, "progressive lowering of the work week to 35 hours, with partial compensation of wages," promotion of worker participation in management, and improvement in working conditions on a harmonized European basis—ed.)

4) Better living in France thanks to Europe

The family. The power, independence, and prosperity of France require an increase in its population.... All of Europe is afflicted with this demographic decline.... There is a danger here of collective suicide for Europe... Concerted measures to encourage higher birth rates are required....

Education. Education and culture are the "oil" of Europe.... (The program calls for greater accessibility to education between European countries—ed.)

Culture....

Youth and sports....

Consumer protection....

Protection of the environment. The necessary installation of nuclear plants must be carried out on a coordinated basis, if only to the extent of site location....

Health.... Creation of a European Cancer Institute....

Antiviolence. (Calls for greater integration of antiterrorism, antidrug and anticrime measures—ed.)

5) And if Europe could finally speak out...

Institute relations as an equal partner with the United States. *We all need to develop our relations with the United States, but no isolated European state, not even France, is really in a position to deal with them on an equal footing. This should be an additional motive for Europe to affirm its union....*

From the economic standpoint, Europe has the right to rival the United States without fearing that the latter see some sort of scandal in this. Eventual efforts by the Europeans to constitute powerful industries in aerospace, computer, or nuclear must not be opposed by the fear of American retaliations.

What is true on the industrial level is also true on the monetary level. The union of Europeans in a zone of monetary stability and monetary solidarity must be our response to the disorder of the present world system, to the excessive fluctuations of the dollar and to speculation.

Europe as a simple annex of the United States is not Europe. But Europe will not be made through hostility to the United States. It will be made through a sense of difference, of our identity and our own responsibilities.

Europe for detente. Western Europe must pursue its policy of detente with the East which was consecrated by the Helsinki conference of 1975. *A Europe of the cold war is not Europe either.* We must thus seize all occasions to develop cooperation with our neighbors on the other side of the Iron Curtain. Warsaw, Prague, Budapest,... as well as Stockholm or Vienna are also

part of Europe. Let us not forget it and work to tighten between us the economic and cultural links permitted by different regimes. But this concern for detente and the will for cooperation must never allow us to forget the essential: commerce of merchandise comes after respect for the rights of men.

Contribute to disarmament. The world is in a state of overarmament.... In front of this situation which constitutes a formidable threat to the human race as a whole, Europe, France cannot remain silent....

The President of the Republic has rightfully put an end to the quasi-monopoly of the superpowers in disarmament matters by formulating concrete and realistic proposals at the Tenth Session of the UN General Assembly. We hope that our European partners will support him in his enterprise so that all the countries interested in the future of security in Europe, and who participated on this basis in the Helsinki conference, will meet in a *Conference on Disarmament in Europe*. The aim of this conference, in the first stage, would be to reinforce confidence between all European countries through appropriate information and notification measures, and, in a second stage, to carry out an effective reduction of armaments on the totality of our continent from the Atlantic to the Urals....

Set up exemplary relations with the Third World: for a European "Marshall Plan". As the President of the Republic has stated, Europe must increase its cooperation with the developing countries. *It is a moral imperative and a political necessity. It is to the extent that our interests are clearly understood. Europe and the Third World, especially Africa and the Middle East, need one another.* Our continent is not well endowed with energy and basic raw materials which are 75 percent imported. The Middle East and Africa have this wealth. The European economies already export 38 percent of their production to the Third World; it is estimated that there would be an additional 3 million unemployed in the EEC if the Third World countries had hoarded the additional revenues born from the increase in oil prices.

The Lome Convention signed in 1975 between the EEC and 46 nations of Africa, the Caribbean and the Pacific (they now number 54) took note of this complementariness by ensuring a guaranty of export receipts for certain of the raw materials these countries produce, free access to the Common Market for most of their

products, European financial and technological aid. The new convention scheduled for 1980 (to be signed around July 1979—ed.) should open the possibility of a Community guaranty of European investments in the Third World against political risks. France could follow West Germany's example by cancelling its loans to the 30 least developed countries.

The most important for Europe are the Middle East and Africa, geographically contiguous and whose economies are largely complementary. If the present evolution continues, these three human masses will include a billion inhabitants by the year 2000; the 700 million inhabitants of the South will have revenues 30 times less than those enjoyed by the 300 million Europeans in the North; they will naturally be inclined — as they are today — to massively emigrate toward Europe to find subordinate industrial jobs. In 1978, 30 percent of Europe's industrial capacity was unused, which represents about \$180 billion a year. For Europe, in relation to the Third World, it is the same situation that the United States found itself in relation to Europe after the Second World War, when they had an overcapacity of production and Europe lacked the necessities.

Hence, *our idea for a European "Marshall Plan."* Europe would put funds, taken from our \$100 billion plan, at the disposal of the developing countries, and notably Africa, for a period of 10 years, funds which the beneficiaries would use toward purchases of capital goods, infrastructure and industrial equipment in Europe. This increase of foreign demand would relaunch economic activity in Europe and contribute to the reduction of unemployment. The Americans and the Russians could participate in this "Euro-African development plan" which is vital for dozens of African and Middle Eastern states sometimes on the road to ...underdevelopment.

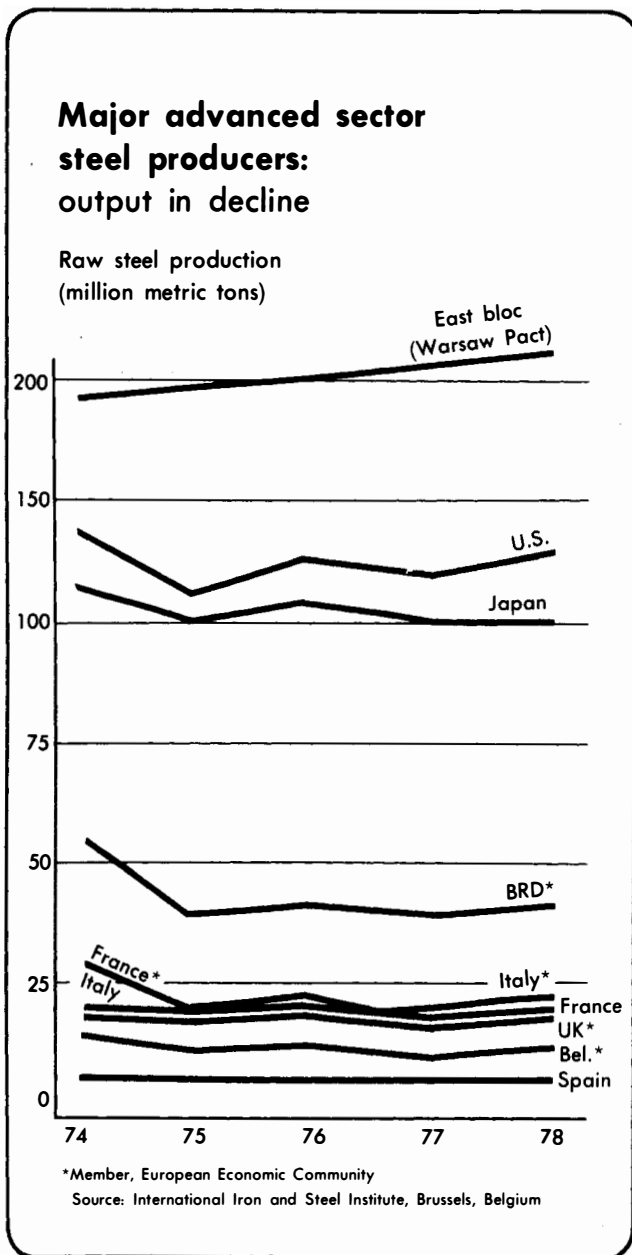
6) A Europe of liberties....

7) Conclusion

... We are confident that French men and women will rally to positive, reasonable proposals and that they will once again make the right choice: That of a strong, prosperous, and respected France in an organized and independent Europe, in a Europe which is at the same time a guaranty against war, a response to our economic and social needs, an insurance for democracy and liberty.

World steel industry in crisis

Part I: Cartelizers implement 'rationalization' of world steel



Part I: Cartelizers implement "rationalization" of world steel

Using the code word "Rationalization," efforts are underway to strip down the steel industries of the advanced sector. The "rationalization" of the steel industries of the United States, Europe, and Japan — which is already at an advanced stage — has absolutely nothing to do with improving the efficiency of those industries. Its aim is to effect a sweeping reduction of capacity and employment in this crucial sector of the world economy on the pretext that overall global economic growth and demand for steel have entered a permanent trough.

This assumption of a shrinking world market is being challenged head on by the architects of the newly formed European Monetary System. The aim of the EMS is to foster global economic growth through instituting stable currency relationships and credit policies for development; its first fruits are the package of trade and development deals that were inked at the mid-March meetings of President Giscard d'Estaing of France and President Lopez Portillo of Mexico. Part III of this report on world steel will examine the demand for steel that will be generated under an EMS-governed industrial recovery, based on extrapolations from the Mexican example. The outline of Mexico's ten-year industrial development plan, which was formally presented shortly after Giscard's visit to Mexico, indicates the scale of demand for advanced sector steel and capital goods that will be created by Mexico's industrial development alone: the plan sets an overall economic growth rate of 8 to 10 percent per annum, and a 12 percent growth rate for the industrial sector. The growth rate for the capital goods sector was set at an even higher 20 percent and includes such ambitious plans as the construction of 50 petrochemical plants over the next four years. Mexican government officials have estimated, overly conservatively, that some \$40 billion in imports of capital goods and technology will be required to carry out the ten year plan.

The clique of technocrats carrying out steel ration-

alization in the U.S. and Europe are the enemies of the EMS. They are part of the same political and financial nexus exemplified by Royal Dutch Shell and British Petroleum, which launched the 1979 oil hoax for the purpose of bringing advanced sector industry to its knees. They are especially intent on ruining the highly efficient Japanese steel industry and the dirigist credit and economic policies on which it was founded, through the new oil hoax and protectionist measures against Japanese steel and other exports.

The cartelizers include such figures as Viscount Etienne Davignon, EEC Commissioner for Industry, who was also the first head of the International Energy Agency — the supranational watchdog agency which recently imposed a 5 percent “voluntary” oil consumption cutback on its member nations for 1979; French Prime Minister Raymond Barre, whose economic “restructuring” program for France is a direct attack on the dirigist traditions of that nation; Sir Charles Villiers, chairman of the antiquated British Steel Corporation; in the U.S.: Under Secretary of the Treasury Anthony Solomon, the author of the U.S.’s steel “rescue” plan; Father William Hogan, S.J., the widely reputed expert on the industry who has advised the U.S. steel industry to prepare for a period of “shrinking demand”; the leadership of the U.S. Steel Corporation, which has a 78-year history of operating on the British cartel model; and the implicitly environmentalist Sadlowski “opposition” grouping in the United Steelworkers Union.

The so-called Davignon plan for European steel and the Solomon plan or “trigger price system” that went into effect in the U.S. in January 1978 are the two principal instruments of the world rationalization strategy. They have the identical aim of eliminating “redundant” steel capacity and workers, establishing a minimum price floor to keep out imports of steel and guarantee a margin of profitability for inefficient producers. And they would carve up the “shrinking” world market among the few remaining steel concerns which are left standing after the “rationalization” is completed.

Many observers have been duped into believing that the Davignon plan and the Solomon plan are fundamentally different — that whereas the Davignon plan is unquestionably a protectionist cartel arrangement — with import quotas, minimum prices, prohibitions against additions of new capacity, and so forth — the

Solomon plan is still within the realm of “free trade.”

The Solomon trigger price system does not, in fact, officially restrict the volume of steel imports entering the U.S. market. The Solomon plan established minimum prices on steel imports, based on the U.S. Treasury’s estimate of Japanese production costs, which were designed to trigger antidumping investigations by the Treasury Department if imports entered the U.S. below those prices. In some cases these trigger prices are higher than domestic prices for the same products.

The Solomon plan was “very clever,” one steel market expert said in a recent interview. “The U.S. has kept up the face of free trade.” The effect of Solomon’s trigger prices, however, has been the same as the Davignon plan’s protectionist quotas on volume. Japanese exports of steel to the U.S. declined by 15 percent in 1978.

Likewise, both the Davignon plan and the Solomon plan have extended subsidies in one form or another to some of the least efficient world steelmakers. A big row has broken out in the EEC over the question of subsidies and, in particular, over the fact that British Steel Corp., for one, has continued to receive subsidies from the British government, under the Davignon plan, and to keep open antiquated plants. In the U.S., a number of smaller steel producers and service center executives voice suspicions that Solomon’s trigger price system must have been dreamed up at U.S. Steel headquarters because the effect of the system has been to put an escalating floor under domestic prices, a floor which inefficient steel makers like U.S. Steel need to stay profitable. The trigger price has handed companies like U.S. Steel higher prices and profits — at a very inflationary cost to the whole economy — and provided them with the cash flow to diversify out of steel into other “less cyclical” areas of the economy like finance companies and real estate. Diversification is the route that is now being taken by some of the major U.S. steel companies — U.S. Steel, Armco, National, and Allegheny Ludlum. The Solomon plan is, in effect, financing the shrinkage of U.S. steel capacity.

A number of astute steel market analysts are pointing out that the Davignon and Solomon plans were closely coordinated when Davignon came to Washington and met with Solomon and other Administration officials in November 1977.

— Lydic Schulman

The Davignon plan for Europe's steel

I. The Davignon plan for rationalizing European steel

The current phase of rationalization of the EEC steel industry began during 1976, when the imperiled condition of the industry — following a year when orders and production collapsed by 25 percent — became evident. To deal with the crisis, Henri Simonet, a member of the London-based International Institute for Strategic Studies and at the time EEC Commissioner for Industry, introduced a steel plan bearing his name. The plan basically consisted of setting “optional guidelines” on the prices of a number of steel and iron products in order to prevent price competition and undue disruption during a period of collapsing demand. This was late 1976.

By early 1977 the world steel crisis had in no way abated, and it was clear that desperate steelmakers were not going to follow the guidelines for certain products, especially steel reinforcing bars used in the depressed construction industry. In March 1977, Simonet's successor as Industry Commissioner, Viscount Etienne Davignon, introduced a more binding plan, which not only fixed minimum prices for steel reinforcing bars, but mandated that for each new ton of production capacity that was added, an equal or greater amount would have to be abandoned. This was apparently to prevent an “oversupply” of steel, and price wars in the future.

It was clear at the time that Davignon was using the immediate crisis to bring about a permanent dismantling of large segments of the European steel industry. Over the subsequent period Davignon began to talk openly about the need to abandon all plans for adding new capacity in the European steel industry, to shut down up to 16 percent of installed capacity, and eliminate another 100,000 steel jobs on top of the jobs lost during the 1975 downturn.

The plan's basic strategy

To grasp the full strategy behind the Davignon plan, it is necessary to put it in the perspective of the European Coal and Steel Community (ECSC), the predecessor organization of the EEC. The ECSC was established at the termination of the Marshall Plan in the early 1950s by a small, tightly knit group of British-allied Europeans with one overriding purpose: constraining the growth of, in particular, French and West German industry and keeping the two nations under British economic control. The *New York Times* obituary of the recently deceased Jean Monnet, founder of the ECSC, was quite candid on this point. According to the *Times*, Monnet, a French national, dreamed of and worked for a unified Europe under British leadership and personally desired nothing more than to receive dual French-British citizenship.

Contraction of EEC steel labor force, 1974-1978

(Total production workers and salaried employees, excluding apprentices.)

In most cases, 1974 was the most recent peak year.)

	1974	1978 ¹	Change	Planned layoffs/attrition (part)
West Germany	223,103	197,273	- 12%	
France	157,629	134,896	- 14%	30,000
Italy	95,595	96,297	+ .07%	
Netherlands	24,722	19,300 ²	- 22%	
Belgium	63,738	48,920	- 23%	12,000
Luxembourg	23,145	17,273	- 25%	
United Kingdom	188,264	162,544	- 14%	9,500
Total EEC ³	792,191	698,483 ⁴	- 12%	100,000 (Davignon Plan) 200,000 (The Economist's target)

1) August 1978 2) 1977, latest available year 3) includes apprentices 4) May 1978 Source: European Community, Eurostat, Iron and Steel.

Etienne Davignon was a cothinker and intimate associate of Monnet and others who put together the ECSC, and his steel plan is in effect an ECSC for depression conditions. In October 1977 Giovanni Agnelli of Fiat, a fellow zero-growth ideologue and "supranationalist," heaped praise on Davignon's steel plan as a model for the rest of the world economy: "The Davignon plan is a concrete example of how it is possible to supersede national interests and politics," Agnelli told the annual meeting of the International Iron and Steel Institute in Rome that year.

What it calls for

The actual measures that were adopted by the EEC Commission in late 1977 included an average price hike on steel products of 15 percent and a toughening of the surveillance mechanisms. The minimum prices that were established for steel reinforcing bars were directed against smaller, but more efficient producers, such as the Bresciani electric furnace producers of Northern Italy, and Willy Korf's direct-reduction ironmaking plants in West Germany.

The pricing efforts were coupled with efforts to lure Spain, a non-EEC country, into the "anticrisis" plan, and the setting of quotas for imports from Japan and other countries. Imports into the EEC in 1978 were about 1 million tons under 1977's 10 million metric tons, with the reduction coming chiefly in Japanese and Comcon imports. Spain, with its ambitious national steel program, continues to be a thorn in the side of the "anticrisis" planners.

In a recent interview with the *Executive Intelligence Review*, one Japanese steel executive commented that the drop in Japanese imports was actually due to the fact that the market price for steel in Europe last year was too low to permit even the highly cost efficient Japanese producers to sell in the European market at a profit. "I do not think that market prices are the same as Davignon prices," he noted. Other sources confirm that Japanese producers did not even meet the quotas for 1978 arranged between Japan's Ministry of Industry and Trade and the EEC Commission because of the soft prices in Europe; Japan's steelmakers were setting their sights on the more profitable markets of the Middle East and Southeast Asia.

As a result of depressed global demand for steel and measures taken against Japanese steel exports by Europe and the U.S., the Japanese steel industry is operating at only 70 percent capacity. Last fall Nippon Steel, the world's largest steel company, released plans to reduce its steelmaking capacity by 25 percent and its workforce by 7000 jobs. An industry official confided recently that much of the steel industry's spending on research and development is going to discovering ways of making Japan's giant blast furnaces less efficient, so as to lower output while avoiding costly shutdowns.

Not popular

Significant price discounting in the EEC steel market, in spite of Davignon's efforts to fix minimum prices, points up the fact that the EEC's national governments have not exactly been eager to carry out a plan which means, undeniably, massive unemployment in their steel sector. It also underlines the point that the only type of steel "anticrisis" plan that can work is one whose first task is to actively create new markets and demand for European and world steel.

The underlying premise of Davignon and his cothinkers like Barre in France is that European steel is a dying industry — the labor costs are too high, the capacity is antiquated, the industry can't compete with Japan and the modern developing sector steel producers. On the other hand, the route that France followed up to the present, of subsidizing inefficient capacity when it should have been phased out in favor of new integrated plants, merely set it up for the current crisis.

The Davignon plan's only "success" has been to fuel petty rivalries among different EEC nations' steelmakers and preempt discussion of a reasonable, market-creating approach to the steel crisis.

As a result of Davignon and related national sector "restructuring" plans, over 50,000 jobs have already been lost in the EEC steel sector as a whole since 1974. The nation by nation breakdown is the following:

France: As late as 1976 there were still some 156,000 production and supervisory workers employed in the French steel industry. The goal of Barre's restructuring

French foes of the EMS

A significant step in the organizing for global steel rationalization took place at the annual conference of the Steel Communities Coalition in Cleveland in late February. Present at the conference were two officials of the French government who put themselves forward as spokesmen for France and Europe on the question of the future of the world steel industry. Michel Barba, a government officer of the French national steel concern Usinov, and Christian Stoffaes, director of economic studies for the French Department of Industry, warned the United States to abandon investment in new or improved steel capacity and to allow the "free market" to force plant closings and tens of thousands of layoffs.

Barba sharply criticized the French government's past investment in the French steel industry: "We enjoyed the gimmicks of industrialization with the enthusiasm of great youth," Barba said, "despite our 2,000 year history and our population's top-heavy age pyramid. We did it by committing the fatal sin — by

program for steel is to shrink employment to 107,000 by the late 1980s — a clean sweep of one-third of France's steel workers. The strikes that are now convulsing France's steel regions were triggered last December when Barre called for the elimination of up to 30,000 jobs by 1982-83, mostly in the Lorraine region, on top of the 20,000 jobs already cut.

Last autumn the Barre regime stepped in and "bailed out" two of France's leading, financially troubled steel concerns, Usinor and Sacilor-Sollac, converting their debt into a government equity stake in the firms. Barre then sprang the restructuring plan on the industry.

According to a French official source critical of the Barre plan, the plan will shut down not just the oldest Lorraine mills as has been widely publicized, but modern capacity installed in the 1960s as well. As late as 1975 it was still French government policy to foster the expansion of overall French steel capacity at sites such as the massive integrated steel complex planned for Fos sur mer.

West Germany: West German steel producers have been outspoken critics of the Davignon plan since its inception in 1977 — but from a largely negative "free enterprise" standpoint. The West German steel firms are currently fighting for a strong code for restricting state aid to steel companies. This reaction is warranted insofar as British Steel, for example, has taken advantage of subsidies to maintain antiquated steel capacity, but it hardly represents a positive alternative to the Davignon plan. West German firms such as Krupp have recently

grudgingly endorsed the Davignon plan for the short-sighted reason that it has limited imports.

The defensive behavior of the West German steel-makers is explained in part by the fact that West Germany's capital goods-oriented steel industry has been among the hardest hit in Europe over the last several years. One of West Germany's major markets, ship-building, is now operating at one-quarter capacity; in January 1979, 55 million dead weight tons were under construction compared with 225 million in the peak year of 1974. Today West German steel production is still at a level 25 percent below the 1974 peak.

The West German steel industry's other problem is heavy infiltration of British "free enterprise" ideology. A recent study by Wolfgang H. Philipp, former executive board member of Thyssen AG, predicted that European steel capacity will drop 10 percent by 1985. According to Philipp, the aim of EEC steelmakers is now merely to produce enough steel to keep their steel operations going, while ploughing back income into non-steel businesses: diversification.

West Germany steel participates in the Denelux steel cartel with Belgium and Luxembourg. This cartel within the Davignon cartel was set up prior to the 1975 crisis and includes price and market specialization arrangements.

Belgium and Luxembourg: In December, the Belgian government announced that it will assume an equity stake in about six of the country's largest steel companies. Job losses could be more than 12,000 out of

advise United States steelmakers

permitting our private companies to have access to almost unlimited funds." Barba's responsibilities at Usinor are to direct the reconversion of steel jobs into other sectors of the economy.

Stoffaes, another outspoken opponent of French dirigist policies, told his audience of industry, union, and community leaders from the U.S. steel belts: "You can derive interesting conclusions from the experience of 30 years of government intervention in the steel sector in France. The situation is worse than in the U.S. — and we can incriminate government intervention."

Both in their public speeches and in corridor conversations, Barba and Stoffaes emphasized an overriding point: steelmaking in the advanced sector is in a state of irreversible decline. The market for steel is shrinking and will continue to do so, they claimed, and steelmaking capacity must adapt to this "reality."

The policy perspective put forward by Barba and Stoffaes at the SCC meeting willfully undermines the

thrust of the organizing efforts of French President Giscard d'Estaing and West German Chancellor Helmut Schmidt for a global industrial development program based upon the European Monetary System and European Monetary Fund. As Giscard's subsequent negotiations with Mexican President Lopez Portillo demonstrated, the intent of the French president and his cothinkers in the EMS is to actively create new markets and demand for steel and advanced sector capital goods in the developing countries.

It is clear that the dirigist policies attacked by Barba and Stoffaes are precisely what will be urgently required — on an expanded scale — to gear up and modernize advanced sector steel capacity to meet this global demand. And it is equally clear that a rationalization program of the type proposed by Messrs. Barba and Stoffaes, whose objective is the drastic reduction of overall steel capacity in the advanced sector, will abort the possibility of EMS/EMF development programs.

Belgium's current steel work force of 45,000.

Arbed SA unveiled a rationalization program for its Luxembourg operations early this year that would idle half the blast furnaces, reduce pig iron capacity by 15.5 percent, and reduce steel finishing capacity by an equivalent amount. The company expects to reduce its overall workforce to 16,500 by 1983 from 21,000 at the end of 1978.

Great Britain: It's no secret to anyone in Europe that without the Davignon cartel, the nationalized British Steel Corporation would be even deeper in the red than it is now. Of course, BSC has in the past violated Davignon prices left and right. And at a time when the London *Economist* and long-time British allies like Davignon are calling for the phasing out of European steel capacity, British Steel's current investment program is the biggest in Europe. The \$2 billion that BSC is spending between 1978 and 1980 is greater than the sum of all steelmaking investments in the rest of Europe.

The chief way that the Davignon plan and earlier European cartel arrangements, like the British-inspired European Coal and Steel Community itself, has benefited Britain's vintage 19th century steel industry is through roping in, and now dismantling, the French and West German industries. BSC has also been making the most of the Davignon plan market sharing arrangements and minimum price schedules — insofar as they protect BSC's markets from competition by more efficient producers. Last fall Sir Charles Villiers vented complaints about the rising sales of other European steel producers in Britain before Eurofer, the European steel-makers' club in Brussels. He demanded a tightening up of Davignon market agreements, and threatened that if the Continental Europeans didn't discipline themselves better, BSC would besiege sensitive continental markets with retaliatory exports.

Britain needs all the protection it can get because of the low productivity and high cost of its decrepit industry. In early February the British Iron and Steel Consumers' Council issued a report complaining about the inconsistent quality of British Steel's strip and mill products, the complete absence of facilities producing good quality heavy plate and certain other products, and high prices — the highest domestic prices in the EEC, despite the fact that BSC pays the lowest hourly wages in Europe.

In an effort to dump some of its oldest and most inefficient capacity, BSC underwent major surgery last year. Over the course of 1978, 17,000 British steelworkers were permanently dismissed. BSC current strategy is to shut down capacity and lay off workers as its new capacity comes on line.

Who are the cartelizers?

Viscount Etienne Davignon grew up at the center of the very circles of Continental and British oligarchists who openly admired the austerity and cartelization policies of the Nazi regime and supported Hitler until the moment he turned west against France and Britain. After World War II these circles sought to "rebuild" a unified Europe under British domination, where national industrial interests would be held in check by supranational institutions like the European Coal and Steel Community. Davignon's father served as Belgium's minister to Germany in the years leading up to World War II, and reported directly to Paul Henri Spaak, Belgium's Foreign Minister and a notorious Nazi sympathizer. After the fall of Belgium to the Nazis, the elder Davignon was part of Spaak's government-in-exile London. Spaak worked closely in those years with Churchill and Anthony Eden in planning NATO and the Cold War. Etienne Davignon grew up under Spaak's supervision as his personal secretary. In 1974 Davignon became the first head of the International Energy Agency, a supranational austerity-enforcing agency of the type long supported by the Spaak-Davignon circles.

Sir Charles Villiers, chairman of the British Steel Corporation since 1976, was from 1960 to 1968 managing director of Schroeder Wagg, the London merchant bank which financed Hitler.

His primary identification is as a member of one of Europe's oldest lines of black nobility. The Villiers family, which traces its lineage back to the eleventh century, boasts two Grand Masters of the Knights of Saint John of Jerusalem at Malta. Its nineteenth century member, Philippe de Villiers de L'Isle-Adam was a major propagandizer for Eastern mysticism and the occult.

Anthony Solomon, Under Secretary of the U.S. Treasury for Monetary Affairs, was brought into the Kennedy State Department by his former Harvard professor, John Kenneth Galbraith. Solomon's subsequent careers in State and the Treasury have shown him to be a faithful student of Galbraith, America's leading Keynesian economist. Galbraith himself studied with Robert Triffin, financial advisor to the Belgian royal family, intimate of the Brussels-centered ECSC-EEC Commission circles, and for decades the chief spokesman for Britain's version of "European Monetary Union" — an antidollar regional currency bloc.

In the 1960s in his State Department posts, Solomon specialized in debt rescheduling/austerity packages for Latin American countries.

Solomon's trigger price system for steel harks back to the industry cartels designed by Keynes for the British government in the 1920s and 30s.

Steel and the 1979 oil hoax

The \$18 per barrel and higher spot oil prices coupled with actual and threatened cutoffs of vital energy supplies that have developed, since the fall of the Shah of Iran, could be the blow that precipitates the ratchet drop in the world steel industry, industry analysts are warning. This year's oil hoax threatens the steel industry doubly: through crippling world industrial production and investment plans, thereby undercutting steel's markets, and through imposing a steep rise in production costs of the steel industry itself.

If any of the current oil price rise scenarios take hold, boosting oil prices anywhere from 50 to 300 percent over the immediate period ahead, then capital investment plans in the advanced sector and developing nations will be cut back even further — and so will demand for steel. The quadrupling of world oil prices between 1974 and 1976, together with similar price rises for coal, uranium, and natural gas — and the sabotage of the development of cheap nuclear energy — sent the world economy and demand for steel reeling in 1975. This led, in 1977, to the permanent "excessing" of around 5.5 million tons of steelmaking capacity and over 20,000 steel jobs in the U.S. alone, with even more severe shrinkage in Europe and Japan, as the quadrupling of energy prices and uncertainty about future price and availability cast a dark shadow over capital expansion plans. In the U.S., steel shipments to the construction industry in 1978 were still half the 1974 level (9.6 million tons versus 18.7) due to the permanent downturn in plant construction.

The Carter Administration's willful interference in orders to the U.S. nuclear industry played no small part in this downturn; U.S. orders for nuclear plants — which consume roughly 40,000 tons of steel per plant and represent many times that amount in demand from the nuclear industry's feeder industries — dwindled from 41 to two in 1978, two orders which were later postponed because of the Administration's "antiproliferation" policy.

In 1978, orders from the U.S. steel industry's other major capital goods markets — industrial and agricultural machinery, shipbuilding, aircraft, and aerospace — were also significantly below 1974 levels. Only demand from the auto industry was higher than in 1974. But with the current threat of another sharp rise in gasoline prices and mandatory gas rationing by the U.S. Department of Energy, that demand could give way at any time.

Regarding the direct cost of the new oil hoax to the world steel industry, the accompanying chart shows the

steep price rises in all of the world steel industry's energy inputs that took place between 1970 and 1976. Japan's steel industry actually absorbed significantly larger energy price increases than the U.S. industry, but the greater energy efficiency of Japanese steel kept the escalation in per ton energy costs in the same range as in the U.S.

Japan, which is wholly dependent on imports of oil and coal and the fluctuations of world market prices, is again the most vulnerable to a new oil hoax. Exxon and Royal Dutch Shell have already announced staged cutbacks of oil deliveries to Japan by 4 and 2 percent by year's end, stemming from the pretext of the shutoff of Iranian supplies, news of which sent the Japanese stock market and currency tumbling. Japanese steelmakers, moreover, are more dependent on oil as an energy source than U.S. producers, because they rely on a process of injecting oil into their blast furnaces to increase their iron-making capacity. Japanese steelmakers, like the European industry, consume around 15 percent more oil per ton of steel than U.S. producers.

Since the 1973 oil hoax, however, certain U.S. steel producers have also increased their oil consumption dramatically by adopting the same oil-injection technique as the Japanese. One such company, Inland Steel, now depends on oil for about 22 percent of its energy input.

"Crisis management" shutdowns

In general, oil consumption among U.S. steel producers has doubled since 1972, and accounts for nearly 12 percent of the industry's present fuel needs, compared with 6.7 percent in 1972. The major part of this increase stems from a Department of Energy directive at the time of the natural gas shortage several winters ago, which instructed steelmakers to switch from natural gas to oil. Now that natural gas supplies have apparently recovered and it is oil supplies that are in doubt, the DOE has reversed its earlier directive! The switchover is a time-consuming and costly business, however, and steelmakers warn that another switch from oil to gas could trigger an escalation of natural gas prices and a new shortage of that energy input.

While many steelmakers and unionists readily foresee the likely impact of the new energy crisis on steel, they do not realize that the same political and financial operatives who launched the destabilization of the Mideast region and manufactured the current oil crisis is the one which is intent on bringing advanced sector industry — and in particular the steel industry —

Energy costs of the steel industry

(\$ per net ton of steel)

Japan				
	Coking coal	Fuel oil	Natural gas	Electricity
1970	12.76	2.22	—	5.09
1974	26.45	6.33	—	12.91
1975	38.48	6.85	—	15.25
1976	36.61	6.94	—	17.19
European Economic Community (the six)				
1970	13.79	2.27	1.67	4.21
1974	28.30	7.63	3.64	8.86
1975	37.80	8.04	6.30	14.53
1976	37.00	9.00	8.31	15.94
United States				
1970	13.93	1.32	3.40	2.66
1974	24.27	5.26	5.63	6.07
1975	33.54	5.10	7.83	8.48
1976	33.50	5.34	9.29	9.54

Source: Hans Mueller and Kiyoshi Kawahito, *Steel Industry Economics*

To produce a ton of steel in Japan requires only three-fourths the quantity of coking coal and other energy inputs utilized in the United States. Thus, the higher per ton costs of coking coal and (petroleum-generated) electricity in Japan reflects the sharply higher prices paid by Japan's industry for its energy inputs.

to its knees. Recent issues of this magazine have documented the fact that Royal Dutch Shell and British Petroleum, the kingpins in the Iran oil consortium, were caught red-handed both inciting "fundamentalist Islamic" upsurges throughout the Mideast region and running up spot oil prices by holding supplies off the market and performing other market manipulations. The closely linked London *Economist* magazine, meanwhile, began calling on the West early this year to protect itself from "Arab oil blackmail" through self-imposed energy conservation and broad ranging austerity measures. In the case of steel, the *Economist* has been extremely forthright about its view that the industry must undergo forced shrinkage to adapt to a zero-growth future. The magazine's Feb. 10 directive to

the European steel industry was a chilling "200,000 Must Go" — 200,000 steel production jobs out of 500,000.

It is no coincidence that the first head of the Brussels-headquarters International Energy Agency, the supranational policing agency created in the wake of the 1973 oil hoax to administer oil sharing arrangements in the next oil crisis, was Belgian Viscount Etienne Davignon, currently the EEC Commissioner for Energy and author of the Davignon plan. The "crisis management" personnel for energy and industry are the same crew of anti-industry supranationalists who will only tolerate the existence of industry that is cartelized and under their control.

The UAW vs. the NCLC

Appeal raises key questions of legal ethics

An appeal now pending before the U.S. Court of Appeals for the Second Circuit in *United Autoworkers of America vs. National Caucus of Labor Committees, et al.* raises the question of the role of former government officials in exercising undue influence over the judicial process with a vengeance. Recent American Bar Association discussions have proposed a series of strictures on the activities of former government officials, particularly attorneys, that many claim would discourage most people from ever entering government service. The appeal brief, excerpted below, makes startlingly clear that the "revolving door" problem is not to be resolved by any particular set of rules, whether they be strict or lax. Rather, the nature of the ethical conflicts which arise, no matter what the "rules," is strictly political and must be recognized by the Congress and the courts as such.

In brief, the matter described below involves a trademark suit brought by the United Auto Workers against the National Caucus of Labor Committees, Campaigner Publications, and New Solidarity International Press Service. The lawsuit, the UAW admits in memoranda now public, was instituted solely to bankrupt those organizations, which the UAW perceived as major political enemies. To create a cause of action, the UAW claimed that the newspaper *New Solidarity*, published by Campaigner Publications and employing New Solidarity International Press Service, infringed on the UAW's trademark rights in its monthly magazine *Solidarity*. To strengthen their claim, the UAW, after filing the lawsuit, applied for a trademark.

Four years of litigation followed just as the matter was to come to trial, the defendants in the case discovered that the UAW, through their attorneys Steven Schlossberg and the New York firm of Cowan, Leibowitz and Latman, were employing former FBI in-

formant Gregory Rose as their star witness in the case. Rose had also infiltrated the offices of the defendants' attorney and removed the case files concerning the UAW. Informed of this gross breach of ethics, the court, through its magistrate, disqualified the UAW's attorneys.

The UAW then determined to exercise its political muscle to rescue a collapsing case and hired the law firm of former U.S. District Court Judge Harold J. Tyler, Patterson, Belknap Webb & Tyler, to defend its disqualified attorneys. This decision came at the recommendation of the well-known political "fixer" Joe Rauh, Jr.

Rauh's intent was so brazen that the NCLC and Campaigner Publications almost overlooked it. Judge Tyler had been the U.S. Deputy Attorney General who had ordered a reluctant FBI to pursue its investigation of the NCLC (now discontinued) and who effectively oversaw Rose's informant activities at the time he was filching files! Judge Tyler, himself a leading expert in legal ethics, insisted there was nothing improper in his firm maintaining its appearance in the case. District Court Judge Lawrence Pierce obsequiously agreed. The irony is that, had Judge Tyler's firm accepted the case 30 days earlier, the firm would have been *criminally* liable under U.S. statutes designed to prevent influence peddling.

The case is now on appeal to the Second Circuit Court of Appeals in New York. As the excerpted brief demonstrates, this ethical issue is of the greatest importance to any individual or corporation excepting a case to be tried on its merits, rather than on the influence, power, and particular knowledge of former government officials who may have been investigating them in the course of one of any number of regulatory procedures.

— Felice Gelman

Brief for plaintiffs-appellants

Preliminary statement

This is an appeal from An Order by the United States District Court for the Southern District of New York, Lawrence W. Pierce, Judge, dated January 12, 1979...

Issues raised on appeal

The issue raised on the appeal is whether two attorneys and their present firm may represent plaintiff and its original attorneys in the circumstances that these two attorneys held high level jobs in the Department of Justice (hereinafter DOJ) at a time when the DOJ was investigating defendants, and 1) the said investigation included inquiry into the very issues presently under litigation, 2) the said investigation included inquiry into the very suit for which the said attorneys are now privately retained, 3) the said investigation included the gathering of confidential information about defendants gathered in illegal fashion, 4) the attorneys in question were personally responsible for, and did in fact decide to, continue the said investigation and to publicize the same at government expense as the most important investigation that they were then engaged in, and 5) the DOJ inquiry included improper activities by a DOJ informant who is a proposed witness in the matter at bar, and the matter at bar concerns the attempt by an attorney to influence the very DOJ investigation that the two attorneys were in charge of.

Nature of action and result below

Defendants moved to disqualify plaintiff's attorneys for ethical violations involving an attorney attempting to suborn the DOJ to prosecute defendants, and using an FBI informant to steal legal files from defendants' attorney's office. Magistrate Sinclair recommended disqualification. Plaintiff retained as special counsel, for the purpose of the disqualification matter, a firm including two attorneys who, while in governmental service the year before, had been in charge of the investigation of the defendants, and were familiar with, and even involved in, the acts underlying the disqualification of plaintiff's original attorneys. Defendants moved to disqualify these attorneys as well. Judge Pierce denied this Motion. Defendants have Appealed.

Facts

History

This appeal comes before the Court of Appeals as part of a long and involved course of litigation. The plaintiff

is the United Automobile Workers of America, (hereinafter UAW). The defendants are members of the National Caucus of Labor Committees, the U.S. Labor Party, the company which prints the newspaper of those organizations, and several individuals. Although several of the defendants have no connection with the NCLC, the defendants will be hereinafter referred to collectively as the NCLC for the sake of convenience. The UAW is a national labor union. Since about 1970, the UAW and the NCLC have been engaged in a political dispute centered around economic policy. The UAW favors the creation of low-skill, low-wage jobs, while the NCLC favors technology-intensive development, exemplified by nuclear power, coupled with educational and social programs, such as strict enforcement of the anti-drug laws, to upgrade the work-force to use such technology.

In 1974, the UAW decided to resolve its dispute with the NCLC by utilizing its large financial resources and its influence with the government to destroy the NCLC. One part of that campaign, as revealed in DOJ documents obtained by NCLC,... was the underlying suit herein, which alleges that the defendants have infringed upon UAW's alleged right in the word "Solidarity," which UAW uses as part of the title of its membership magazine "*UAW Solidarity*," by publishing "*New Solidarity*" as the newspaper of the NCLC.

At first impression, it would seem that this is a classic example of the sort of dispute that ought to be settled by the political process rather than the judicial one. This, indeed, has been NCLC's contention. However, the District Court has repeatedly rejected this contention.

In general, the UAW's campaign consisted of three tactics. The first was what the UAW characterized, in a confidential report submitted by UAW to the DOJ, as "Overwhelming physical 'defense'..." The second was the institution of specious lawsuits, and the third was the incitement of governmental agencies against the NCLC....

The underlying case

As part of the second tactic, the UAW sued the NCLC for the alleged trademark infringement described supra. The UAW, however, was not content to prosecute this suit in the normal manner in which litigants prosecute such matters, and attempted to "stack the deck" as it were. The UAW's heavy-handed attempts to ensure a guaranteed outcome of the instant case led to the disqualification of the UAW's counsel.

The first disqualification

a. *The Schlossberg Papers.* One Stephen Schlossberg was the UAW's attorney in the underlying case, along with local counsel, Cowan, Liebowitz and Latman. (Hereinafter, the Cowan firm). In the course of separate litigation under the Freedom of Information Act

(FOIA), the NCLC found that attorney Schlossberg was attempting to bolster his "Trademark" case by lobbying various agencies of the Federal government to prosecute the NCLC for offences which the candid Schlossberg admitted in writing that he knew the NCLC had not committed. For instance, Schlossberg approached the Department of Labor (DOL) and demanded prosecution of the NCLC, which is not a union, under the Landrum-Griffin Act.... When the DOL pointed out that there was no legal basis for such prosecution, Schlossberg wrote to the Secretary of Labor, berating him for getting "hung up on legal technicalities," ... and demanding that the NCLC be prosecuted....

Finding no success at the DOL, Schlossberg approached the DOJ and the Attorney General with similar demands, which he repeated yet later to the Federal Election Commission.... In each instance, Schlossberg was explicit in pointing out that such prosecution, coupled with the underlying case, would bankrupt the NCLC, which was the UAW's aim.... This was but one prong of Schlossberg's attack, however.

b. *Gregory Rose*. One Gregory Rose was an FBI informant in the NCLC.... Until September, 1977 the NCLC, in part at Schlossberg's behest, had been under investigation by the FBI. In 1977 the investigation terminated.... No NCLC member had ever been indicted as a result thereof, nor was there so much as a grand jury presentment. However, during the period of investigation, informant Rose was infiltrated into the NCLC. Rose, posing as a bona fide NCLC member, offered to do volunteer paralegal work on the UAW-NCLC case—the *very case at bar*. While doing such work, Rose stole part of the undersigned attorney's files and conveyed the same to Schlossberg....

Schlossberg, in turn, announced that, although the alleged trademark infringement occurred in 1970, and Rose had not even infiltrated the NCLC until 1973, Rose was to be the UAW's star witness at trial.

These facts were presented to the Court below in a Motion to Disqualify pursuant to the Code of Professional Responsibility, D.R. 7-105 and 9-101 as well as Canon 4. The said Motion was referred to Magistrate Sinclair, and granted.... Schlossberg is now the subject of disciplinary hearings before the Board on Professional Responsibility of the District of Columbia Court of Appeals.

c. *The Second Disqualification*. The UAW, having had Mr. Schlossberg and the Cowan firm disqualified, retained the services of Patterson, Belknap, Webb, and Tyler (The Patterson firm). That firm included Rudolph Giuliani and Harold Tyler among its members. Mr. Tyler is, in addition to being a former District Judge in the Southern District of New York, the former Deputy Attorney General (DAG) during the period of Schlossberg's influence-peddling campaign at the DOJ. Mr.

Giuliani was Tyler's chief assistant. The Patterson firm was hired on the advice of Joe Rauh, who is Schlossberg's attorney in the disciplinary hearings in Washington....

Harold Tyler, as DAG, was the man in charge of the DOJ investigation of the NCLC. Mr Tyler was, in fact, the man who decided in 1976 *not* to end the investigation of the NCLC, which, therefore, continued for another year before Tyler's successor ordered it ended as having no basis in fact.... This was the same investigation that Schlossberg attempted, in complete defiance of the ethical standards of the legal profession to enflame.

Tyler, however, did far more than decide administratively to continue this one investigation among others. Tyler chose, publicly, to single out this very investigation, ahead of all others, as the most important investigation that he, Tyler, had been in charge of during his tenure as DAG.... In light of that fact, it is significant that the DOJ file on the NCLC, the file that Tyler was responsible for reviewing and passing on, and which Tyler chose to publicize as the center piece of the investigatory activity of his office, contained numerous references to, and documents from, *the very case at bar*....

It was against this factual background that the NCLC moved to disqualify the Patterson firm. This Motion was denied. The Court below heard oral argument, but declined to hold a hearing in this matter. The Appeal herein followed.

Summary of argument

The Court below committed plain error in that it misread and misapplied the applicable law, and in that it showed no awareness of the evidence before it.

Argument

The Court below applied an inapplicable rule of law and thereby committed plain error

The Court below issued an 18 page decision in this matter.... While that opinion cited a great deal of law, it completely misapprehended the nature of the case before the Court. Judge Pierce relied exclusively on case law applicable to *low* ranking former public officials, while the case at bar involves the second ranking officer in the United States DOJ and his top assistant. In so doing, Judge Pierce ignored the applicable law as it has been authoritatively stated by this Circuit, and, in other circumstances, by Judge Tyler himself.

The matter before this Court is controlled by both the spirit as well as the letter of Canon 9 and D.R. 9-101 (B) of the Code of Professional Responsibility.

These rules read as follows:

“Canon 9: A lawyer should avoid even the appearance of professional impropriety.

D.R. 9-101(B): A lawyer should not accept private employment in a matter in which he had substantial responsibility while he was a public employee.”

None other than Judge Tyler has stated that a niggardly, hypertechical reading of this rule would defeat the plain intent of Canon 9, which is to dispel even the appearance of impropriety from the Federal Courts.

“The power of this Court to disqualify lawyers is based on the Court’s general supervisory powers, and questionable behavior will not be permitted merely because it is not directly covered by the canons.” *Handleman v Weiss* 368 F Supp 258, 263 (SDNY 1973) Tyler, J.

The question at bar is whether a firm with a significant component of former high ranking government officials can, exactly one year and five days after those officials have left office, participate in a civil action against defendants whom they investigated, whose confidential files they reviewed, and with regard to an aspect of the ethical matter of which they have special knowledge. A state of affairs more calculated to instill a cynical attitude in the public with regard to the legal profession can hardly be imagined. Were the Patterson firm to be allowed to represent Schlossberg and the Cowan firm in the hearing that Judge Pierce now wants to hold in this matter,... an already cynical public would be presented with the following incredible spectacle.

Gregory Rose, a DOJ informant ... who infiltrated and stole files from the NCLC’s attorneys in the case at bar ... would be on the stand before Judge Pierce. The subject with regard to which Rose would be examined would be Rose’s activities with regard to the DOJ and Schlossberg. Rose would appear on behalf of Schlossberg, an attorney now disqualified herein, and facing disciplinary charges because of his activities, *inter alia* in attempting to suborn the DOJ. Who would represent Schlossberg and examine Rose on his behalf? A firm of attorneys whose members include the two highest ranking public officials in charge of reviewing and directing the investigation of NCLC which Schlossberg tried to enflame, and with regard to which Rose was employed.

One of the leading figures crusading against this undermining of the public’s faith in the justice system has been Chief Judge Kaufman of this Circuit. The earliest, and still, after over twenty years, the only comprehensive discussion of the problem at bar is Judge Kaufman’s article “*The Former Government*

Attorney and the Canons of Professional Ethics” 70 Harvard Law Review 657 (1957), recognized as unique in *Allied Realty v Exchange Bank* 283 F Supp 464, 468, aff’d 408 Fed 2nd 1099 (8 Cir.) cert. den. 396 US 823 (1969).

In that article, Judge Kaufman set forth the prime consideration of law that the Court below utterly failed to perceive or apply; the distinction between *high ranking* and *low ranking* former government officials. Judge Kaufman sets forth the standard of responsibility of *high ranking* government officials for any and all work done in their bailiwick. This is the standard which the Court below erred in failing to apply.

“Although there are many supervisory officials who are ultimately responsible for myriad decisions which they do not personally make and for numerous rulings which they never actually review, nonetheless, since ultimate responsibility is theirs, knowledge of all work done by their subordinates should be imputed to them. This position is similar to the conclusion that *the specific requirement to perform a related task will disqualify regardless of whether that assignment was actually performed. I believe this rule of vertical responsibility is absolutely essential to avoid the appearance of evil.*” 70 Harvard Law Review at 666 (emphasis added).

“It was necessary, in order to avoid the appearance of evil, *that a supervisory official be presumed to have knowledge of the contents of all documents which came to his office.*” *id.* at 667 (emphasis added).

It is painfully apparent that the Court below, in ignoring this presumption, or ruling that it disappeared conclusively and as a matter of law in the face of an affidavit of non-memory, which affidavit was neither subject to cross-examination, nor read in the context of the evidence before the Court, committed error.... As early as ABA Formal opinion 37 (May 4, 1931) the rule has been that where an attorney,

“Though he has no recollection of the matter, the records show that the report ... was made *or approved by* (the official) ... *whether he made an examination of the matter personally, or whether he merely approved the work of one of the other examiners ...*”

The Official, *ten years afterward*; in proceedings “of an entirely different nature” was disqualified.

Albeit morals may be more lax than in the 1930’s, where, as in the case at bar, the official was involved in the *same* matter just *one* year before, the official should be disqualified. The conclusion is all the more compelling in the instant case, since Tyler’s chief

subordinate, Giuliani, is also with the Patterson firm. The attorney involved in Opinion 37 withdrew upon being informed of the facts. It is regrettable that the Patterson firm did not do the same. A survey of the decisional law shows that Judge Kaufman's standards, far from being outmoded, are applied without exception, and require the Patterson firm's disqualification....

The nature of the inquiry

Judge Tyler's affidavit ... specifically states that ... the defendants in the case at bar were the subject of a recommendation, which he *did* review, and which *did* result in formal action against defendants taken by Tyler; namely another full year of investigation....

Judge Tyler *did* have defendants mentioned to him, and he *did* make a decision. The decision was two-fold. First, Judge Tyler decided to accept the staff recommendation to continue the investigation. Second, he decided to publicly announce that the investigation of defendants at bar herein was *the single most important investigation* for internal security purposes that the Department of Justice was engaged in. Who made this announcement, in writing, with its incalculable effect on defendants? *Harold R. Tyler, Jr.*, in his section of the Attorney General's report....

The investigation that Judge Tyler so characterized ran from 1969 to 1977. The suit he now seeks to involve himself in was commenced in 1974.(...)

The activities of Mr. Schlossberg and of the Cowan firm, which are Judge Tyler's concern, occurred right in the very *heart* of the period of investigation, and during the very period of time when that investigation was under the direction of Harold R. Tyler, Jr.

As the *Allbrand v Advent* opinion [relied upon by Judge Pierce] says, quoting Judge Kaufman:

"When an attorney was the head of a government office or subdivision ... the inference arises that he 'knows of the proceedings taken by his juniors.'" Slip Op., page 9.

In the case at bar, Judge Tyler not only knew of the actions of his subordinates, he knows of his *own* actions: he was the man who proclaimed to the public at large the importance that he attached to the investigation of the defendants, however much he now seeks to gloss his past actions over. Now, as a private counsel, he cannot disavow his own public actions in order to deal with the very facts and, indeed, the very informants-cum-clients, that he utilized during the investigation he directed while Deputy Attorney General, without transgressing Canon 9 of the Code of Professional Responsibility. See *Allbrand*, Slip Op., page 4.

Under the factual circumstances, Judge Gagliardi's *Allbrand* opinion announces a rule under which it is clear that Judge Tyler and the Patterson firm should be disqualified.(...)

Judge Pierce ruled, in effect, that Tyler and Giuliani's disavowals of memory—an exceedingly convenient lapse—are enough to rebut the inference of prior knowledge. Given that this case was the one case Tyler singled out as of prime significance in his report (see p. 196(b)a) this disavowal should be granted little weight. More to the point, no court has ever equated a simple disavowal of memory with the rebutting of a strong inference.

This decision has a point of particular irony in that the strongest expressions supportive of defendants' position were enunciated by Judge Tyler when he sat on the bench. The best example of that is the case of *Handleman v Weiss*, 368 F. Supp. 258 (SDNY, 1973).

Handleman v Weiss, 368 F. Supp. 258 (SDNY, 1973) Tyler, J., concerned an attorney (Solomon) who had been appointed by a government agency (the Securities Investors Protection Corporation—SIPC) to act as a trustee over an investment firm. Solomon did so, then resigned, formed a law firm, and, in time, was retained to sue the same investment firm. Judge Tyler brushed aside a host of technical quibbles, including the claim that Solomon was not really a public official, and that at any rate his private employment was not the same matter as his trusteeship exactly the sort of hyper-technicalities that characterized the decision below. Judge Tyler focussed in on two points: the *appearance* of impropriety, and the *opportunity* to benefit from information gained as a public official. His words apply with pointed relevance to the actions of the Patterson firm.

"Solomons' representation of SIPC trustee, followed shortly thereafter by his representation of plaintiffs ... has created, at the very least, the appearance of impropriety ... This position gave him a real advantage in learning of any illicit activities in which defendants may have been engaged ... (he) was able to obtain information that he would have been unable to secure if he had been interviewing in a private capacity." 368 F. Supp. at 263, citing *Allied Realty*. And see ABA Formal Opinion 134 (March 15, 1935).

This standard applies with imperative force to Judge Tyler, who admits possibly having requested an FBI investigation of defendants, and who certainly reviewed the fruits of such investigation, ... Judge Tyler, writing from the bench, went further. He did not make the confidentiality of the information determinative. In fact, he clearly stated that the integrity and reputation of bench and bar was the most vital factor.

Judge Tyler was preemptory in rejecting the claim that, if a member of a firm was disqualified, the firm might "screen" that member from the matter and so continue the representation. The rejection of an artificial and unbelievable distinction between a firm

and its members is all the more applicable when not one, but two members are disqualified, as are Judge Tyler and Mr. Giuliani.

The Second Circuit's requirement that the honor of the legal profession be preserved from the appearance of impropriety by an iron-clad rule, a position first enunciated in ABA Opinion 134, and then in Judge Kaufman's seminal Harvard Law Review article, is emphatically still the law today. Opinion 134 (March 15, 1935) states:

"The investigation of the prosecutor was ostensibly in the exercise of official authority: information was obtained from persons, who may have felt, quite naturally under a sense of coercion or respect for actual or supposed power ... Unsuspecting, unshielded, at serious disadvantage, he submitted to interrogation by one who later, as opposing counsel in a civil action, might use the knowledge thus acquired against him."

Judge Tyler has knowledge of a seven year and more FBI investigation made under color of law. This language is as if written for him. Judge Kaufman, who believes strongly that *junior* government attorneys should not be disqualified so as to deter them from public service, has a stern rule for *senior* government attorneys, who must be disqualified:

"Where the supervisor had ultimate responsibility for all the work of his office, *despite the fact that he was not informed about some of it.*" 70 Harvard Law Review at 667 (emphasis added).

Judge Tyler was, plainly, such a supervisor. The law is still applied with this sense of traditional propriety. In *Canadian Gulf Lines v Triton*, 434 F. Supp. 691 (D. Conn., 1976), the Court was persuaded that the attorney in question did *not* recall having knowledge of the matter from his prior employment, yet both the attorney and his firm were disqualified. This is precisely what Judge Pierce found to be the case. Nonetheless, the Court in *Canadian Gulf* held:

"The admonition of Canon 9 of the Code of Professional Responsibility that a lawyer should avoid even the appearance of impropriety justifies resolving the issue in (defendants') favor, even if, as appears likely, there has been no actual wrongdoing." 434 F. Supp. at 685.

That the Deputy Attorney General and his top associate, having reviewed close to 10,000 pages of FBI reports on defendants, would, within five days of becoming free of criminal liability therefore under 18 U.S.C. 207, appear as counsel against those very defen-

dants, in an issue involving ethics, and intimately involving activities of the Justice Department (Mr. Rose was an FBI informant, Mr. Schlossberg sent letters and lengthy memoranda on the case at bar to the Justice Department) is the very heart and core of the evil that D.R. 9-101 (B) was written to prevent. It may be that, as this Circuit has said in Shakespeare's Iago's cynical words, "There is nothing either good or bad but thinking makes it so." See *Emle v Patentex*, 478 F. 2nd at 571; *General Motors v City of New York*, 501 F. 2nd at 651. It is respectfully submitted that to permit the Patterson firm to participate herein is to compel every moral observer to think cynically of the bench, the bar and the legal profession. This Circuit knows this to be true, and its Chief Judge has repeatedly so declared it. Judge Tyler in his role as an objective minister of justice, has stated this to be the law in no uncertain terms: *Handleman v Weiss*, 368 F. Supp 258 (SDNY, 1973). Would it not be an invitation to public censure of our profession if Judge Tyler, as a private attorney, was not compelled to obey the law *as he himself enunciated it from the bench*? Yet, that is the rule enunciated below. Such a rule is intolerable and should be reversed(...)

Any citizen capable of logical thought, as well as the members of the legal community, must be dismayed at the prospect of the decision below becoming embedded in the law as precedent. That an attorney, a former Federal Judge who espoused a high-sounding theory of ethics from the bench, would, but one year after presiding over and publicly lauding a pointless investigation of a political party, allow his firm to appear in defense of a matter that centers around that very investigation, Schlossberg's inflammation of it, and Rose's abuse of it, is not the *appearance* of impropriety; it *is* improper. It is scandalous. It cheapens the public's opinion of the legal profession because it cheapens the legal profession *in fact*. It locates our morals (as Judge Ryan said) "in the marketplace." The Chief Judge of this Court has the reputation of demanding a high standard of conduct from the attorneys who practice before this Court. Judge Kaufman's efforts in this regard have, in turn, given this Court an outstanding reputation for probity. It would be a bitter irony if this Court should embed in the law a precedent that renders nugatory that effort and that reputation.

Conclusion

The decision of the court below should be reversed on the law and on the facts, and the Patterson firm should be disqualified from further participation herein.

FACTS BEHIND TERRORISM

Omega 7 bombings: signal for post-Camp David terror wave

The three Omega 7 bomb blasts that shared front-page billing in the New York-New Jersey metropolitan area with Jimmy Carter's "peace" may well have been the opening salvos of a post-Camp David global terrorist scenario.

A clue to the possible link between the right-wing Cuban exiles who claimed credit for the bombings, and the "left" elements about to be detonated in "retaliation" for Camp David, was given by the television appearance of geopolitician Dr. Henry A. Kissinger just ten hours before the first bombs went off. Kissinger, speaking on NBC-TV's Meet the Press, urged the U.S. populace to support punitive action against Cuba for acting as a Soviet surrogate.

Kissinger's strategy fits into what a number of reliable intelligence sources, both in the United States and Western Europe, have privately described as a bloody scenario for feeding the ongoing destabilization of the Middle East and creating an "arc of crisis" on the Soviet Union's southern flank.

It is widely, although not publicly, acknowledged in the intelligence community that much of the terrorist violence will assume an "anti-Semitic" appearance to camouflage from the law those elements of the organized crime elite embedded in the international leadership of the B'nai B'rith Anti-Defamation League. The facts of events from March 25 certainly point toward this interpretation.

Kissinger's emphatic line on Meet the Press was that the United States must "stop the Soviets" in the Middle East *and* Cuba.

Hours later, the anti-Castro Cuban terrorist organization, Movimiento Nacional de Cuba (MNC), operating under the name Omega 7, bombed three "pro-Castro" targets: Trans World airlines at Kennedy International Airport, and two Union City, N.J. area establishments.

The explosion at Kennedy just missed killing scores of people when the device went off prematurely minutes before it was to be loaded onto a plane.

The *New York Times* and other major media have pointed out that the Omega 7 (Cuban Nationalist Movement) is the same group of terrorists who played a role in the 1976 assassination of Orlando Letelier, the former Chilean Ambassador to the U.S. They have not reported that the MNC terrorist grouping and the grouping of terrorists responsible for the 1976 mid-air demolition of a Cuban airliner which killed all passengers and crew aboard are *one and the same*.

The MNC itself is a subsection of the Frente de Liberacion Nacional de Cuba (FLNC), an umbrella of anti-Castro Cuban terrorist groupings. The MNC is also officially affiliated with the World Anti-Communist League (WACL) which shortly before the Air Cubano bombing held regional meetings to plan terrorist actions. Reported participants at these regional meetings included William F. Buckley, Jr. and one Dr. Orlando Bosch, an FLNC leader who played a leading role in the Cubana Air mass murder planning as well as other anti-Castro bombing missions!

"Don't rule out Sadat assassination"

According to well-informed sources, various governmental intelligence agencies view with trepidation the ramifications of the recent signing of the Camp David treaty. Prevailing estimates are that the treaty will have severe repercussions in the form of terrorist attacks internationally.

Targets will include Israeli and Egyptian trade missions, embassies and consulates. The possibility of an orchestrated assassination of Egyptian President Sadat or a coup deposing him has been raised repeatedly in estimates of the potential for bloodletting after Camp David. In "retaliation," Israeli commandos will be unleashed, with the added backing of Egyptian intelligence.

As two bombings March 27 in Paris indicate, Europe will not be left out of the increase in terror. As sources have reported, "new groups" will be created to feed chaos and confusion amongst the ranks of honest law enforcement and counterterror efforts.

One of the Paris bombings was claimed as the work of a "Autonomous Intervention Collective Against the Zionist Presence in France and the Israeli-Egyptian Peace." According to a March 28 *New York Times* profile of the Paris blasts against Jewish-affiliated enterprises, the cited new grouping is an organization *opposing both Zionism and the peace treaty*. Such avowed aims place the maximum distance — *in appearance* — between the terrorists and Israeli intelligence or such Zionist organizations as the Anti-Defamation League and its European affiliates. However, it should be kept in mind that as recently as two months ago, one Mordechai Levy, who attempted to organize an "anti-Semitic" Nazi demonstration, was exposed in the Philadelphia press as a member of the Jewish Defense League.

— Robert Kay

WORLD TRADE REVIEW

New trade deals

PRINCIPALS	PROJECT/NATURE OF DEAL	COST	FINANCING	STATUS
Heurtey of France & Ivory Coast	doubling capacity of Abidjan refinery	\$160 mn	NAv	II
World Bank & Senegal	improve airport service, navigational aids	\$7 mn	7 percent loan over 15 yrs 4 yrs. grace	III
Mexico & Spain	for peaceful uses of nuclear energy — R&D, construction, safety and uses of experimental reactors	NAv	NAv	I-Nov 78
Mexico & France	loan to Mexican Federal Electric Commission to purchase equipment	\$600 mn	Credit Commercial de France	III
Brazil & Rumania	iron ore sales — volume to be 5 times present levels	NAv	NAv	II
France & Brazil	Rhone Poulenc reinvesting \$75 mn in textile fiber plants	\$75 mn	reinvestment of Brazilian profits	NAP
Korea & U.S. companies	multiple deals — Korean business and government executives currently in U.S. concluding contracts	\$1 bn.	NAv	III
France & Brazil	Cements Lafarge & Lone Star to build cement plant in Brazil making 700,000 tons/yr	\$125 mn	\$75 mn Eurodollar borrowing; remainder thru self- capitalization	II

Cancelled deals

PRINCIPALS	PROJECT/NATURE OF DEAL	COST	FINANCING	STATUS
Japan & Chile	Marubeni and Sano Kokusaku woodchip export project in Chile was dropped by Japanese	\$64.4 mn		

Abbreviations:

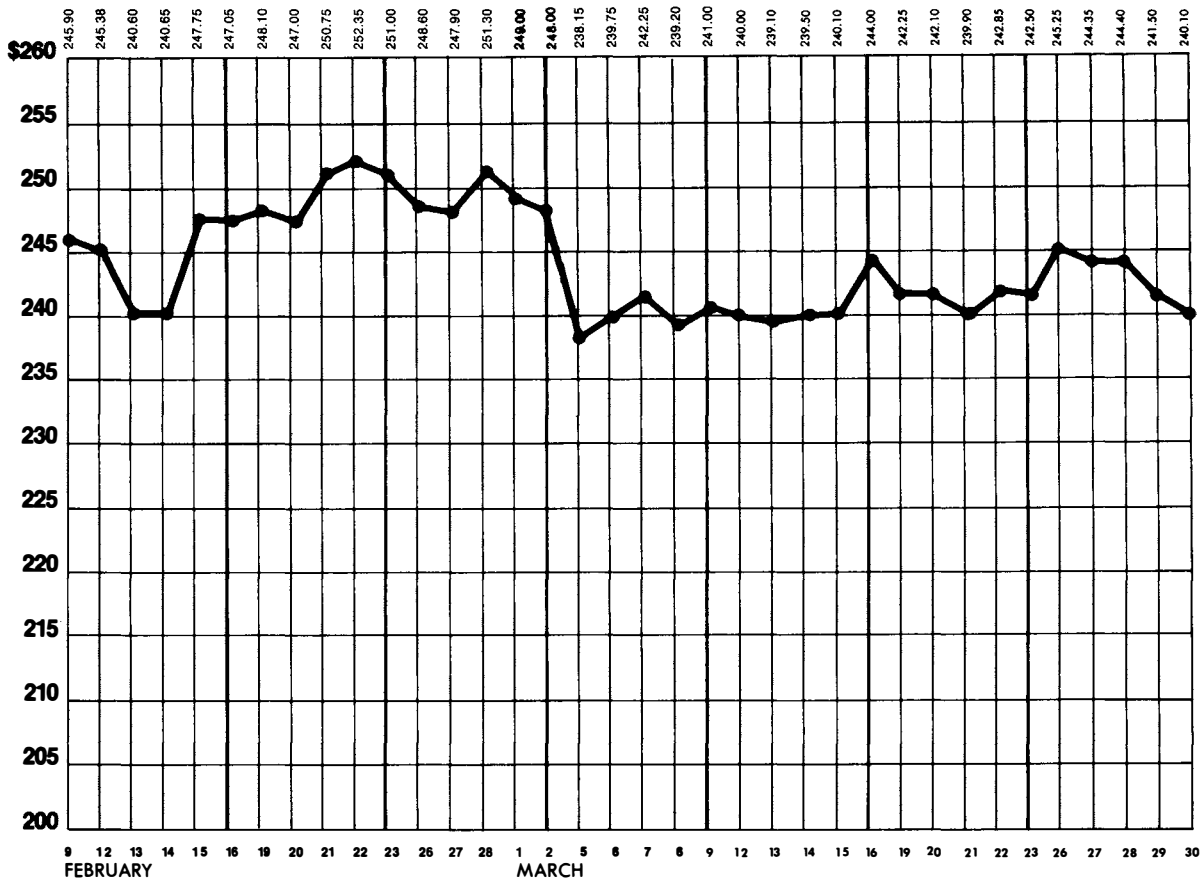
U = Undetermined
 NAP = Not applicable
 NAv = Not available

***Status:**

I = signed, work in progress
 II = signed, contracts issued
 III = deal signed
 IV = in negotiation
 V = preliminary talks

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Gold London afternoon fixing



The Dollar In deutschemarks. New York closing

