Foreign Exchange by David Goldman

Saudis back up the German mark

Bonn has launched bilateral diplomatic initiatives in order to strengthen its currency.

Following consultations held in Riyadh Jan. 10 and 11, Saudi Arabian and German financial officials announced that Saudi Arabia will purchase over $3 billion worth of German government promissory notes during 1981.

Rumors are circulating through international circuits that behind the debt-financing deal, a wide array of economic cooperation accords are also under discussion. *Der Spiegel,* the *Frankfurter Rundschau* and other German sources have reported recently that talks to sell the Saudis Krauss-Maffei's Leopard II tank in exchange for oil supplies are in an advanced stage of preparation.

During 1981, Germany is expected to post a balance of payments deficit of at least $18 billion, an all-time record. For months, the German mark has been under very heavy foreign exchange pressure, hovering between 1.95 and 2.01 to the dollar. But following the talks in Riyadh, a leading Swiss commercial bank reported they expected the mark to appreciate gradually to the 1.80 level over the year, if U.S. interest rates ease.

Frankfurt sources report that the Saudis will pick up an additional $1 to $2 billion worth of German debt notes consigned to German commercial banks, which the government has promised to designate "marketable abroad." This will mean Saudi backup for 20 percent of the total German current account deficit.

The Saudi-German cooperation deal has come under public attack from left-wing parliamentarians, and has also produced alarm in Britain's Conservative Party.

The left-wingers claim that the centerpiece of the arrangement is a firm commitment by Chancellor Schmidt to sell Leopard II tanks to the Saudis, and that these sales are "unconstitutional."

After World War II, occupation authorities inserted into the German constitution a provision barring German arms exports to regional "crisis zones." Bonn officials have countered by asserting that not only have they made no formal commitments yet to sell the tanks, but in addition, Saudi Arabia is a bastion of stability in the Mideast, not a "zone of crisis."

British Tories meanwhile have signaled from London and Strasbourg their evaluation that the German-Saudi cooperation is a dangerous setback to British efforts to implement coordinated monetarist credit restraint on Europe's economies.

British Conservative Sir Frederick Hatherwood reported from Strasbourg this week that the European Parliament, the European Community's delegated assembly, will soon vote on a policy paper drawn up by his External Economic Relations Committee on European-Persian Gulf Relations. The document contains, along with proposals for oil-for-technology deals, a harsh criticism of France for having sold $3.5 billion worth of naval equipment to Saudi Arabia in 1980, in return for oil-supply lines of credit. The current German arrangement is modeled on those French-Saudi deals.

The criticism voiced in the Hatherwood report is that France's decision to "go-it-alone" in finalizing petrodollar deals with the oil producers "undermines" the EC's efforts to "coordinate" Euro-Arab relations from the top.

The same day the report was announced, a Tory committee representing 100 British parliamentarians announced in London that they were asking Prime Minister Thatcher to bring Britain into the European Monetary System (EMS), the currency-gold pooling arrangement which the British attempted to sabotage at its founding in 1978-79. Britain's conservatives are committed to a policy of using the EMS as a "central bank" to administer harsh credit restraint, and thereby clamp down on French-German policies of expanded international trade.

Britain's current manipulations of EC financial policies, which also include a big fight between Britain and France over Britain's quota in the EC budget, are a major reason the Germans decided to wrap up a deal with the Saudis in the first weeks of 1981. Last fall, EC officials had sounded the Saudis out on a $10 billion loan for the EC as a whole to finance oil payments. Britain's maneuverings have indefinitely delayed this facility, so Germany and France must use bilateral financial diplomacy to finance their external payments.