

Europe and the Middle East

by Robert Dreyfuss

Western Europe, led by France and West Germany, has decided to mount an open challenge to the diplomacy of the United States in the Middle East. Specifically, the European Community (EC) intends to replace the dead Camp David accords with a workable approach to achieve a comprehensive peace settlement in the region before the end of 1980.

According to diplomatic sources, the fall session of the United Nations General Assembly will be the scene of an open rift between America and its European allies over policy toward the Middle East.

Although the precise timetable of the current West European initiative is not known, the formal suspension of the Egyptian-Israeli autonomy talks on Aug. 3 by President Sadat of Egypt has made it much more likely that Europe will mount its effort against the Camp David framework even before the U.S. elections. In fact, there is strong evidence to indicate that President Anwar Sadat himself is considering abandoning his bilateral talks with Israel in favor of a return to an international approach.

In the face of calculated Israeli provocations to Egypt on the issue of Jerusalem, Sadat has shown signs of coordinating his diplomacy with France:

- On July 26, Egyptian Minister of State Hassan arrived in Paris for discussions with French ministry of foreign affairs officials on subjects relating to peace in the Middle East;
- On Aug. 1, Cairo's Minister of State for Foreign Affairs Butros-Ghali visited French Foreign Minister Jean François-Poncet in Paris;
- On Aug. 4, the day he suspended the talks with Israel, President Sadat held a telephone conversation with French President Giscard and then sent Egyptian Vice-President Hosni Mubarak from Cairo to Paris on an "emergency" visit.

According to European sources, the French have also sounded out other Arab countries on whether or not they would be prepared to welcome Egypt back into the Arab fold should Egypt again announce its willingness to seek a comprehensive settlement. So far, it is reported, a number of Arab states have agreed to smooth the return of Egypt to the Arab League, including Saudi Arabia,

and King Hassan II of Morocco has reportedly sent a letter to Sadat offering to sponsor his reentry into Arab world affairs provided that Sadat adopts a strong position on Israel's illegal annexation of Jerusalem.

Sadat himself is under enormous pressure from the United States not to abandon the Camp David framework. Official statements from the U.S. State Department have acknowledged such pressure, such as spokesman John Trattner's remark, "we have made it clear to Egypt that we want the talks to continue," delivered at the Aug. 4 briefing in Washington the day after Sadat suspended the talks. For that reason—combined with the fact that Sadat is very reluctant to admit the failure of his own efforts, and fears that his rejection of Camp David will simply ensure the election of Ronald Reagan—there is much room for the belief that the Egyptian president will eventually resume the useless talks with Israel.

However, current European diplomacy, while hopeful about quickly winning Egypt's support, is chiefly aimed at creating the climate by October for the start of a real international peace effort centered around the United Nations.

EC strategy

From the European side, the driving force behind the EC strategy is the powerful Paris-Bonn axis. With the British sitting on the sidelines and even throwing a few monkey wrenches here and there, the French and West Germans have already begun their diplomatic steamroller. That effort has won the full support of Saudi Arabia, Iraq, Jordan, and the moderate currents in Syria and the PLO. In essence, the strategy is based on close European-Arab financial and economic collaboration in a series of oil-for-technology arrangements to facilitate a sweeping Arab industrialization effort.

Right now, the Europeans are also concentrating on a program of stabilizing Lebanon and preventing that state from becoming a flashpoint for a new Middle East war.

In addition, according to intelligence sources, the Europeans have quietly agreed on a program to support the anti-Khomeini Iranian opposition in order to re-

place the regime of the Muslim Brotherhood in Iran with a stable regime. Not only will this help to stabilize the Persian Gulf and oil prices, but it will stem the flow of money and arms from Iran into terrorist groups throughout the Middle East and Europe.

A glance at the diplomatic flurry of the past two weeks alone shows the speed with which the Europeans are implementing their policy. On July 26, Spanish Foreign Minister Oreja, on a visit to Vienna, announced that Spain would soon formally propose an initiative at the United Nations for a comprehensive Middle East peace. He said that Spain, loosely allied to Paris and Bonn, would propose a new U.N. Security Council resolution to include the "rights of the Palestinians." Such a formula, it was made clear, is not meant merely as a piece of paper but a diplomatic convenience to achieve a U.S.-Soviet accord on the Middle East.

Immediately following the Oreja proposal, the Europeans shocked the United States by abstaining on a U.N. General Assembly resolution that called upon Israel to withdraw from all occupied lands and to recognize the rights of the Palestinians—or face U.N. sanctions and possible expulsion. For the first time, the General Assembly set a deadline, Nov. 15, for Israel's agreement to the resolution. Only the United States, Canada, Australia, and a few Latin American dictatorships voted against the resolution.

Then, beginning on July 29, King Hussein of Jordan began a 10-day visit to Paris, Bonn and Vienna. Though Hussein's trip was largely private, in several interviews he made it clear that his trip was intended to win Western Europe's agreement on a diplomatic effort at the United Nations. Camp David was dead, Hussein told *U.S. News and World Report*, and an entire new strategy must replace it.

Only a few days before Hussein's arrival in Bonn, the Secretary General of the Arab League, Chedli Klibi of Tunis, paid an important visit to Bonn. There, in talks with Chancellor Schmidt and Foreign Minister Genscher, Klibi worked out an agreement to convene a meeting of all European and Arab foreign ministers in the fall of this year to consummate joint efforts.

Finally, on July 31, EC special envoy Gaston Thorn arrived in Tunisia on the first leg of his extended fact-finding tour of the Middle East. In early August, Thorn spent several days in Israel, and then traveled to Beirut where he held a meeting with Yasser Arafat on Aug. 4. The Thorn mission, mandated at the June summit meeting in Venice, will produce a report that will serve as a guideline for action in the General Assembly session that begins in September.

Meanwhile, in a series of sharp statements, the Europeans have reiterated their intention to continue



Can France and West Germany pull Egypt into their plans?

with the Middle East diplomatic offensive, despite threats and blackmail from the Menachem Begin government in Israel. The Israelis, particularly Begin and Foreign Minister Yitzhak Shamir—formerly chief of the Mossad European Division—have attacked Europe for allegedly submitting to "Arab oil blackmail." Both Begin and Shamir in the past few weeks have delivered speeches in which they undiplomatically reminded the Europeans that Israel holds them responsible for the Nazi persecution of Jews and the World War II Holocaust.

Lebanon and the PLO

The first step to stabilize the Middle East, in the opinion of both the Europeans and the Arabs, is to set up a stable government in Lebanon that can put the lid on the simmering civil war in that country, since its explosion would provide Israel with a pretext to move against the Palestinians, Syria and Iraq. At their Venice meeting in June, the EC issued a special resolution on Lebanon; since then, there have been reports of French and Vatican diplomacy in Lebanon aimed at bringing about a reconciliation.

In late June, the PLO suddenly announced that it was removing all its troops and bases in southern Lebanon and in the port of Sidon, bringing them into central Lebanon and the Palestinians camps there. The PLO move, made unilaterally, was a concession of the first rank designed to bring about a reconciliation.

Then, a few weeks later, the PLO announced a similar move concerning all of its other offices in West Beirut and other Lebanese locations, withdrawing all armed men and organizers to the camps.

In the last week of July, the leftist Lebanese National Movement—an ally of the PLO—announced that all constituent parties of the bloc had mutually agreed to close all their offices except for a single central headquarters and to prohibit “armed manifestations” by their militias. Members of the LNM who violate this order will be turned over to the Lebanese authorities, the official communiqué stated. The National Movement also declared that its actions had been fully coordinated with the PLO.

While this was going on, a similar reorganization took place on the Christian Maronite side. In a blitzkrieg action, the Falangist militia wiped out the power of the forces around Camille Chamoun and his Tigers Militia. Chamoun had been the number one opponent of a deal with Syria—which has 30,000 troops in Lebanon. His elimination means that the Falangists are now free to make an agreement with Syria.

Within days after the crushing of Chamoun, Lebanese Prime Minister Selim al-Hoss resigned his position to clear the way for President Elias Sarkis to appoint Takieddine Solh, a political moderate, to try to organize a stable government. Since his appointment, Solh has been involved in round-the-clock consultations to assemble the core of a national unity government. Although uninformed press speculation has indicated that Solh’s chances of succeeding are very slim, there is reason to believe that a preliminary accord was reached in Lebanon before Hoss’s resignation, and that Solh’s task is to consolidate a prearranged agreement.

Both the Syrians and the U.S.S.R. were deeply involved in the bargaining over Lebanon, along with the French. An especially crucial role is being played by Soviet Ambassador Alexander Soldatov. In a Beirut press conference, Soldatov said last week that the Soviet Union will support the establishment of a Lebanese force to assume control over the areas in southern Lebanon where the Israeli-backed militia of Major Saad Haddad has set up a virtually independent state. His stated support for the Lebanese army is an unusual Soviet move. Soldatov has also held meetings in the past three weeks with every important Lebanese political figure, including three separate talks with Bashir Gemayel, commander of the Falangist forces. His father Pierre Gemayel, patriarch of the Falangists, revealed last week that “contacts with Moscow still exist” and said that the Soviet Union is a “state that we cannot but respect.” Gemayel and other Lebanese leaders will reportedly visit Moscow as part of the reconciliation.

Europe and OPEC

by David Goldman

Nothing has further distracted attention from the substance of an issue than this year’s discussion of “petrodollar recycling,” the supposed question of how the OPEC countries’ \$120 billion of revenues in excess of import requirements will be cycled back to needy recipients. The big mystery of Arab finances is not so much a black box as it is an empty one. There is no mystery to the distribution of Arab finances: they are being quietly shifted into state-to-state deals oriented toward industrial growth, mainly with the Europeans and Japanese.

Of course, adding up the equity purchases, investments in European and Japanese state securities, and other state-to-agreements thus far only yields a sum of about \$20 billion, or a mere one-third of the estimated surplus for the first six months of this year. Commercial bank economists obsessed with the numbers are concerned about the “missing petrodollars,” and the Bank of England’s *Bulletin*, the authoritative source for the location of Eurocurrency deposits, noted \$25 billion in Arab funds that did not show up in its columns for the second half of 1979. According to bankers, a similar sum for the first half of this year is not accounted for, yielding a total of \$50 billion of “missing petrodollars.”

However, conversations with European and Arab bankers indicate that the major portion of Arab funds have left the Eurocurrency market. What is much more interesting is that they are not banked through the usual channels. At one time the absolute majority of all Saudi deposits were held through three large American banks, Morgan, Chase, and Citibank. Bankers who wonder why the flood of surplus OPEC dollars never found their way to London this year ignore the impressive growth record of Arab-owned consortium institutions, and the new channels they have cut out for the OPEC surplus.

The best way to describe the state of affairs is in terms of the Eurodollar “interbank market.” The net volume of Eurodollars is estimated by Chase Manhattan Bank at \$800 billion; additional to these are \$400 billion in loans between Euromarket banks. That special feature of the Eurodollar market, the extent to which its participants take in each others’ wash, puts a special burden on its participants; if part goes, all goes, as nearly happened when the Herstatt Bank closed its doors in July 1974,