



Saudi Arabia's Prince Saud (second from right) with West German Foreign Minister Genscher in Bonn. The little-noted June 1980 visit, EIR reported at the time, laid the groundwork for major deals.

Regis Bossu/Sygnia

France, Germany set Arab loan

by Renée Sigerson

Following discussions with Saudi Arabian officials over recent weeks, West Germany and France announced April 9 that they will issue \$6.10 billion of fixed-interest bonds on the Euromarkets, to enable them to stimulate domestic industrial orders. The Saudis and other Arab oil-producer countries paved the way for the jumbo bond issue by guaranteeing that they will purchase the bulk of the unusual venture.

French press reports earlier this month that the bonds would be a groundbreaking government-to-government loan fully financed by Saudi Arabia signal that the deal is partly being used to test the waters internationally on what can be expected to emerge as a far-reaching set of financial and industrial cooperation agreements between France, Germany, and moderate Arab countries.

French commentators revealed that there was serious consideration given to issuing the loan in European Currency Units (ECUs), the numeraire used for transactions within the European Monetary System (EMS). By capitalizing EMS funds, such loans would become a stepping-stone to "Phase Two" of the EMS, a program for formation of a large Franco-German-controlled cap-

ital investment pool for financing capital equipment exports, particularly to the Third World.

On April 8, the West German cabinet deliberated on the proposal and decided not to go with ECU-denomination. It was further decided that rather than borrow funds directly from the Saudi central bank, France and Germany would issue conventional Eurobonds over an 18-month period, denominated in their own currencies.

Political pressure from U.S. officials, and apparently from European Zionists, contributed to the decision to design the loan more cautiously, and thereby allay any misinterpretation that France and Germany are trying to create a monetary bloc with the Arabs that excludes the United States.

European sources report that U.S. officials were "irritated" that the German cabinet decision was announced just as U.S. Secretary of State Alexander Haig arrived in Riyadh.

Haig apparently sees current Franco-German diplomacy in the Mideast, which is premised on global economic cooperation for industrial and advanced energy development, as a threat to his "geopolitical" approach

of incorporating all Mideast diplomacy into an "East-West framework" (see International).

Well-placed sources underline, however, that in fact French President Giscard and German Chancellor Schmidt now hope to draw President Reagan in as an active participant in their efforts. One investment banker representing a German bank in the United States asserts that when Schmidt goes to Saudi Arabia on April 23, he will be "in constant touch with Reagan" on the controversial issue of whether Germany should sell Leopard tanks to Saudi Arabia. Riyadh has reportedly made purchase of the tanks a condition for economic cooperation on the energy front. The source added that the "personal chemistry" between Schmidt and Reagan could pave the way for a resolution of the arms sales, which have been heavily attacked by Zionist and leftist groupings in Europe.

On April 9, New York's *Wall Street Journal* insisted that pressure within France also influenced the German cabinet decision to make the borrowing a Euromarket issue, rather than a direct loan from Saudi Arabia. The *Journal* asserts that during the April-May national elections, Giscard wants to avoid accusations from Zionist groups of uncritical sympathy for the Arabs.

The other political test the loan announcement has set up is how the United States, in particular, will react to possible German moves to use the funds to put Germany's much-delayed nuclear power program on line.

The \$3.55 billion German half of the funds, the cabinet announced, will be pooled at the semipublic Kreditanstalt für Wiederaufbau, the country's old post-war reconstruction bank. From there it will be re-lent to German companies at interest rates lower than the rates the government will pay to bondholders. The 60 million deutschemark interest-rate subsidy, which the government will finance, is aimed at encouraging firms to increase energy-related orders.

Recently, German companies have publicly stated on several occasions that generation of orders around a nuclear program would solve the country's precarious foreign-exchange situation—triggered by high U.S. dollar rates—in a matter of months.

Thus it appears that Franco-German diplomacy in areas that directly affect U.S. diplomacy will remain "cautious" for at least the time being. Simultaneously, some European banks appear to favor such "cautious" policies for reasons still to be determined. German Deutsche Bank Chairman Wilfried Guth on April 8 praised the Saudi agreement as a "demonstration of community action between" France and Germany, and "as a manifestation of their common will to provide investment in the energy field," adding, however, that "spectacular transactions" might not prove the best means for providing energy investment loans.



Another side of the deal: Saudi Arabia needs Western capital goods.

Courtesy of Aramco