

International Credit by Renée Sigerson

European Currency Unit moves ahead

European-Arab negotiations signal renewed interest in the European Monetary Fund.

Led by France and West Germany, the governments of the European Monetary System are now negotiating up to \$20 billion in long-term government loan agreements with Saudi Arabia and its Arab allies, Arab sources in London told *EIR* this week. The fact that these loans will be denominated in European Currency Units (ECU), the accounting numeraire of the EMS member currencies, means that the ECU's global role will be greatly expanded.

As announced by the European Community finance ministers in October, the EC as a corporate body plans in 1981 to issue \$10 billion in long-term bonds on the Eurodollar market to finance the oil payments deficits of EC members. These bonds would be denominated in ECUs for the first time, thus creating a major market internationally in ECU-denominated paper, as the Federal Reserve told *EIR* at the time.

The Saudi Arabian Monetary Agency (SAMA), the government's arm, has already agreed with the French and German governments to lead a consortium of Arab states in purchasing the majority of these new 1981 ECU bonds, said an Arab source. Furthermore, the Giscard and Schmidt governments "are looking for another \$10 billion, perhaps under the table, from the Saudis and the Arabs, this year," he said, also in ECUs.

Europe and the Arabs are com-

mitted, as this column has emphasized, to maintaining their economic growth and that of their trading partners in spite of the murderous rise in world interest rates and instability provoked by the U.S. Federal Reserve. "The Arabs have therefore centered all policy on Europe, and their goal is to stabilize the European balance of payments."

France, Germany, and Saudi Arabia are already sending messages to the incoming Reagan administration to "either lower U.S. interest rates and stabilize the dollar through economic growth, or else face the fact that Europe and the Arabs will make their own trade and monetary arrangements," Arab sources in the Midwest told *EIR* this week. "If the U.S. does not change its economic policy, Saudi Arabia is going for diversification. Already, U.S. exports to the Arabs are flat, at \$11 billion in 1979 and \$12 billion in 1980. France alone has raised its exports to them from \$9 billion to \$11 billion. I estimate European exports to the Arabs overall at over \$40 billion this year. Five years ago U.S. and European exports to them were equal."

The proposed European Monetary Fund (EMF), the new world credit facility which the EMS has on the boards for 1982, is now being heatedly discussed and may have its timetable advanced by the need for a new world monetary system to finance a Euro-Arab trade boom, all sources agreed.

To drive home their serious demand for U.S. dollar stabilization, "the Saudis are telling the Treasury that otherwise they will orient to the ECU and index the dollar to it," one Arab stated, "but this requires the Europeans to move up the schedule for the EMF." In order for really large amounts of ECU bonds to be issued by the European Monetary System directly, as opposed to the current situation where the European Community floats bonds through private banks on the open market, the EMS must have its own bank, the planned European Monetary Fund.

With such an EMF, Saudi Arabia could take parts of its vast dollar holdings, bring them to the EMF window, and be issued ECU-denominated bonds; sources said this was one formula under negotiation. "There will be no issuing of ECUs as some alternative currency, but rather the Saudis, for example, would hold the bond and then cash it in for so many German marks, French francs, and so on," one explained.

"The Saudis could even decide to peg the dollar to the ECU basket in this way," another Arab monetary expert stated. "By simply pricing their oil in terms not of dollars only, but in terms of the basket of the ECU currencies plus the dollar. This would force the U.S. to stabilize the dollar."

High-level negotiations for this kind of expanded role for the ECU and the rapid formation of the EMF are already taking place between the French and German governments on the one hand, and Saudi Arabia on the other, acting with the full support of Kuwait and the Arab Gulf states.