

EIRSpecialReport

A Euro-Arab pact: Britain out of line

by Vin Berg

West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing held a seven-hour, closed-door meeting at Schmidt's private residence in Hamburg March 16. It was their third summit conference this year. They did not issue any joint communiqué. They did not issue a state resolution. But the uproar the meeting provoked, particularly in the British press, is adequate indication. The world has reached a strategic turning point of far-reaching implications.

The two leaders used their meeting to lay the foundation of a new world monetary system. The surest sign is that Chancellor Schmidt, when he emerged to field inquiries from the press, featured the point that he was in full agreement with Giscard d'Estaing's recent call for "self-determination" and statehood for the Middle East Palestinians.

The extraordinary summit had occurred hot on the heels of the French president's breakthrough tour of the Middle East. In each Persian Gulf state, Giscard called for a global peace settlement through negotiations that must include the Palestine Liberation Organization, and also ensure Israeli security within pre-1967 borders. In return, France and West Germany were placed on the receiving-end of the coveted petrodollar surplus of the Arab OPEC nations, petrodollars Giscard also vowed to turn into an instrument of peace, by recycling them into large-scale projects for the industrialization of the Third World.

In that lies the foundation of a new world monetary system. A Franco-German alliance has taken over a "traditional Anglo-American preserve," winning the oil-rich Persian Gulf nations to the cause of world peace through world development.

Not since President de Gaulle vetoed Great Britain's bid to enter the



Photo: Sygma

European Economic Community in 1962, and signed a Friendship Treaty with West Germany the same month, have British cries of protest been so shrill. The "grand design" of Europe, defeated by the British so many times, is back, in greater force.

The Franco-German consultations centered around three topics: First, the consolidation of the European initiative for Middle East peace, to replace the bankrupt "Camp David" policy of the Anglo-American governments; second, the inauguration of the European Monetary System's "phase 2," the European Monetary Fund, a gold-backed fund for international development-credit issuance, supported by OPEC petrodollars; and third, measures to ensure the continuation of detente with the Eastern European nations and the Soviet Union.

Each of these policy goals brings France and West Germany onto a collision course with the Thatcher government in London and the Carter administration in Washington, a collision course from which they have not been deterred, even by massive Anglo-American political threats, blackmail and economic warfare.

A 'reverse Waterloo'

Schmidt and Giscard are plotting Great Britain's "Waterloo," shrieked the *Sunday Express* in London.

The Franco-German alliance has consolidated itself on the very eve of a March 29 European Economic Community summit in Brussels, where Prime Minister Margaret Thatcher will find herself compelled to defend her refusal to make Britain's promised financial contributions to the community. France, for one, has expressed itself ready to throw Britain out of the European Community if Thatcher does not capitulate.

"At the EEC summit," writes the *Daily Express*, "the stage has been set for a miniature replica of Waterloo. The snag for our side is that if Margaret Thatcher and Giscard d'Estaing actually fight in Belgium, the Prussians this time will be on the Frenchmen's side."

Every member of the British elite knows that Wellington did not win the Battle of Waterloo. The Prussian cavalry of Bluecher did.

The London *Financial Times* denounced France's "extraordinary and dangerous" behavior in trying to turn the budget dispute with Britain, "an important housekeeping issue," into "a major political battle." The Italian daily *Repubblica*, with more than desultory connections to British financial interests, complained that Schmidt and Giscard are behaving like "business partners" more than heads of state.

London's fear of a "reverse Waterloo" is apt. Britain's 1815 defeat of Napoleon was a turning point in history.

It set back the development of republicanism and industry in continental Europe for decades and ensured a British imperial stranglehold over the Middle East and the Third World in general. That now stands to be reversed.

Giscard's Mideast initiative

French press reports on the Franco-German summit emphasize the discussion of Giscard's 10-day Persian Gulf tour. Giscard broke with the past decade's trend in Middle East diplomacy by endorsing the Palestinian rights to nationhood, and in the process, emerged as the spokesman for Arab interests in the West. Country after country welcomed his barely veiled attack on the "Camp David" strategy. Equally important, he premised the new European-Arab relationship on "building bridges" between the great scientific and cultural traditions of progress that Arab, Moorish-African and European civilizations have historically shared.

At the March 16 summit, Giscard won Helmut Schmidt's full and unconditional backing for this policy, according to *Le Figaro* analyst Paul Marie de la Gorce.

While in the Gulf, Giscard signed cooperation agreements running into the billions of dollars, allocated to a series of industrial agreements that included nuclear energy development,, large-scale infrastructural projects, agricultural modernization projects featuring fertilizer production, and both state-to-state oil sale and oil-for-technology accords.

The diplomatic coup d'etat, however, was achieved in the concluding visit to oil-rich Saudi Arabia. The reception committee for the French president was virtually unprecedented, including Crown Prince Fahd, but also, all the sons of the founders of the Kingdom of Ibn Saud now in the government. No communiqué was issued with King Khaled, but the royal family reception followed by the King's impromptu praise for the French president clearly indicated that the *New York Times* was correct in speculating that this one-time preserve of Washington and London had been won over to Europe.

Additional confirmation came almost immediately. Reports appeared in the French press that Saudi Arabia was financing the development of the French Mirage 4000 fighter bomber with \$1.5 billion. Then, an estimated 5-10 billion deutschemarks of West German state securities were directly placed with the Saudis after negotiations this week in Riyadh.

Swiss and Saudi sources now report an acceleration of this wholly political diversification of monetary reserves into French francs, that interest in French and German stocks, bonds, treasury bills, trade, and deposits of petrodollars is intense. The Arabs are using all available investment channels to strengthen the financial position of their new European allies.

Until now, it was the view of London financial circles and their key allies like America's Federal Reserve chief, Paul Volcker, that Europe could be forced to break up the European Monetary System in the face of massive pressures from the United States to increase interest rates to 25 or 30 percent and beyond. By madly jacking up U.S. interest rates, Mr. Volcker has attempted to impose a deflationary policy worldwide.

West Germany, whose oil bill has unbalanced its payments account, was to be forced to increase interest rates in the face of Volcker's measures to prevent speculative outflows from the deutschemark. This combined with domestic opposition led by former Bundesbank chief Otmar Emminger, was aimed at forcing Giscard and Schmidt to continue postponing the "phase 2" European Monetary Fund. Deprived of this major institutional instrument for financing trade and development, Europe could be step by step reduced to abandoning the "Grand Design" policy.

This was miscalculation.

Emminger's successor at the Bundesbank, Karl-Otto

London's press decries the Franco-German alliance

The British press responded to the Hamburg meeting between West German Chancellor Schmidt and French President Giscard d'Estaing with outrage—and some trepidation over what that meeting portends for the upcoming summit of the European Economic Community. Here are some samples:

Sunday Express, March 16.

Ted Heath's paragraph in history depends on it. Germany owns it. France runs it for her own profit. At least half of you would say let us get out of it tomorrow. I refer of course to the EEC, where the stage has been set for a miniature Waterloo. The snag for our side is that if Thatcher and Giscard actually fight in Belgium, the Prussians this time will be on the Frenchmen's side.

The Observer, March 17.

The attempt to pry Schmidt away from his unhealthy close relationship to Giscard has failed miserably.

The Times, March 16.

A violent collision between Britain and its EEC partners appears to be unavoidable unless Mrs. Margaret

Poehl, declared in a major policy speech last week that the way to get Germany's current accounts back into the black is to undertake a major new export drive. Warned Poehl, "Hitherto unheard-of interest rate escalation has led to worldwide recession, and dampened our exports. We cannot deal with foreign price increases by restrictive monetary policies at home, nor compete with U.S. interest rates. An interest rate war could lead to the collapse of the world economy."

But the overriding question was how to ensure the solvency of potential export buyers, how to finance the drive at both ends. The French alliance entered with Arab petrodollars in tow.

The Bundesbank is now being joined by the Swiss, as well as the French central bank, in taking the steps required to handle a massive inflow of petrodollars. As Giscard and Schmidt met, the Finance Ministers of the European Community nations were meeting in Brussels to prepare for the upcoming summit. They announced that a ministerial-level EEC organ had been created and empowered to negotiate with the Third World on matters

of energy, food and international finance—meeting the conditions laid down one month ago by Saudi oil minister Yamani for continuing development of Euro-Arab cooperation.

It is into this summit that Mrs. Thatcher must now attempt to introduce her strident claims that it was "unfair" that her derelict country should contribute such large payments to the community's budget. At the last EEC summit meeting in Dublin, where she initiated the confrontation, her personal conduct earned her the lasting enmity of European leaders. And the ensuing British behavior, seeking to sabotage continental policy has alienated the whole continent.

Mrs. Thatcher has committed a very bad mistake. Only days ago, Gaullist party leader Jacques Chirac told the French Assembly that Britain's membership in the EEC had been a "test." Britain has failed the test. As the London *Observer* characterized the situation: "Our attempt to break the unhealthy close relationship between Chancellor Schmidt and President Giscard d'Estaing, has miserably failed."

Thatcher is prepared to scale down her claim for a reduction in the size of Britain's net contribution to the EEC budget and to accept that the issue cannot be resolved in isolation from other Community disputes....

Full British participation in the European Monetary System has also been mentioned as a possible bargaining counter. But only the Germans seem to be pressing for it strongly, while the French last week set conditions for British participation calculated to be unacceptable....

The Times, March 17.

According to one view of diplomacy, things never go so well as when the British and the French are at each other's throats, nails sharpened. That is the normal and natural state of affairs, given the clash of national temperaments and interests, which ought to prevail, so it is said, between the Foreign Office and the Quai d'Orsay....

M. Rene Monory, the French Economics Minister, came up with the brilliant deduction that since the last EEC summit in Dublin the rise in oil prices had made Britain much richer.

Whitehall was quick to point out that all that glitters is not oil. 'Have a look at the French gold reserves,' it was suggested in a discreet aside, 'if you want to know about getting rich quick....'

Chancellor Schmidt, of West Germany, though

not noticeably sympathetic to the British attitude, has been talking again to Lord Carrington, the Foreign Secretary. The other member states will take their line from the two major powers.

Financial Times, March 17.

Editorial entitled "The Threat to Europe": The behavior of the French government over the British demand for a substantial reform of the Europe Community's budgetary system is becoming more and more extraordinary, and more and more dangerous... Since last week's Cabinet meeting, ... it almost looks as if the French government is deliberately attempting to escalate the conflict with Britain, and thus risk turning what should be an important housekeeping issue into a major political battle....

French nationalism has always taken satisfaction from the fact that the common agricultural policy is the Community's only major policy. But even the French must be aware of the old business adage that it is dangerous to drive too hard a bargain. In 1965-66 General de Gaulle asserted that national vital interests should take precedence over Community interests. Unless the budgetary issue is sorted out rapidly, the very notion of mutual Community interests may be gratuitously undermined. ... It would be very unwise for the French government to underestimate the lengths to which the U.K. government might be provoked.