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The London Plot To Destroy The Dollar

British Chancellor of the Exchequer Denis Healey, Bank of England officials, senior partners of Lazard Brothers (London) and Lazard Freres (New York) convened a secret meeting of bankers and senior Arab monetary officials in London Oct. 20, with the object of convincing the Arabs to withdraw masses of funds from dollar holdings, and raise the price of oil. Several sources who attended the invitation-only affair, which had the official sponsorship of the Bank of England, provided sufficient details to the *Executive Intelligence Review* to remove all doubt concerning this publication's charge that City of London bankers and their American collaborators intend to destroy the U.S. dollar.

Whether the British will succeed or not is an open question. But the City of London has thrown all its forces into a big power play for control of world capital flows. At the Oct. 20 meeting, the line of persuasion used by British officials was that the dollar must inevitably collapse, and the Arabs must consider alternative forms of investment.

According to the Bank of England advisors, including one Boulton, the U.S. Administration is in shambles and unable to make economic policy. The trade deficit will continue at the present level of $40 billion, and the current-account deficit at present levels of $15 to $20 billion, for an indefinite period. The basic investment value of the dollar will therefore decline as the mass of foreign-held dollars builds up, and the Arabs, as the largest group of foreign dollar-holders, will suffer the most. Therefore the Arabs should prepare for massive diversification out of dollar assets.

"The Kuwaitis are leading the way to reduce their dollar assets," commented one source who attended the gathering, linked to the International Institute for Strategic Studies. "They began putting funds into gold, but the British induced them to go into sterling instead. So the dollar has been extremely shaky. The problem with the U.S. is that it is addicted to imports of oil."

Britain's Grand Plans

The British further argued that it is nonsense to believe that the United States represents the only capital market in the world that can absorb the petrodollar surplus. What the Bank of England, Lazard, et. al. proposed was not investment of the $42 billion petrodollar surplus *in* Britain but *through* Britain into a variety of energy-related projects with high cost and low efficiency, modeled on the North Sea development. Specific projects that have been put on the table include:

1) *The Alberta tar sands.* At the height of the "Project Independence" euphoria in 1974, several American and Canadian oil companies considered a multi-billion dollar investment program, which would simultaneously have involved one of the largest and costliest construction jobs since the Alaska pipeline. Oil extracted from tar sands compares unfavorably with even such costly procedures as shale extraction, which has a target cost of $17 a barrel. Cost considerations dropped the original project. However, one British merchant bank has lined up several billion dollars' worth of Arab interest for this project alone, pending Canadian government approval, and higher oil prices.

2) *Mexican oil.* According to sources close to the negotiations, British merchant banks are now conferring with Kuwaiti, UAE, and other OPEC country sources on a proposal to have OPEC finance Mexican oil development, under British management. Earlier this year, a delegation of leading British bankers and monetary officials, including Sir Francis Sandilands, Bank of England Deputy Governor Sir Jaspar Molinan, and Evelyn de Rothschild of N.M. Rothschilds, sounded the Mexican government on the idea of using leftover North Sea oil expertise to handle the development of Mexican oil reserves, valued at up to 50 billion barrels. The British bankers also discussed British financing of the project in general terms, and, according to a senior official at Lloyds' Bank, financing of such loans in sterling.

3) *Falkland Islands* (just ceded to Argentina) which British banking sources believe has an oil reserve comparable to Kuwait.

U.S. monetary authorities and concerned corporations are not in the dark about British moves in this direction. The New York Federal Reserve staff is following closely the City of London's attempts to siphon off Arab capital. U.S. oil companies who deal with the Arab world are extremely well-informed about the situation. One of their officials said:

"Britain's incentive in this is fairly obvious. There aren't sufficient investments in the British economy to draw in Arab funds. If the Brits are proposing ways to invest petrodollars, they are trying to go back to their traditional 19th century role of banker to the world. The only cure for this, I guess, would be more attractive interest rates here to draw in funds — but this is out of the question because of the consequences for the economy — or a more positive investment climate. But we're not going to see that coming down the road for a while, given what the Administration is doing. I'm not sure the companies are in a position to do much about this. It's not our money but the Arabs' and they don't like to be told what to do with it. And it would be the kiss of death for the oil companies to lecture Chambers of Commerce about attracting more Arab capital."

Nonetheless there are strong, if indirect, signs of major American counterforce to the British. First of all, the Pentagon has transmitted warnings to the Saudi regime, whose security depends on U.S. assistance, that it might regret any decision for a major cutback in production. "If the Saudis cut back oil production the way the British want," said a top Pentagon advisor, they wouldn't last three days," implying that the U.S. would immediately organize a coup. Saudi Arabian Foreign Minister Prince Saud al-Faisal, speaking this week before the National Press Club in Washington, D.C., affirmed that Riyadh's position at the upcoming meeting of OPEC will be to support a small rise in the price of oil. He furthermore emphasized after meetings with both President Carter and Secretary of State Cyrus Vance that OPEC does not intend to impose limits to its oil production. The oil producers, he stated, "will produce the oil they have."

Blumenthal Up to Tricks

Secondly, the strange behavior of U.S. Treasury Secretary Werner Blumenthal, currently on tour of the Persian Gulf, indicates some strange happenings. *Il Sole de 24 Ore* reported Oct. 25 that Blumenthal had proposed to the Kuwaitis that they either continue to accept payment for oil in depreciating dollars, or set up an oil pricing arrangement based on Special Drawing Rights, the IMF's currency-basket accounting unit that would compensate for shifts in the dollar's value relative to other major currencies. Administration officials refuse to confirm or deny this report. But one internationally-known partner of a Wall Street investment bank confirmed the Italian story, via his conversations with Blumenthal.

The conclusion is clear. Blumenthal's intention is to wreck the dollar, unchanged from his prediction Sept. 29 at the International Monetary Fund's annual meeting that the U.S. trade deficit would continue unchanged for the next year and more. An SDR oil-pricing system would have two effects. First, it would immediately raise the oil price for dollar-payers by 6 percent. But it would formally absolve the United States of even a pretended obligation to keep the dollar stable, and open the way for a run.

However, press reports from Europe indicate that the Kuwaitis informed Blumenthal that they rejected the idea of an SDR pricing scheme, which is currently a principle agenda topic at the meeting of OPEC experts this week in Vienna preparatory to the ministerial meeting in December. The *International Herald Tribune* Oct. 27 reported that the Kuwaitis abjured the SDRs at Blumenthal's request, which is factually the reverse of what must have been the case. Clearly some other Americans than Blumenthal are talking money questions with the Arabs.

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IISS Man:

Arabs Told By British to Pull-Out of Dollar

The following is part of an interview with a source close to the London International Institute for Strategic Studies, who attended the secret Oct. 20 bankers' meeting with Arab officials.

Q: Our banking sources report that a major part of the funds leaving the dollar have come from Arab countries.
A: That's correct. The Kuwaitis have been leading the way to reduce their dollar assets. They began moving into gold, but the British induced them to go into sterling instead. The dollar is getting shaky.

The problem with the U.S. is that it is addicted to oil imports. And there is a further problem with the Saudis. They are fed up with the less-than-honest approach the U.S. has taken in Somalia. The Saudis bankrolled that operation, and now it appears that the U.S. might not provide arms to the Somalis, while the Russians arm the Ethiopians. So the whole Saudi operation could backfire.

The Saudis also feel pre-empted about the deal with the PLO; they would have preferred the U.S. to wait until the Saudis would have brought them in tow their way. This is a strong consideration for the Saudis to shut in capacity and raise oil prices.

(Editor's note: Kuwaiti gold accumulation began last March in cooperation with West Germany's Dresdner Bank and the Union Bank of Switzerland, who maintain a close relationship on the gold market. The Kuwaitis established several hundred millions of dollars worth of gold accounts, and then transferred gold to the Soviets to arrange purchases of Soviet transferable rubles, in anticipation of substantial trade agreements with Comecon nations then under discussion. This transfer led to speculation on the gold market that the Soviets were net purchasers of gold at a certain point. However, two events interrupted the West German-Swiss-Kuwaiti operation. The first was the June scandal at the Credite Suisse, which led to the assumption of the direction by Lazard partner Rainer Gut. The second was the July 29 assassination of Dresdner Bank chairman Jürgen Ponto. Large Kuwaiti purchases of sterling came later.)

Q: There are reports that Blumenthal is proposing an SDR pricing system for oil to the Kuwaitis. Would this tie in?
A: The Iranians wanted indexation, but never brought it through, and there is no common basis for an indexation package among the Arabs. The SDR idea was discussed before, back in 1975, but the dollar strengthened again before any action was taken. But this isn't the point. The money question has to be tied to the question of output. The Saudis have to cap production. The main issue at the December OPEC meeting will be whether Venezuela and the others can get the Saudis to shut in more capacity. What the British are telling them is that the future investment to go for is new energy sources, and it won't work without an oil price increase. One of the British

merchant banks has already lined up several billion in Arab money for the Alberta tar sands project. The Canadians have their heads screwed on wrong. The government hasn't given them the go-ahead. But that's the only way they are going to get out of their economic mess.

Q: Do you think the Saudis will pull out?
A: They've already started the outflow. I talked three months ago to one of the top SAMA (Saudi Arabian Monetary Agency — ed.) people who said that their contingency plans involved getting out of dollars, slowly, but irreversibly. Our deficits are going to continue, and our oil import requirements will increase. This is what the people who spoke in London (at the Bank of England meeting — ed.) were saying. The Arabs have been going in this direction themselves. But the British have been pushing them on.

Q: How do you read the Administration on this?
A: Well, Dick Cooper (Undersecretary of State for Economic Affairs — ed.) is more or less left out of this. He hasn't managed to get an ear at the White House. He thinks in terms of an adjustment process using all factors, with continuous international surveillance. He's a quick-fix type of guy, and his approach just isn't in the cards. Bergsten (Assistant Secretary of Treasury — ed.) is soldiering on, giving speeches to the effect that the situation looks desperate, but can be made to look good. But that's nonsense. there's a great deal of sensitivity in this situation. We're right on the precipice and its easy to tip over.

Q: You're talking about a real disaster for the United States.
A: Well, if OPEC cuts production back and raises prices, the U.S. is in one hell of a mess. If the world is told that oil prices just rose 10 percent — well, an economy like ours will be hit hardest. American industry just can't adapt to higher energy costs. It's too energy-intensive. We won't be in the competition with other countries in low-energy, labor-intensive fields.

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Hudson Institute: Saudis Caught Between Britain and U.S.

The following are excerpts from an interview with a top international energy expert at the Hudson Institute:

Q: In the wake of the recent OPEC meeting, the secret meeting between the Bank of England and the Saudis on Oct. 20, and the spectacular fall of the dollar on the markets, what do you think the Saudis will do with their oil?
A: No question about it, the Saudis are under heavy pressure to increase the price of oil. I don't think they will cut production, but there must be, from OPEC and the Saudis' standpoint at least a small rise in the price, say at around 5 percent. This is the Saudis' first fallback position in relation to the price hawks. If the dollar continues to fall, the hike will just have to be higher, there is no way anyone in OPEC can refrain form acceding to this.

Q: So you see the Saudis going along with the British proposals to cut back production?
A: Well, the Saudis have a big political problem. They are very much dependent on good relations with the United States; this is a very large factor in any price rise consideration and a mitigating force. There is no question that the U.S. will have to give up at least a little bit in this situation. There could well be a real run on the dollar developing; if that happens, we'll have to be prepared to give up a lot more.

Q: Do you think a run on the dollar is likely? Won't that, or even the current fall in value and concomitant upward pressure on interest rates, have a devastating impact on the U.S. economy?
A: I can't say there *will* be a run on the dollar, that's been a strong possibility for months, you know, and hasn't happened yet. Put it this way. I see very few hopeful signs on the horizon, all the indicators are not good, and the impact on the economy so far has been very bad. This fact tempers what the Saudis may do, but as I said they just may have no choice in the matter of price hikes if the situation gets worse. Look, if the dollar situation gets worse you could well have an international depression, and then all hell breaks loose.

Q: What do you think of the British scenario to mediate investment of petrodollars in the U.S. and internationally after a dollar collapse?
A: I can't say whether it's true, but it certainly is very plausible. The British would be delighted in this situation, with the falling dollar and the prospects of investments here and elsewhere with their high reserves. It wasn't long ago when they were on the opposite end. Knowing them, they could well do this. The short-term attractiveness of such moves is something they would seize upon, even if it is true that in the long-run a deterioration of the U.S. position would likely spiral into a depression and pull them down with it.

Q: What do you think of Blumenthal's Mideast trip? There are reports that he is actually taking the British line.
A: I don't know if he is doing that, but one thing is for sure: Blumenthal's visit will backfire in the U.S.'s face, no doubt about it. It is doing no good for favorable OPEC or Mideast moves vis-a-vis oil or a peace settlement. His irresponsible remarks and actions have amply demonstrated that nothing good will come out of his trip.