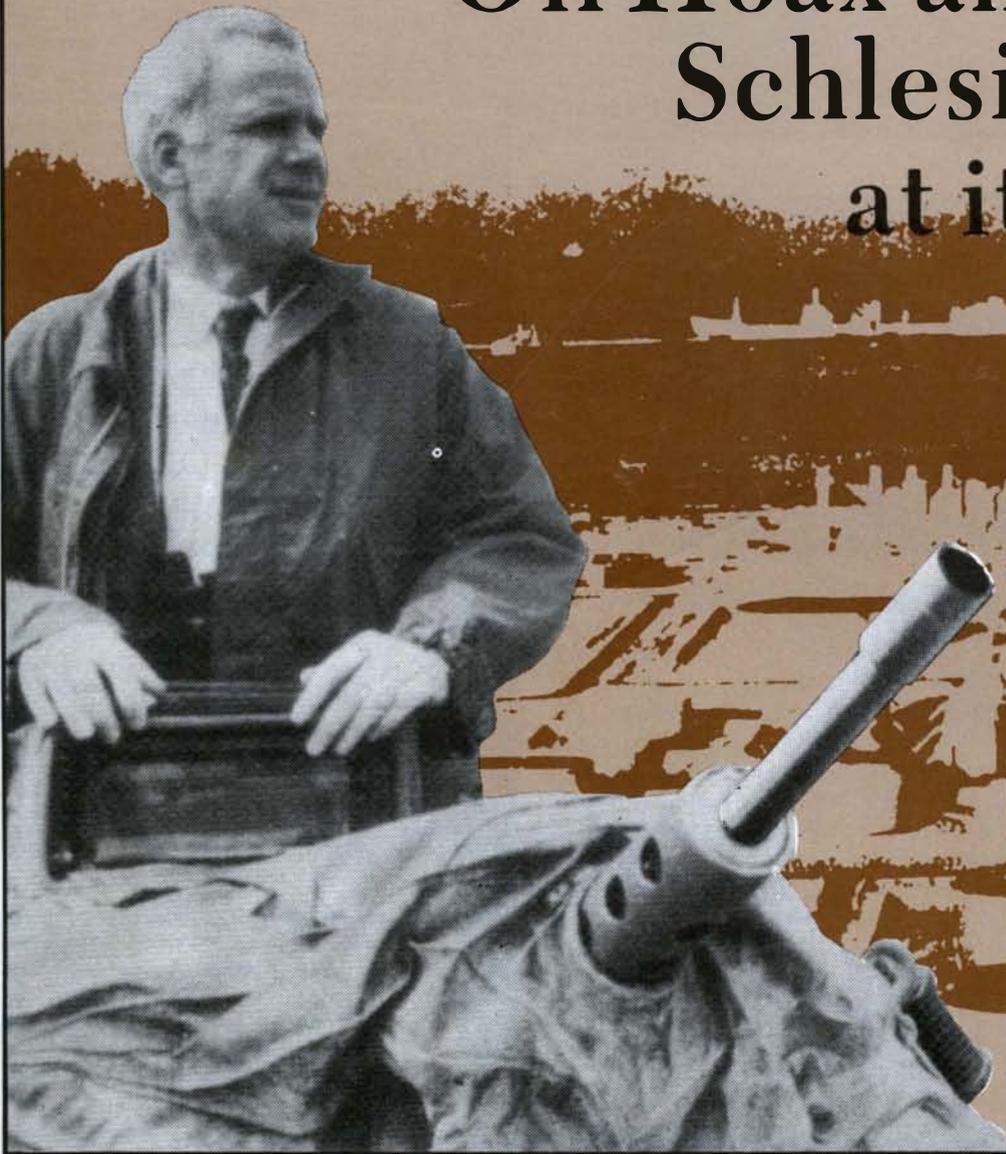


EXECUTIVE INTELLIGENCE REVIEW

March 6 - 12, 1979

Oil Hoax and War: Schlesinger's at it again



- How the price rise is being rigged • Impact on the world economy
- What's happening inside OPEC • Washington's plan to invade Mexico

New Solidarity International Press Service

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EXECUTIVE INTELLIGENCE REVIEW

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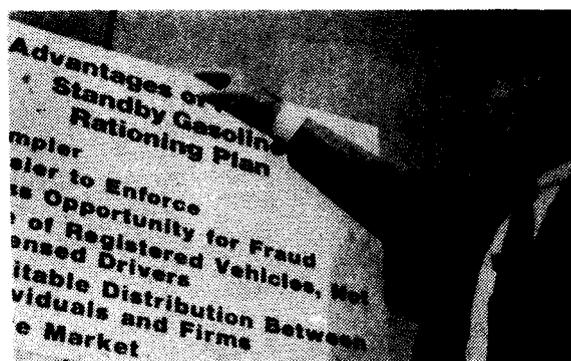
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Oil hoax and war — Schlesinger's at it again

The oil hoax of 1979 — who, why, and how are they trying to pull it off. Our ENERGY report this week brings you the full story: U.S. attempts to place troops in the Mideast, and why they could lead to war. How the spot markets were rigged to drive up oil prices. The situation in OPEC, featuring an Iraqi warning that the oil price increases are the result of a “conspiracy” in Western and Zionist circles. The U.S. threat to invade Mexico to grab that nation's oil wealth, and the North American Common Market proposal that lies behind it, including an exclusive interview with the author of the controversial plan; Energy Secretary James Schlesinger's gas rationing plan, and where it will lead; and the impact of the oil hoax on the nations of the European Monetary System. Also in this feature package: data on OPEC oil production and production capacity, European consumption, and a survey of production cutbacks in the United States.

IN THIS ISSUE

The Vatican's world diplomacy

This week's SPECIAL REPORT takes a look at the important role the Vatican is playing in world affairs as an advocate of industrial development. Our report helps clarify the reasons why the Vatican is such a major aspect of the international political and economic equation, with excerpts from Pope Paul VI's important *Populorum Progressio* encyclical, and an analysis of what Pope John Paul II accomplished at the recent CELAM III conference in Mexico. And a feature by European desk chief Vivian Zoakos takes a look at the antidevelopment opposition within the Church.

Antitrust reform

Sen. Edward Kennedy has directed preparation of proposals to reform the antitrust laws which spell bad news for U.S. business and industry. Already incorporated into pending legislation, the proposed reforms would drastically penalize companies which make profitable use of technological innovation and economies of scale — even if the public benefits. Featured in our LAW section, this report is one you can't afford to miss.

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British bank takeovers stalled

A few months ago, it looked as if British banks, led by the Hong Kong and Shanghai Banking Corporation, would find easy pickings in proposed takeovers of several major United States’ banks. Not today. The British takeover spree has boomeranged into a political hot potato which now looks to see the proud London banks hauled before Congress to answer charges of involvement in drug-running, questions on their irregular — by U.S. standards — bookkeeping practices, and accusations that they are attempting a power grab over the U.S. credit markets. In our ECONOMICS section, together with a report on efforts to drive up international interest rates, a look at some unorthodox corporate practices by Lazard Freres, and a trade shocker by mainland China.

COMING NEXT WEEK

A preview of our forthcoming Negentropy Index, a new approach to measuring economic growth, applied to recent trends in the United States. If you’ve accepted GNP figures as an accurate reflection of what’s been happening to the economy, you’ll be shocked. Plus, an economic survey of Turkey, focusing on the Turkish government’s resistance to the International Monetary Fund.

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Rhodesia enforces genocide

Southern Africa to be 'third front' in surrogate warfare

The Rhodesian bombing raid against Soviet-allied Angola Feb. 26 has placed the British client-state in the fore of a wave of warfare and destabilizations in southern Africa which bodes to make that region the Anglo-American "third front" in the British-led campaign of surrogate warfare against the Soviet Union and the nations of the European Monetary System. That campaign already includes the Chinese invasion of Vietnam and the drive for a "Middle East Treaty Organization" to shut off Soviet contacts in the Near East and submit Europe and Japan to oil blackmail.

Even more than in Asia or the Middle East, the British campaign in Africa underscores the genocidal character of the economic and political structure of the system the British are struggling to preserve. Cholera exists on a significant level in 15 African countries, and yellow fever in six. Famine has struck in eastern Zaire — in the center of British-sponsored military activity on the continent — along with a cholera epidemic and kawshkiokor.

Fueled by an influx of European mercenaries, the growing warfare in southern Africa threatens to destroy what industrial and social infrastructure does exist to serve the needs of the majority black population of the region, and to create political destabilizations which could paralyze both long- and short-term efforts to solve the area's problems of poverty and backwardness.

Marcher Lord

Rhodesia is London's marcher lord for the southern Africa chaos scenario.

Since the decision taken by British Foreign Secretary David Owen and U.S. Secretary of State Cyrus Vance not to pressure Rhodesian Prime Minister Ian Smith to negotiate with the Patriotic Front, the liberation group leading the fight for Rhodesian independence, the Smith government has mobilized the entire population (up to age 60) for military service.

As well, significant numbers of mercenaries recruited in Europe are being used for three operations based in Rhodesia, according to the Feb. 21 issue of the French-language newsweekly, *Jeune Afrique*.

Some mercenaries serve directly in the Rhodesian army, while others form the officer corps for the private armies of two of the African participants in Smith's "internal solution" government, Bishop Abel Muzorewa and Rev. Ndabaningi Sithole. In addition, mercenaries are training anti-government dissidents from neighboring Mozambique who were welcomed to Rhodesia by Smith when Mozambique received independence from Portugal in 1975.

Rhodesia's continuing raids against Mozambique and Zambia, and the first against Angola (which shares no common border with Rhodesia), threaten to wreck the United Nations' plan for granting an internationally acceptable independence to Angola's neighbor Namibia. Besides exacerbating the situation within the region, blocking Namibian independence has significant international implications. The South Africans would be expected to build up their military presence in

Namibia and increase pressure on Soviet-allied Angola.

UN Secretary General Kurt Waldheim is asking South Africa and SWAPO, the Namibian liberation organization, to agree to a ceasefire by March 15, as the first step toward implementing the UN plan, but there remain serious differences between the two respecting the interpretation of the ceasefire agreement.

Any flareup of South Africa-Angola warfare would guarantee that the critical Benguela railroad through Angola to Zaire and Zambia would remain closed, denying those two landlocked countries access to the sea. Another link threatened is the railway through Rhodesia to South African ports, over which copper (the main export of these two countries) is exported, and vital goods are imported. This route was the target of what Rhodesia called "guerrilla" sabotage last weekend.

Tanzania-Uganda conflict

Mercenaries are also reportedly involved in the conflict between Tanzania and Uganda, which also threatens supply routes into Central Africa. Ugandan President Amin has charged that mercenaries recruited by the CIA from anti-Castro Cuban networks, as well as 68 Israeli pilots, are involved in operations against him. On Feb. 15, according to the French daily *Le Figaro*, 48 mercenaries were arrested by Zaire authorities as they attempted to enter the country from Rwanda.

—Douglas DeGroot

Schlesinger pushes plan for cutbacks on IEA

President Carter has called on the International Energy Agency meeting in Paris this week to impose a net reduction in energy consumption of 3 to 5 percent on its member nations. Just how committed the Carter Administration is to implementing energy austerity at home and abroad was indicated by late reports from a Department of Energy source following the President's call. According to the source, Assistant Treasury Secretary Richard Cooper met on Feb. 27 in Washington, D.C. with West German Economics Minister Lambsdorff to plan a strategy for pushing the energy reduction policy through the IEA meeting. From their conference, the source reported, Lambsdorff telegraphed directly to the West German delegation at the energy meeting, and ordered West German compliance with the U.S. austerity strategy.

Since even U.S. Energy Czar Schlesinger admits that there is no actual shortage of energy internationally, the Lambsdorff-Cooper scheming, and Carter's call, can best be evaluated as the most egregious attempt to date to legitimize the recent media "energy crisis" scare. Schlesinger crony Cooper and Lambsdorff — who is functioning as a saboteur of his own government's domestic and foreign policy — are angling to accomplish a vital step in London's plan to regiment all advanced sector economies around a war-time energy austerity and deindustrialization program.

Iran and the oil crisis

U.S. business and industry should know the facts on how London is using its oil weapon against the world economy.

The pivot of their scheming is

post-Shah Iran, where the oil fields, which once produced 6 million barrels per day for world markets, remain shut down.

If Iran began to export even 2 million barrels a day of oil, the oil pricing bubble blown up by the London economic warriors who control Royal Dutch Shell and British Petroleum would be burst. Without the oil pricing bubble Schlesinger and London would have a hard time convincing the world that an energy crisis exists. Hence a crew of Lon-

don backed radicals are involved in an effort to block the renewal of Iranian oil exports at all costs.

According to the Paris daily *Le Monde* this week, the same environmentalist-zero growth crew that supported Ayatollah Khomeini in Paris are now backing the demands of ultra-radical oil workers in Iran, which are the prime obstacle to renewing oil exports. This circle includes Pierre Vigier, who ran the 1968 French student strikes, and the British based Bertrand Russell Peace Foundation. This antitechnology thinktank is known to advise the United Kingdom energy minister Wedgwood Benn. Moreover the London Guardian reports that Bertrand Russell's former personal secretary Ralph Schoenman is presently spending a lot of time in Iran. If Iran fails to come back on stream with exports we can expect a

Turkey's Ecevit in fight versus IMF austerity

An international power struggle has broken out into the open over the future of Turkey. On the one side is Great Britain, whose government, with the full complicity of the Carter Administration, has given the go-ahead for toppling the regime of Turkish Prime Minister Bulent Ecevit. On the other side are France and West Germany, whose leaders have committed themselves against Britain's coup plans.

The issue at hand is Ecevit's outspoken opposition to the International Monetary Fund and his refusal to adopt its demands for austerity and currency devaluation. Ecevit, with the backing of France and West Germany, is seeking solutions for Turkey's economic difficulties in the context of the new European Monetary System. According to the Turkish press, Ecevit is in the process of working out a con-

sortium arrangement with Libya, Iraq, and Saudi Arabia, whereby these countries will finance Turkey's imports and development projects.

In turning to the Arabs for aid, Ecevit is making it known that an offer of emergency aid by the Organization for Economic Cooperation and Development (OECD) is "categorically rejected" as long as the OECD insists that Turkey comply with the IMF as a condition for the release of monies. Last week, Ecevit postponed a trip to Turkey by OECD Secretary General Emile Van Lennep until such time as the OECD changes its line. Ecevit also announced that he has no intention whatsoever of devaluing the Turkish lira, and attacked London by name for spreading false rumors claiming that Turkey had agreed to devalue. continued upward trend in prices

and a possible OPEC price hike at the cartel's March 26 meeting.

The countermoves

The Saudi Arabians, French, and West Germans recognize the economic disaster London's war measures energy cutbacks would represent, the most important being the derailing of the European Monetary System's effort to reorganize world trade and credit markets. Saudi Arabian Sheikh Yamani is currently in Bonn to discuss with business and government leaders the prospects of holding a producer-consumer conference to iron out the problems of world energy. French President Giscard d'Estaing has already begun organizing such a conference.

French radio last week denounced Schlesinger for using the IEA as a tool in his austerity drive, and reports from Germany indicate that Yamani is being well received by business and government leaders.

In a statement released from Baghdad Feb. 27, Iraqi oil minister Karim slammed the idea of an OPEC price hike as detrimental to the creation of "a new world economic order capable of guaranteeing stability. For more of Karim's statement see ENERGY.

LaRouche represents USLP in Mexico PRI celebration

Lyndon H. LaRouche, Jr., chairman of the U.S. Labor Party and contributing editor to the *Executive Intelligence Review*, is representing the U.S. Labor Party at the 50th anniversary celebrations of Mexico's ruling Partido Revolucionario Institucional (PRI) that began March 1 in Mexico City. Accompanying LaRouche in the Labor Party delegation are Helga Zepp LaRouche, chairman of the European Labor Party (ELP) in West Germany and *Executive Intelligence Review* editor-in-chief, Fernando Quijano.

Leaders of over 100 political parties from around the world have been invited to the four-day long golden anniversary celebrations, to feature tours of historic sites in and around Mexico City, and a reception held by Mexican President José López Portillo. Among the political parties represented will be the Republican Party (PR) of French President Giscard d'Estaing, who

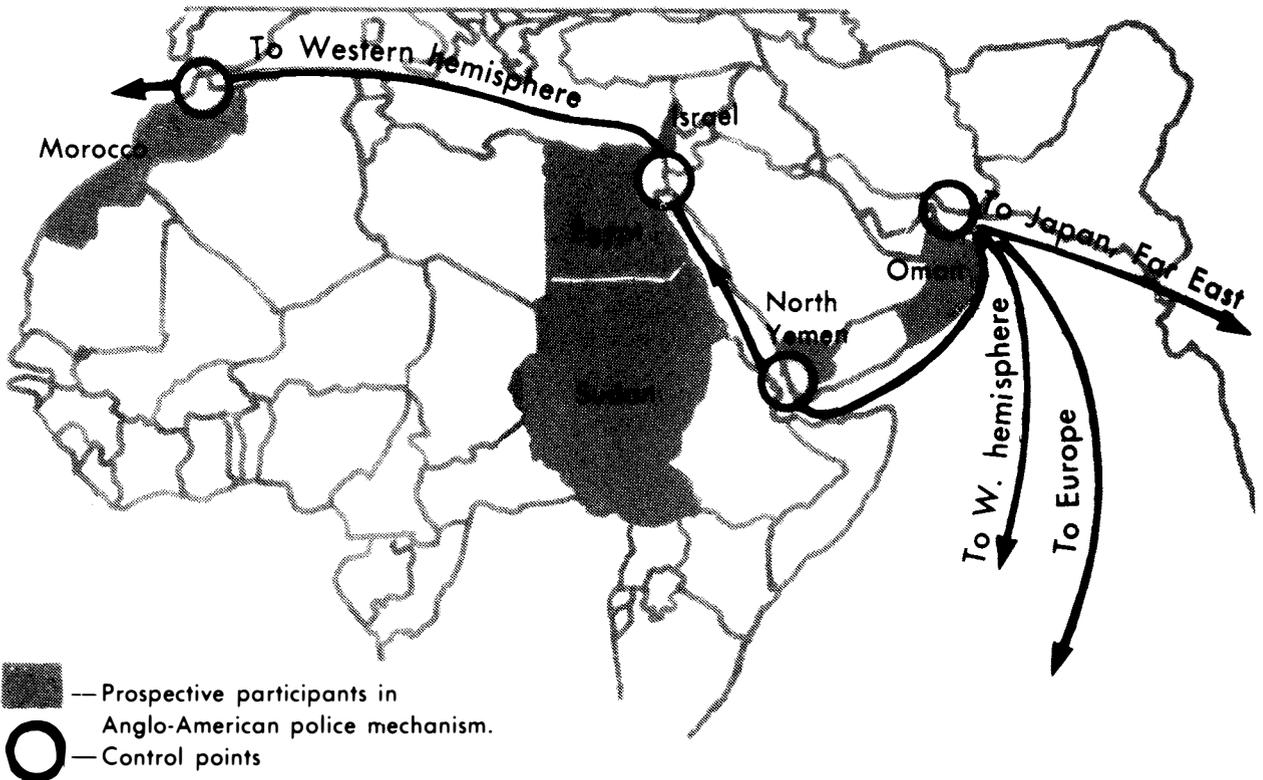
arrived in Mexico on Feb. 28 for an official state visit; the ruling Social Democratic Party of West Germany; and the Union for French Democracy (UDF) coalition of French Foreign Trade Minister Deniau.

The Partido Revolucionario Institucional has been the governing party in Mexico since it was founded — as the Partido Nacional Revolucionario — in 1928 by President Plutarco Elias Calles as a mass institution to defend the gains of the just-fought Mexican Revolution. During the presidency of Lázaro Cárdenas in the 1930s, the party, renamed the Partido de la Revolución Mexicana, was the key instrument in mobilizing the Mexican population in defense of government's nationalization of American and British-owned oil companies, and initiating a far-reaching program of agrarian reform. The party has been known as the Partido Revolucionario Institucional.

Oil hoax and war: Schlesinger's

United States' military threat to Mideast leads 'energy crisis' scenario

Anglo-Zionist plan to control world oil flows



British economic warfare plans against Europe and Japan include a proposed, semi-formal association of pro-Western Middle East states, assembled under the aegis of Israel, which would be able to exercise significant control over the flow of oil exports from Middle Eastern countries. Members of the informal association, Morocco, Egypt, Sudan, North Yemen, Oman and Israel, would exercise direct control of oil supplies at strategic points on oil shipment routes (circled). Additionally, they could pose a significant military blackmail threat to less malleable producers Algeria, Libya, and Saudi Arabia. Renewed efforts to conclude the Camp David peace talks are tied to the plan.

at it again

Saudi Arabia's Defense Minister Prince Sultan announced Feb. 28, following an emergency cabinet meeting, that his country's armed forces had been placed on alert, all leaves cancelled, and officers ordered to report to their commands.

The military alert called by the world's largest oil exporter followed threats from Defense Secretary Harold Brown, Energy Secretary James Schlesinger, and Senator Henry Jackson (D-Wash.) that the U.S. plans to use American armed forces to "protect our vital interests" in the Persian Gulf by establishing a permanent "military presence" there. At the same time, Secretary of State Cyrus Vance, meeting in secret at Camp David with Israel and Egypt, put the finishing touches on an "Israeli-Egyptian axis" for surrogate warfare against OPEC, with Iraq, Saudi Arabia, and Libya the prime targets.

The threat of Persian Gulf war, exacerbated by the British-Israeli destabilization of Iran, is the leading edge of plans made operational by the City of London and NATO for a worldwide oil crisis aimed at destroying the peace-through-development strategy of France and West Germany. It coincides with circulation of overt threats to invade Mexico for oil, and the gearing up of a military economy in the United States under the pretext of an "oil shortage."

Together with the overt Anglo-American support for the Chinese invasion of Vietnam, the threat of an oil embargo and U.S. military build-up in the Middle East confronts the Soviet Union with a strategic threat of major proportions — a situation in which the dangerous Schlesinger, who was fired as U.S. Defense Secretary in 1975 for proposing to play nuclear "chicken" with the Soviets, is playing an up-front role in both the Asian and Middle Eastern crisis theaters, in addition to being an architect of the provocative U.S. policy toward Mexico. If sustained, the Anglo-American escalation in the Middle East could confront Moscow with a combination

that will force them to launch World War III to protect their vital interests.

In the eyes of lunatic London and allied policymakers, the dual oil crisis and war threat is seen as neatly solving an array of "geopolitical problems" — just as the 1973-74 oil hoax was used to wreck emerging international industrial development plans. Region by region, the summary picture is as follows:

Middle East: Anglo-American policy centers around two efforts: an Egypt-Israeli axis — the purpose of the

Crane: Brown, Schlesinger may provoke a war

Rep. Phillip Crane (R-Ill.) lashed out at Energy Secretary Schlesinger and Defense Secretary Harold Brown for their proposals to intervene militarily in the Middle East in a speech in Atlanta this week. The Feb. 25 Atlanta Journal reported as follows:

Republican Presidential hopeful Phil Crane said that talk of armed intervention to protect Middle East oil supplies is "appalling" and could lead to a confrontation with the Soviet Union. Crane harshly criticized comments by Defense Secretary Harold Brown and Energy Secretary James Schlesinger about the use of American military force to protect oil in the Middle East. Crane then said, "I think the concept is appalling and is of their own making. I can't imagine any American who would like to see a son, husband or father sent over to protect the oil supplies. There exists the possibility of the head-on confrontation with the Soviet Union if this policy is carried out."

renewed Camp David negotiations — and a spreading destabilization from Iran. The ultimate goal is the break-up of OPEC and the establishment of a Middle East Treaty Organization (METO) whose nucleus will be Israel and Egypt, and which is projected to include the Sudan, Morocco, Yemen, and Oman as well. METO and the threat of Iran-style destabilizations are to serve as clubs, to keep powers such as Saudi Arabia and Iraq, which are oriented toward development-project cooperation with both Europe and Third World countries, in line.

Europe and Japan: Dependent on outside sources for their oil, Europe and Japan are particularly vulnerable to oil blackmail. The London gameplan is to jack up the price of oil to the \$20 per barrel range, which would wreck plans for European Monetary System-centered industrial development, and to use energy austerity as a battering ram to force the NATO countries onto a war confrontation course with the Soviet Union.

The Western Hemisphere: Using the "oil shortage" as a

pretext, the Carter Administration is threatening military intervention into oil-rich Mexico, a leading developing sector force for industrial development, to force Mexico to abandon its industrialization plans and to incorporate Mexico's oil into its "strategic reserve." Venezuela is similarly targeted.

United States: With London control of the Carter Administration, the United States is being again subjected to the 1977 Schlesinger fascist austerity program, which was previously rejected by the Congress. The essence of this program, as epitomized by the renewed calls for the ENCONO program in the Northeastern states, is the deindustrialization of the U.S.

In the following series of reports, Executive Intelligence Review explains just how the latest oil hoax is being perpetrated, and we review its potential and real impact in OPEC, in North America, in the United States, and on the industrialized nations of Europe and Asia, to assess the chances that the new oil hoax scenario might actually succeed.

The calls for U.S. troops in Mideast

On Sunday, Feb. 25, U.S. Defense Secretary Harold Brown on CBS's Face the Nation, and Energy Secretary James Schlesinger on NBC's Meet the Press, declared that the Carter Administration is planning the use of military force in the Middle East. Both men referred to "protection of the oil flow" as a matter of "vital U.S. interest." "We will take any action that is appropriate, including military force," said Brown, who also said that if the Soviet Union honored its commitment to Vietnam and intervened in Southeast Asia, the situation could "get out of hand."

In fact, as Senator Henry Jackson revealed to a Feb. 24 audience at George Washington University, the projected American military deployment to the Mideast is overtly antiSoviet in nature. "The fact is that we have been witnessing for some time an effort by the Soviets, through the use of proxies and surrogates, to encircle the oil-producing countries on which the West depends. It is time to stop repeating the silly cliché that we cannot be the world's policeman and to begin to think about our future in a world without a cop on the corner. Saudi Arabia, like Iran before it, is in danger of being encircled by friends of the Soviet Union. The danger that the Soviets and their friends will gain control over the 9 million barrels of oil that the Saudis ship daily to the United States and its allies is real and growing."

An appropriate introduction to James Schlesinger's way of enunciating the same policy is his "Meet the Press" appearance. The following are excerpts.

The United States has vital interests in the Persian Gulf. The United States must move in such a way that it protects those interests, even if that involves the use of military strength or of military presence.

I think the President indicated in his speech at Georgia Tech recently that the United States must intensify its efforts to bring stability to the area to ensure the stability and the independence of the states in that area. That is of vital importance to the United States

The President has stated, I think repeatedly, that we must live up to our commitments even to the extent that will require the use of military strength. The United States has substantial influence in the area and we should seek to maintain that influence because it is in our vital interests to do so. . . .

Secretary Brown was recently in the area and he had extended discussions with regard to the future of the United States' role in that area, and the relationships between the moderate countries of that area and the United States. I think that that is a start. . . .

I think that the point . . . is that the United States has a vital interest in the area, that we have been prepared to discuss the question of a military presence in the area with the states involved.

As yet, however, it would be inappropriate to comment further, save to underscore what the President said at Georgia Tech, that we will live up to our commitments, even if it requires the employment of military strength. . . .

How they rigged the oil markets

The 1979 oil hoax began with the shutdown of Iranian oil exports Dec open market, known as the spot market, where over-the-counter petroleum transactions are conducted, which has gone wild in the opening months of this year. Of course, from a technical standpoint one could argue that when the world oil market suffers a shortfall of 5 million barrels a day (mbd), the amount Iran was exporting, then tight supply and high demand during the winter peak consumption season will force prices up. While this is true as far as it goes, there is more to the current market situation than meets the oil industry technocrat's eye.

As in early 1974, this current energy shortfall and pricing spiral was rigged. Once the parameters of a credible—if unreal—demand crisis are established, either with a war as in 1973, or with a full cutoff of exports as today, then the environment is set for a panic, one which is manipulated by industry rumor-mongering and, more importantly, the press.

From the triggering of the Iranian crisis to the rigging of the s

U.S. Energy Secretary Schlesinger, there has been one discrete, behind-the-scenes clique of economic warriors calling the shots. This is an international cold war grouping associated intimately with the Aspen Institute, along with London's International Institute for Strategic Studies which controls James Schlesinger and the Zionist lobby. Royal Dutch Shell and British Petroleum with key oil trading firms such as Philipp Brothers are t so-called energy crisis was engineered.

The end goal of rigging a supply squeeze and a pricing bubble is to force through emergency energy legislation in the industrial nations leading toward supranational control of energy. Domestically, this would be comparable to the Kennedy-Church proposal for a federal oil distributing agency to replace the multi-

nationals. Oil is being used as a political weapon by a handful of powerful individuals to gain control over the world economy no matter what it takes.

How it was rigged

Since December, the oil pricing and supply disruptions have unfolded like a computer printout while the international press fueled the panic feeding into the mushrooming crisis. Here is how it was manipulated and how the manipulators worked.

Step One: As a result of Iran's political upheavals, its 5 to 6 mbd exports, the second largest in the world, halted. Immediately, the media began scare stories of an impending oil crisis, despite the fact that the Saudis had raised production, as did the Iraqis, to help compensate for the Iranian cutback. Moreover, it is widely known that state stockpiles of major consuming nations plus oil company inventories could adequately make up for the estimated 2 mbd global shortfall of oil for several months.

The press also failed to report that British and Israeli intelligence networks, their leftist allies associated with networks linked to French existentialist Jean-Paul Sartre, and the Transactional Institute had had a major role in rigging the Iranian crisis and the accompanying oil shutdown. This in part was mediated through both Royal Dutch Shell and British Petroleum, who controlled the oil consortium that marketed Iranian crude. The corporate controllers of these two oil giants were willing to take the loss of Iranian oil sales if their strategic designs could be met through a rigged oil crisis. The Iranian upheaval, therefore, was calculated to trigger an oil crisis which would serve London's strategic designs.

Step Two: In the second week of January, reports began to surface that the oil sold on the spot markets (though it only includes 5 percent of world oil transactions, the spot market tends to set long-term trends) was selling for far higher prices than OPEC's posted price due to the increased speculation. The *Petroleum Intelligence Weekly* reported that the producers of North Sea oil were involved in triggering a speculative price spiral (British Petroleum and Royal Dutch Shell control half of North Sea oil.) By the end of January, the oil companies, which had marketed Iranian crude, began to cut back on shipments of oil to all their customers.

As a result, many companies began going to the spot market to buy additional oil, further feeding the inflationary pricing pattern. At that time, the prices were quoted as rising to over 50 percent the value of OPEC's crude prices. Many of the smaller U.S. refiners began to complain that they could not afford to purchase crude to make up for the net shortfall of oil due to the oil company crude delivery cutbacks, known as force majeure, which had by that time been imposed. According to the *Wall Street Journal* this week, many of the major oil companies in the U.S. have now refused to buy additional crude from the spot markets because of the high

prices—which is leading towards a reduction in gasoline distribution in the U.S.

This has prompted an array of stringent conservation measures from the Carter Administration including asking for emergency powers to deal with the crisis.

According to a New York oil analyst, it was pressure from both British Petroleum and Shell, applied through Schlesinger's office, which forced the big U.S. multinationals to share the shortfall of crude oil supplies on a global scale with British Petroleum and Shell. As a result, the U.S. is experiencing a cutback in consumption of 5 percent instead of 2.5 which would have been the case had the sharing agreement not been accepted here.

Enter Philipp Brothers

Step Three: By early February, numerous press sources began to leak the fact that Royal Dutch Shell and British Petroleum were making a speculative killing off the spot markets. What the press did not report was that as early as October 1978, Shell had completed a computerized study of all available company inventories going into the first quarter of 1979, an indication that Shell was gearing up for market manipulation through the use of its vast inventories which could be selectively dumped on the spot market at skyrocketing prices. Even the head of the International Energy Agency, Ulf Lantzke, publicly fingered these two London-controlled companies as the key profiteers.

Shortly thereafter, two small items appeared in the French journals *Les Echos* and *L'Express* identifying

Philipp Brothers as having cornered the Rotterdam heating oil market. The week before, badly needed heating oil was reported to have been selling in the Rotterdam spot markets at a 100 percent price increase. This left German vendors who had been hit by refining cutbacks of fuel oil no other option but to buy at these prices. Philipp Brothers has also been named as a major factor in driving up spot crude prices.

The powerful role that Philipp Brothers has played in rigging the speculative pricing bubble escaped every page of the U.S. press, even though such a prominent American financier as Felix Rohatyn, a planner of New York City's austerity-enforcing Emergency Financial Control Board, is on the board of Philipp Brothers. Rohatyn, by no coincidence, is also the author of the proposal for the Energy Corporation of the Northeast, a regional adjunct of the proposed North American Common Market scheme to clamp regional controls on both the U.S. and Mexican economies. This plan is based on raising oil prices and destroying OPEC. This week the seven Northeast governors met to resubmit legislation to Congress creating a Northeast energy corporation to enforce conservation and energy independence.

Philipp Brothers is also closely associated with the London-allied Lazard Freres financial house and is an affiliate of the raw material trading firm Englehard Minerals, which is partially owned by South African diamond and gold magnate, Harry Oppenheimer. In turn, there are direct corporate connections via Lazard from Philipp Brothers to Royal Dutch Shell.

—Judith Wyer

Increase in spot market oil prices — East of Suez markets — Sept. 1978-Feb. 1979

Arabian/Persian Gulf market

Product type	Sept.'78	Oct.'78	Dec.'78	Jan.'79	Feb.'79
Premium gas*	46.5	46.7	47.0	51.5	53.5
Regular gas*	44.0	44.2	45.2	49.0	51.0
Jet kerosene*	41.2	41.6	44.5	50.0	65.0
Fuel oil (3.5% sulphur)**	9.64	9.49	10.09	10.25	12.35

Singapore market

Premium gas*	46.5	46.7	47.7	52.0	59.0
Regular gas*	44.0	44.2	45.2	49.5	56.5
Jet kerosene*	41.2	41.6	44.0	50.0	61.5
Fuel oil (3.5% sulphur)**	10.39	10.50	11.15	11.60	13.25

*Cents per gallon

**Dollars per barrel

Representative spot prices — source: Petroleum Intelligence Weekly

Iraq, Saudis reject price hikes

The following is an Agence France Presse release of Feb. 27 reporting a speech delivered in Baghdad, Iraq by Iraqi Oil Minister Tayeh Abdel Karim.

Iraqi Oil Minister Tayeh Abdel Karim rejected the current effort to increase oil prices and warned that such efforts would be used to foster "plots against the sovereignty" of OPEC countries, a reference to recent statements made by U.S. Secretary of Defense Harold Brown and Energy Secretary Schlesinger.

International imperialism and Zionism will not hesitate to exploit these price increases to incite world opinion against the producing countries and to plot against the sovereignty of these states . . .

He invited the governments of the oil importing countries to control the price of crude by preventing the oil companies from monopolizing the market, and to do this in the interest of the consumers themselves. These companies, he added, make enormous profits at the expense of both the producers and the consumers . . .

He also invited the industrialized countries to seriously cooperate with the member states of OPEC and the developing countries in view of creating a new world economic order capable of guaranteeing stability in the economic, monetary and oil relations between these countries. The establishment of such relations requires respect for the political and economic independence of peoples and their right to develop their natural resources.

'The Price Increase is Temporary'

Speaking from London, Feb. 26, Saudi Arabian Oil Minister Sheikh Zaki Yamani addressed the pricing issue within OPEC as follows:

Some member countries feel that the oil companies are really making a windfall profit, and that they have to take part of that profit back to their treasuries . . . So I do expect some sort of a temporary increase, small in size, by some member countries.

[These individual price hikes] will never be incorporated in the price structure as it was decided by OPEC in Abu Dhabi last December.

[On U.S. Defense Secretary Harold Brown's statement that the U.S. would use "military force" to protect the flow of oil from the Middle East:] Our policy is that we don't want any military assurances in o

The situation within OPEC

The dramatic increase in spot market oil prices has touched off a scramble within the Organization of Petroleum Exporting Countries (OPEC) which has seen some members of the cartel demanding a hike in oil prices above those already set for 1979, while others attempt to hold the line. The scramble is being encouraged by the same Anglo-Dutch forces who are orchestrating the oil shortage, both to encourage the divisions within the organization (if OPEC splits up, they assume they will have a free hand to manipulate oil prices at will) and as a check on forces within the oil-producing community which are opposed to the hoax scenario and are attempting to counter it.

Notable in the latter camp are Saudi Arabia and Iraq. Saudi Arabian Oil Minister Zaki Yamani and his Iraqi counterpart Tayeh Abdel Karim both voiced strong opposition this week to those OPEC members bent on raising prices, and Karim went further, blaming the price hikes on an international conspiracy of "imperialism and Zionism" designed to block cooperation between OPEC and the industrialized West.

OPEC countries which have raised prices from 5 to 9.5 percent — for varying reasons among which manipulation of the spot markets by the oil multinationals has been the major factor — include Kuwait, Libya, Abu Dhabi, Qatar, and Venezuela.

Manipulating OPEC

Numerous inside sources who are wittingly or otherwise involved in the efforts to force an oil price rise are peddling the scenario that if the OPEC nations continue to act heteronomically regarding individual pricing policy, the solidity of the cartel will dissolve. One New York analyst claimed, "the producers will just keep bidding up prices against one another and pretty soon it will become clear that you don't need a cartel to sell oil at high prices, after all aren't high prices what a cartel is for?"

Saudi Arabia is the chief target of this pricing manipulation. It is anticipated that at the upcoming informal OPEC meeting set for March 26, a price setting parley could be called and Saudi Arabia challenged to go along with a second price rise for 1979. What could well happen is a replay of the 1976 price split within the cartel, something the Saudis wish to avoid at all costs.

The crucial question with respect to future OPEC developments is how firm Iraq-Saudi relations are. According to informed Washington sources, since the Iranian crisis erupted, Iraq and Saudi Arabia have become close allies and have closely coordinated Persian Gulf security matters. At work is a secret agreement between Riyadh and Baghdad which includes coordinating oil policies. The similarity between the Yamani and Karim statements this week furthermore verifies their collaboration. Together the two countries represent a formidable force within OPEC, controlling half of OPEC's total present production, a crucial determinant in defeating the price rise front. But the Iraqi-Saudi alliance is very new and in many respects the two are still testing the waters, regarding each other in view of their divergent ideological backgrounds.

The Iranian factor

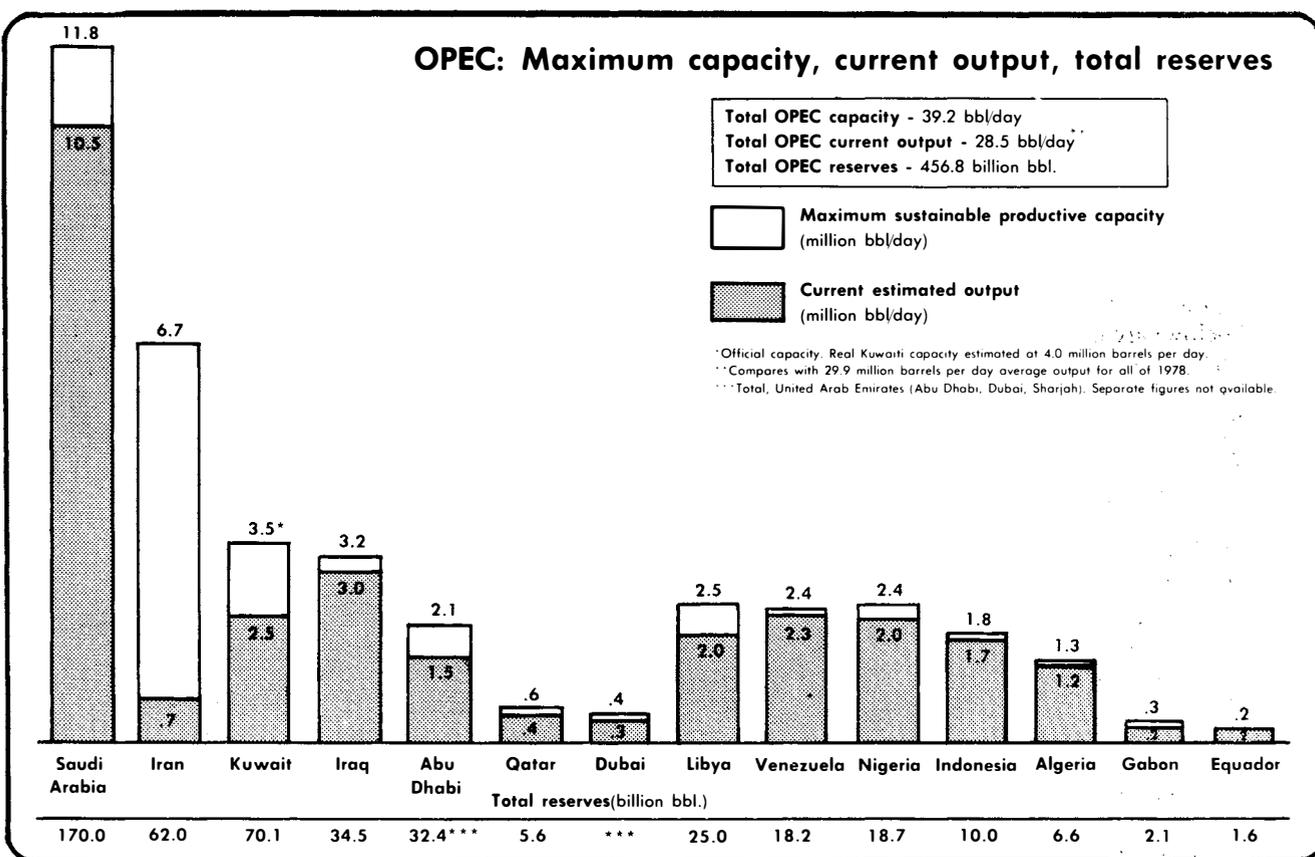
According to Iranian government officials the government of Premier Bazargan may order Iran's first exports of oil this year as early as next week. As the *Jour-*

nal of Commerce aptly put it today, the Iranian government will not long be able to ask the \$20.00 a barrel it intends to if it begins exporting even 2 million barrels a day. As soon as the market begins to absorb Iranian crude, the spot market price bubble will begin to deflate as the supply of oil globally increases. This development, no doubt, was behind Yamani's assertion this week that the price rises within OPEC would not last long.

Producer-consumer cooperation

Both Yamani and Karim called for closer coordination with the industrialized nations to resolve the broad issues of future energy supply, and to deal with the unruly elements within the international oil business. French President Giscard d'Estaing recently called for a similar dialogue between the European Community, the underdeveloped sector and the oil producers and has sent Industry Minister Giraud and Foreign Minister Francois Poncet to the Mideast to organize such a parley. Even without Iran, the OPEC producers are physically capable of meeting current world needs. Support for a positive dialogue with OPEC within the industrialized sector is perhaps the greatest single weapon for breaking the power of those who wielded the oil weapon in 1974 and are attempting to wield it again.

— Judith Wyer



'U.S. will go to war for oil'

The Carter Administration has to pull Mexico into a North American Common Market that will place Mexican oil at the disposal of the United States for its strategic requirements, place the country itself under a U.S. "security umbrella," demolish all tariff protection for Mexican industry, supply the United States with cheap Mexican labor, and curtail Mexico's sovereign control over its own currency. That arrangement is vital to U.S. "national security" and the Administration must be prepared to go to any length to impose it — including a military invasion of Mexico. With Mexico's oil securely under Washington's control, the United States would have a vastly improved "security posture during a conventional war."

These are the conclusions of a private report circulated among Administration officials, two days prior to President Carter's Feb. 14 visit to Mexico, and prepared by the "extraofficial" circles that shape Administration policy. The implications of the document (excerpted below) are unmistakable. As Defense Secretary Harold Brown and Energy Secretary James Schlesinger announced on Feb. 25, the United States is prepared to militarily intervene in any part of the world to secure its oil supplies.

Mexican authorities are well aware that Carter Administration policy represents an economic and *military* threat to their national sovereignty. The Mexico City daily *Ovaciones* yesterday ran a frontpage banner headline warning, "Beware the U.S.!" The article cites a statement released by the Mexican Labor Party on Feb. 23 warning that the Peking-London-Washington axis sees Mexican oil as U.S. property and as a key component of preparations for war with the Soviet Union. *Ovaciones* pointed to threats by Brown and Schlesinger as proof of the party's charge.

Jorge Cruikshank, chairman of the Popular Socialist Party, similarly warned on Feb. 24, that the United

States is gearing to apply pressure on Mexico to grant the concessions which President José López Portillo refused to concede to Carter two weeks ago. Washington, said Cruikshank, will even try to "pick" Mexico's next president by the end of this summer — three years before López Portillo's term runs out.

Mexican oil a matter of national security

The private report cited above confirms Mexico's suspicions. Released by the New York investment firm of Blyth, Eastman, Dillon and Co., the document calls for a "common market that would integrate the vast energy resources in North America," and allow the United States to sever its reliance on OPEC. Assuming that "nationalistic differences" between Mexico and the United States can be dispensed with, a "very large crude oil pipeline to the nearest crude trunk lines in Texas could be built to carry several million barrels daily," the report continues. Without Mexican oil, the "United States will face the steady erosion of its national security." With it, the United States would have an enhanced "ability to provide a shield against potential Soviet expansion" around the globe.

Despite Blyth, Eastman, Dillon disclaimers that their report does not represent policy, its release is typical of the means by which Administration-linked circles "leak" policy on sensitive issues. Informed sources report that California's Zen Buddhist Governor Jerry Brown is not only a close "friend" of Blyth, Eastman's research director Francis Kelley, but that Brown collaborated with Kelley to make sure the report was circulated prior to Carter's departure to Mexico.

The author of the document is Kenneth E. Hill, the former president of Blyth, Eastman, the former director of petroleum research at Chase Manhattan, and now a member of board of Standard Oil of California. Recently, Hill gloated to a reporter that he circulated the proposal among high-level sources, including Secretary of State Cyrus Vance and Henry Kissinger, who agree "its time has come."

Blyth, Eastman, Dillon is owned by the Insurance Company of North America, one of the major patrons of Senator Edward Kennedy's health bill and "die with dignity" hospice campaigns. One of the INA's top officials is the son of George Ball, a former Carter foreign policy advisor and an outspoken advocate of depopulating the Third World through "triage."

And what would the Carter Administration offer Mexico in "exchange" for this scheme?" Mexicans would be allowed to work at stoop labor in the United States. Mexico must first drop all tariff protection for its rapidly growing industrial sector. Even more, Mexico would be stripped of sovereign control over its own currency, since the United States, Canada, and Mexico "would also link their currencies together."

Latin America: raw materials stockpile for U.S.

The danger concerns not only Mexico. The objective of the policy-outlook typified by the Blyth, Eastman, Dillon report is to treat the entirety of Latin America as a U.S. wartime raw materials stockpile. Venezuelan oil is a big target, as Brzezinski, Schlesinger, and others have stepped up pressure for Venezuela to grant the same sort of "special" oil deal they're demanding from Mexico. A special delegation from the incoming Herrera Campins government of Venezuela is in Washington this week, receiving extensive "briefings" from Brzezinski and Schlesinger on just how the United States expects them to grant Washington long-term "privileged" access to Venezuelan oil and to break from

OPEC. The visiting team is headed by Aristides Calvani, a member of Venezuelan "Black International" circles controlled from London.

The full reach of the attempted raw materials looting was leaked through an Anglo-American source in Colombia this week. Alberto Lleras Camargo, a principal architect of the Kennedy Administration's Alliance for Progress during the 1960s, wrote in a Feb. 21 column in *El Tiempo* that Washington should devote more attention to Latin America, because it is the only region in the world that can guarantee a supply of strategic raw materials to the United States in "peace or war."

— Christopher Allen

Common Market: threat to seize oil

The Blyth, Eastman, Dillon investment research firm has circulated among high-level Carter Administration officials a report on "North American Energy: A Proposal for a Common Market Between Canada, Mexico, and the United States." We print the major points of that proposal below.

Recent events in the Middle East have demonstrated conclusively that the United States cannot continue to depend on imported oil from the Persian Gulf. The Iranian crisis as well as the excessive OPEC price increases to be implemented this year have shown that both our security and our economic future are hostage to the actions of a few countries located in the Middle East. Our dependence on Middle Eastern crude oil imports need not exist if we had a North American energy policy that recognized the availability of sufficient energy resources on our continent that could, absent nationalistic differences between Canada, Mexico and the United States, supply nearly all the legitimate energy requirements for the three nations for years ahead. What is needed is a form of common market that would integrate the vast energy resources in North America through an efficient distribution system, while accommodating all other free trade aspirations of the three nations amongst themselves....

The indicated reserves in Mexico should eventually reach 50-100 billion barrels of oil and 50-100 trillion cubic feet of gas. These reserves should support production rates of 7-8 million barrels of oil per day by 1990 and 4-5 trillion cubic feet of natural gas each year. Since Mexican demand is not likely to exceed several million barrels daily

of oil and gas equivalent by then, the remainder should be available for export, hopefully much of it to the United States....

Thus it is possible to visualize importantly increased production of oil and gas, as well as other energy sources in North America, which together with reduced consumption, could eventually provide energy equilibrium for Canada, the United States and Mexico, with only relatively small imports of oil from the OPEC countries....

It is proposed, therefore, that the three adjacent North American countries of the Western Hemisphere form a common market association with free movement across the borders of all commodities, particularly oil and gas, but people as well. Without this cooperative effort in North America, the United States will face the steady erosion of its national security together with slow economic strangulation — a fate that could be shared by other Western democracies as well.

This common market concept for North America would have to be implemented slowly, but with unwavering dedication. It must be fully in place no later than 1990. The eventual pricing of all oil and gas in North America would be at the BTU equivalent of world levels for all these commodities, through the elimination of all price controls over a period of time. All old oil and gas in the United States would rise to world prices and a steep excise tax on gasoline should be imposed. Vigorous conservation measures should also be undertaken to keep consumption increases to a nominal level. Development of all other forms of energy would be encouraged through the private sector, but with government tax incentives, if necessary....

While efforts in exploration, research and production of domestic energy resources would continue at a rapid pace, conservation efforts in the United States would also be increased, principally by much higher

prices as well as mandatory regulations. The rate of growth in demand for energy should slowly decline so that our consumption of energy by 1990 should cease growing and continue at a stable level for years thereafter. *This would slowly reduce per capita consumption in the United States; however, a steady reduction in energy consumption per unit of GNP could be realized through efficiencies which would allow steady industrial growth to take place in real terms.*

In Mexico, we have the contrast of a country with vast reserves of newly discovered oil and gas, and a rapidly growing population, but with a developing country standard of living. If Mexico could be persuaded to join the North American common market, a very large crude oil pipeline to the nearest crude trunk lines in Texas could be built to carry several million barrels daily.... All of these projects could easily be financed with the help of international banks and private or public consortiums in any manner the Mexican government would authorize.

What would Mexico receive in return for dedicating much of its oil and gas production surplus to their own requirements to the North American Common Market? First of all, there would be no further barriers to free immigration of Mexicans for work in the United States and Canada. This would provide the United States with a large, low cost labor force, but on a recognized, legitimate basis in contrast to the present illegal alien problem. But above all, this would provide an outlet for the millions of unemployed, under-utilized Mexicans who cannot obtain jobs in Mexico....

The three nations would also have to link their currencies together, but this should not present a problem since both the Canadian dollar and the Mexican peso have been even weaker than the dollar against the basket of world currencies....

And the currencies of the three countries would inevitably rise against other world currencies *since North America as a unit would be self-sufficient in energy, agricultural commodities and minerals — unlike Europe and Japan. It is possible that integrating the vast energy resources of North America could lessen the ability of OPEC to raise world prices for oil, since the largest current market for OPEC oil — the United States — would be largely lost over a period of time.*

The United States would extend its security umbrella to Canada and Mexico to make all three nations equally secure against any external military threats to North America. We would also continue our NATO relationships and even strengthen them, if necessary. Furthermore, to help Mexico's Latin neighbors to the south become reconciled to Mexico's special relationship with the United States, we could go as far as practicable to extend our security protection through the Caribbean, if those nations so desired....

Hill: 'Mexico is a horrible place'

In the following interview, made available to the Executive Intelligence Review by a Boston-based journalist, the author of the Blythe-Eastman-Dillon proposal for a North American Common Market states frankly what lies behind his thinking. Kenneth Hill, 64 years old, headed Chase Manhattan's Petroleum Division before becoming a partner in the Blythe-Eastman-Dillon firm. Now semi-retired, he serves on the board of directors of Socal.

Q: *What do other people think of your proposal for a North American Common Market?*

Hill: People just love it, everyone thinks its time has come. Look, I'm the author of this proposal, I must say. The proposal actually was first circulated in December of last year. I sent copies to all kinds of people, including Vance, Packard, Kissinger, and Bill Simon, and I've been getting calls ever since. I gave it to Francis Kelly of Blythe-Eastman-Dillon, the head of economics there, and he is one of Gerry Brown's top advisors. Mark my words, Gerry Brown is going to really use this idea. It's the answer to America's energy problems and a way of dealing with our relations with our closest neighbors. Yes, it will be a major issue in his nascent presidential campaign.

Q: *Mexico has made it very clear that they won't use their oil as an anti-OPEC measure, and obviously some people in the U.S. see it this way. They may well object to your proposal.*

Hill: That's their problem. Look, Mexico is a horrible place — poverty, unemployment, illegal aliens pouring across the border, people living in hovels and on and on. I want to try to legitimize all these people, raise them up. That's what the Common Market idea is all about — mutual benefit for all three nations.

Q: *But President Lopez Portillo has made clear he just doesn't want money for his oil, he wants capital-intensive investment by America and America's know-how and technology. Do you see all the money they can make from their oil sales going in this direction or in utilizing their labor more, that is, in labor-intensive investments?*

Hill: Let's face it, labor is what they have. I mean labor-intensive. Let's concentrate on rebuilding agriculture, not industry. I want to educate those poor peasants, build them houses, give them sewerage, decent clothes, etc. And we will have to do it without creating inflation, by not flooding them with dollars. That's what happened in Iran, look at the inflation there, it helped wreck them.

Q: In your proposal, you urge that the Common Market be phased in by 1990. But with the crisis in Iran and the Middle East, and if the Saudi oil supply is similarly cut off, won't the Common Market have to be implemented a lot sooner?

Hill: You're damn right there. Look at the sudden change that hit Iran. The Saudi regime can't go on forever, it's got to change. And when it does, who knows what kind of hell will break loose. We have to be prepared. Saudi Arabia may well be next.

Q: Are you concerned by Mexico's apparent softness toward Moscow and the communists?

Hill: Yes I am. Do you know that the Cubans are running all over Mexico, sending their professors into universities and throughout the country? The Common Market will help prevent any Communist notions in Mexico, definitely.

Ovaciones: defend Mexico from a U.S. attack

On Feb. 27, the Mexico City daily Ovaciones published an article entitled "Mexico Faces Risk Because of its Oil Wealth." The article quoted extensively from the Mexican Labor Party's call to the Mexican people. Excerpts from the article follow.

A demand that the Mexican government call on the population to remain alert was made by political parties of opposing ideologies — the PAN, the PLM, and the PSR — who agree that the danger exists that the U.S., desperate because of the unstable situation of its traditional (oil) supply centers, "might send in Marines to guarantee the supply from our oil wells."

The Mexican Labor Party (PLM), through its most well-known leaders, affirmed that "it is foreseeable that (the U.S.) might try to seize our resources by force." The PLM leaders, Marivilia Carrasco, Patricio Estevez and Hector Apolinar, stated that the present situation "is a security matter."

For our own national interest, they said that we must defend "the heroic and sovereign Republic of Vietnam and isolate the Chinese regime, immediately breaking our relations with that government and denouncing before the world the real culprits: Jimmy Carter's group of lunatic imperialists."

They maintained that the offensive (against Mexico — ed.) will escalate "and we must be prepared to repel it. It is a matter of our security and our national sovereignty to form as quickly as possible a National Guard (as authorized in the Mexican Constitution — ed.) as the ultimate guarantee of our independence."

'Latin America has the strategic resources for war'

The following are excerpts from a column, which appeared in the Colombian daily El Tiempo on Feb. 21. Entitled "Montezuma's Revenge," the column was authored by Lleras Camargo who worked with the Kennedy Administration's Alliance for Progress.

Now for example, many North Americans should be discovering, to their astonishment, that the two sources of oil for their most urgent needs are in Mexico and in Venezuela, and not in Iran or in Saudi Arabia. Both countries have grievances with the U.S., caused by Congress or the Executive, without any object or apparent reason....

While the infinite possibilities of its postwar empire are shutting down, the United States remains fastened to its improbable friendship and alliance with the so-called client states, one of which was Iran, whose fragility has been made evident in the present emergency. But 'client countries' have always been those of Latin America, some to greater degrees than others, since remote times, and not always voluntarily, as is exactly the case with Mexico.... Of all the North American presidents, only Kennedy, hounded by the Bay of Pigs disaster, attempted to make another policy, the Alliance for Progress, which scarcely began before it was interrupted.... The rest have only been essays, changes of labels, confused aims and total forgetting of the fact that the (Latin American) hemisphere is the only one that cannot fail the imperial power, nor has it ever failed it. The region is perhaps not very productive, but it nonetheless has many of the strategic resources that its (the U.S. —ed) industry needs, in times of peace or war....

Canada: overlord of a Common Market

Canada is taking full advantage of the curtailment of Iranian oil exports and increasing international tensions to take major steps toward establishing itself as the control center of a North American common market overseeing war-time energy supply and distribution. Recent Canadian measures conform with the long-standing energy independence policy known in the United States and Canada since 1968 as "Project Independence."

Both the common market and "Project Independence" strategies are based in the assumption that the world economy will have collapsed into warring regional blocs and that oil from the Organization of Petroleum Exporting Countries (OPEC) to North America will be cut off by the 1980s.

North America will be ready with energy self-sufficiency, a 20-30 percent cutback in continental energy consumption, a freeze on generalized technological development in the energy field, particularly in nuclear fission and fusion, and a major emphasis on the "soft" energy technologies of coal liquification, shale oil, solar, and tar sands. The economies of Canada, the United States, and Mexico will be "equalized" on the basis of a "common energy, trade, and labor market."

Such programs would chain the North American economies to a fixed technological base that would in a very short period of time result in a net shrinkage of not only energy consumption, but industry and population. Needless to say, the common market scheme requires a level of centralized dictatorial control over energy never seen except in wartime.

Canada is preparing to take control by implementing all aspects of the common market policy.

War measures act for energy

Canada's Federal Energy Minister Alistair Gillespie introduced legislation into the Commons on Feb. 19 calling for the establishment of an Energy Supplies Allocation Board. The board will have top-down control over the allocation, consumption, and transport of all petroleum and alternative fuels and will supersede the present "peace-time" powers of the Canadian National Energy Board and the Canadian Transport Commission regarding energy. The bill, known as C-42, provides for controls over pricing, marketing, and rationing and is expected to be quickly passed through Parliament. Unlike the earlier legislation, C-42 has no time limit, but is designed as a permanent measure.

Coinciding with the introduction of Bill C-42, the Canadian government moved to place all petroleum imports and acquisitions under federal control. Using Exxon's recent diversion from Canada to the United States of 25,000 barrels a day of Venezuelan oil as the pretext, Energy Minister Gillespie has threatened to place all oil imports to Canada under the control of the Canadian Crown Corporation, Petrocan.

Gillespie's move has important implications for the consolidation of Mexico's energy reserves into the "common market" scheme. Canada has been attempting to negotiate the purchase of 100,000 barrels per day of oil from Mexico, even dangling the carrot of Canadian CANDU fission reactor sales to Mexico.

A third aspect of the proposed North American energy consolidation plan involves various oil and natural gas "swap" arrangements between the United States and Canada. One such arrangement exists between British Petroleum and two U.S.-based firms, exchanging increased Canadian export to the U.S. West for the diversion of a similar amount of oil from the eastern United States to the Maritime provinces. With the crisis in Iran, numerous other arrangements are now under consideration by the Canadian National Energy Board. The oil firms involved are dominated by Royal Dutch Shell, Imperial, the Dutch-based Petrofina, Standard Oil of Indiana, and British Petroleum.

The fourth aspect of the plan is a series of drastic curtailments in advanced technology energy projects in Canada's most industrialized province, Ontario. On Feb. 14, Robert Taylor, chairman of Ontario Hydroelectric, told reporters that at least one and probably four major generating stations, including the Bruce B heavy water plant, will be "mothballed." Projected provincial energy needs were recently revised from a 5.5 percent annual growth rate to just above 4 percent. The smallest of the targeted plants is the Wesleyville station, a high technology coal-fired plant designed for a total capacity of 2000 megawatts. Also cut was the proposed Darlington nuclear station, a centerpiece of Ontario's aggressive nuclear development policy.

The energy crisis measures being planned and carried out are coupled with renewed emphasis on what fossil energy reserves Canada does have.

* Off-shore oil drilling has restarted in Labrador and in the Beaufort Sea.

* The estimated reserves of oil and natural gas in the Alberta basin have been revised upward. Canada's External Affairs Minister Jameison has announced the general willingness of Canada to increase its energy supplies to the United States on terms appropriate to "crisis management."

* The tar sands projects in Athabaska, Alberta, and Saskatchewan are being pushed. Current projections are for over \$100 billion in investment in Canada's heavy oil and tar sands reserves.

Schlesinger wars on U.S. economy

In the latest twist in his checkered career as a crisis-scenario-monger, Energy Secretary James Schlesinger has submitted drastic, mandatory energy cutback measures to Congress that would give President Carter sweeping control over the daily activity of American citizens and business. The Schlesinger proposals call for:

- Mandatory gasoline rationing, effected by rationing cards limiting car owners to a maximum of two gallons per day. In addition, Schlesinger would create a legal "black market" in gasoline, by allowing individuals to sell their rationing cards. Estimates are the price of this black market gas would rise to \$1.20 per gallon.

- Mandatory cutbacks in heating, cooling, and hot water temperatures of public buildings, to be enforced by local police.

- Forced closing of gas stations on weekends.

- Ban on unnecessary commercial lighting.

According to the law under which the proposals were submitted, the Schlesinger proposals may not be amended by Congress, they can only be rejected or passed, a decision which Congress must make within the next 60 days.

Once passed, the measures would go into effect upon presidential declaration of a national emergency.

Moreover, a "Phase II" of the cutback measures is now in preparation which would give the government similar power to allocate crude oil and oil supplies to industry. The two phases would place complete control over all phases of American oil consumption in the fingers of the unstable Carter and his lunatic Energy Secretary, and enable them to put the U.S. economy on a total war footing.

Seizing on an atmosphere of fear brought on through press hyping of an oil shortage which he characterized as an "energy Pearl Harbor," Schlesinger is attempting to ram into law emergency measures for an energy crisis he himself has publicly admitted does not exist. On a televised news program Feb. 25, Schlesinger

admitted that the closing of Iranian oil production had not as yet affected the U.S.'s fuel supplies.

In fact, the well-publicized climate of fear, which includes large hikes in some oil prices and scattered shortages, has been deliberately orchestrated, primarily by the two foreign oil majors, London-based British Petroleum and Royal Dutch Shell. Not coincidentally, these are the forces named as being behind the current Iran crisis and the manipulation of the skyrocketing international spot markets for oil.

According to industry analysts, they are able to conduct this operation through an informal international "sharing" agreement among the oil majors. Under this plan, the other five members of the so-called Seven Sisters, Mobil, Exxon, Texaco, Gulf and Socal — all U.S.-based companies — have agreed to "share" international oil supplies with the London-based British Petroleum and Shell to balance the impact of the loss of Iran's oil to the Anglo-Dutch majors.

As a result, according to one informed estimate, the actual impact of oil shortages on U.S. suppliers is double what it should be. This sharing is a major reason Exxon announced that its enormous Baytown, Texas refinery was cutting production of home heating fuel by a whopping 50 percent beginning March 1. It is also the reason Texaco and other companies are beginning to reduce supply to their domestic customers, even though they held little or no part of the Iran consortium.

Why now?

Schlesinger has waited for a crisis atmosphere that would make it possible for Congress to be stampeded into passing legislation which, under normal circumstances, it would certainly reject. This latest plan for gas rationing is essentially the same as the one drafted by the Energy Secretary last summer, one congressional source said. It was shelved then because few found it politically palatable.

Even now Schlesinger's scenario has drawn fire. Speaking at the National Governor's Conference in Washington, where Schlesinger was present, Texas Gov. William Clements, recently back from talks with Mexican officials on energy cooperation, demanded that Schlesinger resign. Clements, who served under Schlesinger in the Defense Department before Schlesinger was fired as Defense Secretary in 1975, called the gas rationing plan "unwise and totally ridiculous." He countered with a proposal for increased production of oil, coal, and nuclear energy.

Phase II

To complete the picture, according to an informed Senate Energy Committee source, Schlesinger's office is preparing a second phase of this package, which the President will submit to Congress next month. This program, which enlarges on an existing Mandatory Crude Oil Allocation Program covering small refineries, would

The oil hoax — attack on EMS

give the government control of distribution to refiners of all domestic and imported crude oil under the appropriate emergency conditions. If the rationing and allocation packages are passed by Congress, the two together would give Schlesinger full control of the nation's energy supply, a stated prerequisite to the implementation of the North American Common Market proposal supported by Senators Kennedy and Jackson.

The announcement this week, by Sen. Henry Jackson, Chairman of the Senate Energy Committee, that he will hold hearings on the "rumors" that U.S. oil companies are responsible for forcing the oil price hikes is in line with the Schlesinger scenario.

Jackson chose to ignore testimony from Department of Energy Assistant Secretary Harry Bergold that it was "foreign" — that is, BP and Shell — not the U.S. entities who were culpable. Thus, the stage is set to watergate precisely those oil companies with the strongest ties to Saudi Arabia and other OPEC nations which could, in fact, make up any real U.S. shortfall. The Jackson hearings will feed into Sen. Kennedy's plans to break the political and economic power of these same companies through forced divestiture of their holdings.

Since 1977, Schlesinger has been committed to deindustrializing the U.S. economy. He was previously delayed by Congress's rejection of the energy program Carter introduced in 1977, but if he is successful now, the U.S. faces an economic collapse whose dimensions are not even suspected.

—William Engdahl

What U.S. oil cutbacks look like

Citing direct and 'indirect' effects of the loss of Iranian oil exports since Dec. 26, a number of major U.S. oil companies have announced cutbacks of their allocations of refinery production.

Exxon, the world's largest oil company, announced this week that it is cutting deliveries of low-sulfur fuel oil to customers by 75,000 barrels per day beginning March 1. This is a 50 percent cutback in this type of oil, used for home and industrial heating.

Shell Oil, the U.S. subsidiary of Royal Dutch Shell, which has played a major role in forcing up international oil prices, has announced it will cut its output of refined gasoline product by 5 to 8 percent. Shell is the nation's largest U.S. marketer of gasoline. This is an estimated 400,000 barrels

Texaco has cut its output of refined gasoline product by 5 percent, or an estimated 150,000 barrels per day.

Although the U.S. financial and oil trade press has expended reams of copy in discussing the ramifications of the Iranian oil cutoff and recent oil price hikes, most commentators have missed the essential point: The oil crisis of 1979 has been deliberately rigged at the highest levels of the Anglo-American intelligence elite with the primary objective of busting up the European Monetary System (EMS). The EMS, as this publication has documented in previous issues, is no mere currency-stabilization scheme but a Franco-German-led effort to establish a vast "Euro-Asian" economic cooperation bloc, including the Soviet Union, Japan, and the Middle East oil producers. The oil crisis is intended to obliterate this nascent new world monetary system by setting off an inflationary oil price explosion which will thoroughly disrupt the economies of Western Europe and Japan and undermine the fragile international credit structure.

This "bust EMS" strategy was outlined by Sir George Boulton, a senior advisor to the Bank of England and former chairman of the Bank of London and South America (BOLSA), at a United Kingdom banking conference on Jan. 17: "I would ... refer to those countries or territories which are probably incapable of further growth or are in a state of decline. Western Europe — an area which before 1914, when it included Imperial Russia, controlled or substantially influenced the whole world — has in two wars lost all the advantages of political control and the effective control over the raw material resources of what is now called the Third World.... The Moslem world is rapidly moving into a condition of religious civil war, and no matter who controls the Gulf, the supply of oil, not only from Iran, will probably shrink. In these circumstances business over most of Africa and all the Middle Eastern countries will suffer and consequential defaults and bankruptcies will multiply. Western Europe will be affected by the rising price of oil exacerbated by shortages. Europe has no immediate alternative sources of energy

Table I
Iranian oil shutdown: how major economies are effected

Gross Imports of Crude Oil in 1978 (Estimates)
(1,000's of Barrels Per Day)

	Total Imports (1000's BPD)	From Iran % of Total Imports	From Other Leading Exporters	% of Total Imports
FRANCE	2,328	9.5	Saudi Arabia Iraq United Arab Emirates	34.5 17.4 8.4
GERMANY	1,882	18.8	Libya Saudi Arabia Nigeria	15.6 14.7 10.6
ITALY	1,890	14.0	Saudi Arabia Iraq Libya	22.8 15.6 13.5
UNITED KINGDOM	1,318	14.0	Saudi Arabia Kuwait Iraq	21.3 17.1 13.6
UNITED STATES	5,925	9.5	Saudi Arabia Nigeria Libya	17.4 13.6 9.5
JAPAN	4,421	19.0	Saudi Arabia Indonesia United Arab Emirates	30.4 13.3 10.4

Note: These are gross figures. They do not take into account exports or re-exports.
Source: Energy Economics Research Ltd.

Table II
Trade balances — effect of a 50% oil price hike

Figures in parenthesis () are negative

	1978	1978		Addition to Net Oil Import Cost with 50% Price Hike (bns. of U.S. \$)	1979
	Net Imports of Crude & Products (Mns. of barrels per day)	Oil	All Goods		Oil Trade Balance with 50% Price Hikes* (bns. of U.S. \$)
FRANCE	\$2.2	\$(11.1)	\$(0.8)	\$ 5.6	\$(16.7)
GERMANY	2.7	(15.7)	17.1	7.9	(23.6)
ITALY	1.7	(8.1)	(0.4)	4.1	(12.2)
SPAIN	0.8	(4.6)	(6.0)	2.3	(6.9)
UK	0.9	(4.5)	(6.9)	(0.4)	(4.1)
EUROPE TOTAL**	10.8	(57.5)	(11.7)	26.1	(83.6)
CANADA	0.3	(1.6)	1.8	0.8	(3.4)
JAPAN	5.3	(25.5)	18.2	12.8	(38.3)
UNITED STATES	8.0	(40.0)	28.4	20.0	(60.0)
TOTAL	24.4	(124.6)	(20.1)	59.7	(184.3)

* Except for the U.K., it is assumed that there are no changes in the volume of net imports. In the case of the U.K., figures have been adjusted for increased North Sea oil production in 1979.

** Austria, Belgium, Denmark, France, Germany (Federal Republic), Italy, Netherlands, Portugal, Spain, Sweden, Switzerland, U.K.
Source: Energy Economics Research Ltd., Morgan Guaranty.

and will have to adapt economies to energy austerity and the abandonment of cherished social reforms, and governments will have to get used to electoral unpopularity."

Who's hurting most?

Just how vulnerable are Western Europe and Japan in the present oil crisis? The question must be broken down into two parts: First, to what extent are these economies prepared to deal with a protracted cutoff of Iranian supplies or with the loss of additional supplies as a result of further political destabilizations and/or wars (e.g. an Egyptian attack on Libya) in the Middle East region? Second, how will Western Europe and Japan be affected should a generalized oil price hike in the order of 50 percent (in a "worst case" scenario) be imposed during 1979?

In assessing the data, bear in mind that it is based on the supply trends in effect prior to the crisis. While the oil hoax confronts the Europeans and Japanese with a grave threat, they are by no means without options, some of which are indicated. Above all, it must be remembered that there are powerful forces within the oil-producing countries which are opposed to the oil hoax scenario, and are open to direct collaboration with the affected advanced sector nations.

Table I (page 22) shows total 1978 gross crude oil imports for twelve major western European economies, the U.S., Canada, and Japan and percentages imported from Iran. In addition, the table lists the three leading oil suppliers (other than Iran) for each importing country and percentages of total imports. Clearly, with the exception of France, all of the Western European countries and Japan are much more highly dependent on Iranian oil as a share of total imports than is the U.S. An even more dramatic contrast emerges when we compare this data with figures recently published by the Morgan Guaranty newsletter "World Financial Markets" showing net oil imports (including

oil products) as a percentage of *total energy consumption*: France, 60.0 percent; West Germany, 53.3 percent; Italy, 68.0 percent; Japan, 73.4 percent; United States, 22.0 percent; United Kingdom, 21.4 percent.

It is, of course, still possible that Iranian exports may resume previous levels (the Iranian government has announced that oil exports will start up next week, although exports levels have not yet been specified). Most European and Japanese countries have large government-held or private stockpiles and, since tankers take several weeks to reach their destinations, most have only begun to be affected by the Iranian shutdown. Nevertheless, national oil companies have been scrambling to nail down additional supplies from other countries, such as Iraq, Venezuela, and Nigeria, and, in some cases, have been forced to resort to the spot oil markets where crude oil is selling at well over \$20 a barrel. Japanese stockpiles are already being run down and the French government has had to impose limited conservation measures.

The impact of a second generalized OPEC crude price hike this year is potentially much more serious. Table II (page 23) provides a rough estimate of how trade balances of major Western economies would be effected in the event of a 50 percent price hike to levels close to those presently prevailing on the spot market (that is, from \$12.70 per barrel of Saudi light crude at the end of 1978 to \$19.00). Assuming oil import volumes remain the same, a price hike of this magnitude would add a whopping \$60 billion to the oil trade deficits of the twelve European economies, the U.S., Canada, and Japan! This does not even take into account the effect on the oil bills of the non-oil producing Third World countries.

The sudden imposition of this enormous "tax" on the world economy has the following implications: First, the EMS could be torn asunder as the weaker European economies are forced to turn to West Germany and Japan for bail-out funds (even as the German and Japanese trade and current account surpluses are dramatically reduced). Second, the industrialized economies will be faced with a major contraction in their exports as Third World countries are forced to slash imports to free up funds for oil payments. Third, the present "excess liquidity" in the Eurodollar credit markets will quickly vanish as European and Third World countries compete for funds to cover the increased oil tab. An isolated default or bankruptcy, as in the 1974 Herstatt crisis, could then provoke an unraveling of the entire Euromarket structure. Under these circumstances, long-term development lending to the Third World, the core of the EMS program, would be nearly impossible.

Qui bono?

At the same time, the strategic position of the United Kingdom and its ruling elite (who are responsible for the

anti-EMS posture of the U.S. government) would be notably enhanced in this "worst-case" scenario. Britain's North Sea oil exports have risen sharply in recent months and the UK government intends to achieve oil "self-sufficiency" by the end of 1979. British oil companies able to charge the extortionate spot market prices for much of the North Sea exports, *so that Britain stands to emerge as a major beneficiary of the oil crisis*. According to the Feb. 24 issue of the *London Economist*, "Britain could shrug off the (Iranian) shortfall virtually unscathed, and be able to get through 1979 without any major shortages. North Sea oil production is building up towards self-sufficiency at a satisfactory rate ... Two-thirds of Britain's oil needs are already being met by the North Sea, and the average 600,000 barrels a day of exports are earning a nice new inflated price." During January, the average daily crude output in Britain's North Sea fields jumped to 1.46 million barrels a day, compared to 1.35 million in December, and only 885,000 in January 1978.

What follows is a brief summary of how the Iranian shutdown has effected other major economies thus far:

Iranian impact

Japan: Depending on oil imports for over 73 percent of its energy consumption needs, Japan is the most vulnerable to an oil shortage of any of the major economies. Oil refiners are expected to process 6.9 percent less crude in the first quarter than originally planned and actual deliveries will slip 2 percent below target. The government is permitting companies to draw down stockpiles to 80 days' supply in March, compared to 84 days' holdings in December and 90.6 days in November. *France*: During the last week, oil companies have begun to limit supplies of gas oil and home heating oil to customers, with Shell delivering only 85 percent of the quantity supplied last year and the French company CFP cutting deliveries 13 percent from last year's levels. The government oil company (Elf) announced on Feb. 23 that it may have to limit deliveries of home fuel oil and gas oil to top-priority customers, such as hospitals, clinics and schools, as well as to contract customers in some areas of France. The French government recently warned the companies that the country's strategic stockpiles must remain at the 90 days' level, restricted the export of petroleum products, firmed up price ceilings to prevent speculation, and ordered companies not to sell more oil to large customers than they did last year.

However, the French shortage may soon be alleviated as a result of a deal negotiated by French Foreign Trade Minister Deniau with Iraq last week. Iraq will allow France to purchase 25 percent more crude oil in 1979, or an additional 5 million tons, which should take care of about half the Iranian shortfall. French President Giscard announced on Feb. 16 that

the French government would be making top-level diplomatic contacts with several Arab oil-exporting countries in the next few weeks to discuss supplies. Giscard said he would place the energy problem on the agenda for the meeting of EEC ministers in March, perhaps indicating that the French government has plans underway to avert a disastrous escalation of the crisis.

Germany: Although West Germany is more dependent on Iranian oil than France, government officials say they expect no near-term shortages and do not plan conservation measures. West Germany has a comfortable 100 days' supply in government reserves and additional 100 days' stockpile in private hands.

Italy: Government sources say the country has adequate stockpiles and they are more worried about the

impact of price increases on the country's inflation rate and balance of payments.

Spain: The country lacks firm supply contracts and has had to buy up to 20 percent of its oil requirements on the spot market, leaving it extremely vulnerable to the higher spot prices. The government estimates that by June 30, its gasoline reserves will have fallen to 27 days' supply while fuel oil stocks will have dropped to 39 days. However, the Spanish government has succeeded in lining up additional crude supplies this year from Iraq and Venezuela (500,000 tons each.) Spain is also seeking additional crude supplies from Mexico independent of the proposed 10-year agreement, under which Mexico would supply 5 million tons a year starting in 1980.

— Alice Shepard

British arranging confrontation

Carter gov't extends 'arc of crisis' to Mideast, East Europe

Behind a smokescreen of Carter Administration "admonitions" to China to cease its invasion of Vietnam, the sobering reality is that the Administration remains committed to a course of confrontation with the Soviet Union. That policy is being dictated and shaped not in Washington but London, where British policymakers are desperately seeking to salvage the London-centered Bretton Woods economic system, and block implementation of a European Monetary System-centered Europe-Moscow-Tokyo development bloc.

British policymakers went "public" with their confrontation perspective as *Survey*, the magazine of the Royal Institute for International Affairs, published predictions that world war is on the agenda for 1980, and a near-certainty by 1985. *Survey* author General Hackett went on to warn that President Carter is geopolitically weak, and called for his replacement in the coming presidential term with a "Republican strongman" of the Alexander Haig-Henry Kissinger stripe. At the same time he urged, western economies must be regimented and built up geared for war preparations, while the Soviet Union is progressively weakened by spreading provocations along its entire border — including new destabilizations in Eastern Europe.

In this context, admonitions of restraint by both the Carter Administration and British Prime Minister Callaghan to the Chinese (Callaghan expressed concern in a BBC interview that the Soviets might launch a preemptive strike against China, because of Soviet perception that "the NATO countries" are in a bloc with Teng) are properly taken as an attempt to restrict the Sino-Vietnamese conflict to a level below the threshold of Soviet intervention, or, to at least restrict Soviet intervention to a level which would not decisively knock out the "China card."

With the Chinese conflict "controlled" on the USSR's eastern front, London and Washington strategists are shifting their focus to the Middle East, and the renewed "Camp David" push for an anti-USSR military bloc in the region (see ENERGY). And other "limited conflicts" designed to weaken the Soviet posture globally are being prepared in Africa and Eastern Europe.

Overall, the operative London-Washington strategy is to progressively weaken the Soviets in controlled,

step-wise escalation so that by 1985 the Anglo-American axis can decisively confront Soviet power with limited risk that the Soviets could effectively respond.

Elements of the scenario

Analysts point to the following components of the Anglo-U.S. confrontation policy:

* The decision to send Treasury Secretary Blumenthal to Peking for 11 days was — contrary to all published reports — expressly to buy time for Peking. Washington and London are gambling that Moscow will hesitate to attack China so long as a U.S. cabinet official is in the country. The simultaneous Peking visits of British Industry Minister Eric Varley and British EC official Roy Jenkins fall in the same category.

* Warnings by such spokesmen as General Alexander Haig (to San Francisco's Commonwealth Club, to the Senate Armed Services Committee, and in private conference with Zbigniew Brzezinski) that "we cannot afford to ignore Russian activities in Afghanistan, South Yemen, Angola, Ethiopia, and Vietnam." Similar warnings have been uttered by high-level Anglo-American policymaker Fritz Kraemer (see page 27) and by Kraemer's protégé Henry Kissinger.

* Mootings by the State Department, by Marshall Shulman (Secretary of State Vance's personal advisor on Soviet policy and, like Vance himself, an admitted disciple of arch "Soviet handler" Averell Harriman), and by General Hackett's *Survey* article, of destabilizations in Eastern Europe. Hackett and Shulman predicted that Poland would be "the next Czechoslovakia," while State Department sources have for months been speaking of an upcoming "Balkan" crisis variously involving Hungary, Romania, Yugoslavia, etc. The complete conformity of the British military, the RIIA, and Harriman protégés Vance and Shulman to the commitment to the more "Czechoslovakia's" blows the myth of the so-called "Vance-Brzezinski" split.

* Bombing of Soviet-allied Angola by Britain's African client, Rhodesia.

* Declarations by Haig that NATO must prepare to fight a "limited nuclear war" in Europe.

* Transparent U.S. and British efforts to bludgeon Europe and Japan into acquiescence to the confrontational approach using the threat of oil supply cutbacks. The Europeans are furious at these threats; the Soviets are monitoring European response with concern.

Chicken game

In sum, as Kraemer states in an interview appearing exclusively in this publication, Washington and London are back to their old game of thermonuclear "chicken" with the Soviets, the "Mutt and Jeff" policy outlined by Gordon Deane in dictating Henry Kissinger's 1957 *Nuclear Weapons and Foreign Policy*, the Herman Kahn "escalation ladder" scenario, the 1975 Schlesinger "limited nuclear war" doctrine (for which Schlesinger was fired by President Ford), and now recoined the "arc of crisis" policy by Kissinger and Zbigniew Brzezinski.

Anglo-American policymakers are taking several gambles.

First, the Soviets have never played by the "rules" outlined in the "limited nuclear war" scenario, and are not doing so now. The Soviets are seeking to avoid war, and they are dangling the prospect of a profitable U.S.-USSR trade package along the lines of the Schmidt-Brezhnev accords signed last May as an alternative to conflict. The proposal was floated in the *Journal of Commerce* this week.

If they are forced to respond militarily, the Soviets have two options. First, a nuclear counterforce strike to "take out" the Chinese and humiliate London, Carter, et al. Such an option realistically could include, as Kraemer admits, Soviet replacement of the Teng leadership with a more pro-Soviet leadership in Peking. Should NATO intervene on the side of China, the only Soviet option is total ABC thermonuclear war, targeting U.S. industrial and population centers as the primary first target.

Second, is China willing to play the "China card"? Although their fortunes are more tied to the British than the Chinese probably ever thought they would be, the Chinese strategy has always been to embroil NATO directly in a conflict with the Soviets — the "America card." It is no secret that some Chinese strategists believe that China could emerge the "victor" from a U.S.-Soviet nuclear war, by virtue of its vast population. Some analysts see Chinese Vice-Premier Teng's taunt that President Carter is afraid to confront the Soviets as an indication that China might not hesitate to provoke such a conflict, rather than be a chesspiece in a broader, London-run scenario. As the Soviet government repeatedly and precisely singles out London and Washington as responsible for endangering world peace, the question is, who's fooling whom?

—Paul Arnest

Shulman: Soviets to face more crises

In a briefing to regional reporters Feb. 21, Marshall Shulman, Secretary of State Cyrus Vance's personal advisor on Soviet affairs and hitherto a prominent spokesman for detente within the Administration, declared that the Soviet Union will face severe internal difficulties in making the transition from the Brezhnev leadership, and that the Soviets will at the same time face troubles in Eastern Europe, where nations, particularly Poland, are looking for an alternative model to the Soviet Union. He forecast "mixed" U.S. relations with the Soviets. Excerpts from the briefing follow:

We should not interpret recent Soviet activity as the result of aggressive thrusts of the Soviet Union but as the result of turbulence in the international terrain. We are going to have a mixed relationship with the Soviet

Union for a long time. Our efforts have been concerned with reducing the chance of war....Although there are tacit understandings related to local conflicts ... in 1973 we came dangerously close in the Middle East war. We see Angola in the Ethiopian war. That's the way things are and will be. There will not be war, but there will not be a coincidence of interest.

I am totally opposed to linkage. SALT is not a prize.

The Soviets have severe domestic economic problems, low productivity, and problems with low technology. They have problems with nationalities. They have problems with Eastern Europe, and are likely to face another Czechoslovakia in the near future. They are having problems with China. The Soviet Union has not become a model for any other nation. They are not a guide for economic development.

(On the war in Indochina.) "We took a strong position opposed to acts of aggression by Vietnam. We don't know what the Soviet involvement was in the invasion of Cambodia. We are quite concerned about the Chinese invasion...and seek to avoid expanding conflict. We will go ahead with normalization of Chinese relations, but further intimacy could be impaired by the war."

Kraemer: Teng the hero of our time

The following are highlights from a Feb. 25 interview with Fritz Kraemer, the man the New York Times recently admitted "test-tube created" Henry Kissinger. The interview with Kraemer — a self-styled oligarch who was for 30 years an advisor to the Defense and State Departments — is revealing not only for the reason that Kraemer admits to a personal role in the Chinese attack and in efforts to subvert European opposition to the Anglo-American bloc and the playing of the "China card," but because he also spells out the suicidal "chicken game" strategy which is guiding Anglo-U.S. policy toward the Soviet Union. Kraemer's view of that policy is encapsulated in the slogan he boasts was up on the wall above his desk at the State Department:

EXCLUSIVE

ment: "The tragedy of our time may be that World War III was never fought."

Q: *Mr. Kraemer, how do you evaluate the military situation in Southeast Asia and the danger of a wider war, even a general nuclear war, if the Soviets intervene?*

Kraemer: Well, I see the Chinese invasion of Vietnam as a brilliant and bold stroke. Before the Chinese launched the offensive I went into the Pentagon for consultations about military planning. This is a carefully calculated military and political operation. China does not plan to move on Hanoi or anything like that — the gameplan is to penetrate about 20 miles inside Vietnamese territory. I don't expect the Soviets to intervene because of Brezhnev. We have plenty of time. Maybe if there was a young, a vigorous 55-year-old man in the Soviet leadership they would move on China. But, Brezhnev wants SALT too much and detente — that is the calculation.

Of course, if I were in the leadership of the Soviet Union, I would launch an invasion of China with the object of taking Peking and establishing a pro-Soviet government that could rule part of China. All that talk about the trouble Japan had in fighting on the Asian mainland during the Second World War is a bunch of hogwash. It could be done. Just look at the map. A three-pronged assault — Manchuria, Mongolia, and take Singkiang. There are plenty of pro-Soviet military

and party people who would collaborate with the new Peking regime — and a lot of military men would go along just to get their hands on sophisticated Soviet military equipment for China. The Chinese government would be forced on the defensive and a long and bloody war against the Soviet puppet regime would ensue. But, I think the Soviets could entrench themselves.

You know, Teng is one of the greatest men in the world. What courage. What honor. What boldness. What a profound strategic mind. A great man, willing to take risks. History is made by men willing to take risks. If only we had a President of the United States like Teng. I believe there is more character and fortitude in the Chinese, white and red, than any other people in the world — they'll stand up to Vietnam and the Russians.

Q: *Mr. Kraemer, do you believe the Europeans will support the British and U.S. position on China's war against Vietnam or will they break? What do you make of Apel's visit to the U.S.? (see EUROPE)*

Kraemer: The Apel visit is curious, isn't it? Damn the left-wing Social Democrats like Ehmke, Wehner, and that miserable intellectual Egon Bahr. And, now we're losing Schmidt and the right-wing Social Democrats too. They're accommodating to the Russians, accommodating, accommodating, soon they'll be living under a red flag. And Giscard in France, he's clever but not brave. Alexander Haig is in town, you know, he's the real hope now. A man of character. An aristocratic cast, not like the miserable bourgeois merchants. Sharp and deep mind. Real honor. Not easily dazzled by what others say. He stands up to Soviet totalitarianism with principle. So does Jay Lovestone, a real unsung hero of our times. Jay never gives an inch to the Soviets. I used to have a sign above my desk when I was in the government that was well-known within the State Department and the Pentagon. It lays the issue on the line: "The tragedy of our time may be that World War III was never fought."

China escalates, discounts Soviets

The invading Chinese armies have widened their attack upon Vietnam with a massive buildup and assault on Vietnamese positions all along the border and a Chinese troop concentration on the Laotian border. The fighting at several key points, particularly the strategic city of Lang Son which controls a major highway intersection, is fierce, with intense artillery fire from both sides. The latest reports indicate that the Chinese forces are now ready, after days of reinforcement of their troops and continuous pressure on Vietnamese positions, to launch the next major wave of attack, surpassing in scale the initial assaults.

The Vietnamese Ambassador in Japan told newsmen there Feb. 28 that, according to their intelligence reports, the Chinese are preparing another "large aggression." He warned that the Chinese would face a

Teng says Carter is afraid of the Soviets

According to reports carried in the New York Times, Chinese Premier Teng Hsiao-ping told American reporters accompanying visiting Treasury Secretary Blumenthal that the difference between himself and the American leadership is that he and other Chinese leaders are not afraid of the Soviet Union.

Reporters had asked Mr. Teng about the risks of Soviet intervention and the concern expressed by the Carter Administration and other Western governments. "Both the Cuba of the Orient (Vietnam) and the Cuba of the West," said Teng, "seem to be emboldened by the so-called tremendous backing force behind them. Now, some people in the world are afraid of offending them. Even if they do something terrible, these people wouldn't dare to take action against them. It's a question of being afraid of them."

Teng continued: "We estimate that the Soviet Union will not take too big an action. If they should really come, there is nothing we can do about it. We are prepared against them...."

"total military counterstrike" in response to such an attack. The Vietnamese leadership emerged from a special meeting yesterday in Hanoi and declared once again that Chinese offers to "negotiate" after having occupied large sections of Vietnamese territory were completely rejected — they told Peking that there would be no "negotiations" so long as one single Chinese soldier remained on Vietnamese soil and that every last Chinese would be driven out.

Defying world opinion and the continued warnings of the Soviet Union to withdraw their invaders "before it is too late," Chinese Vice-Premier Teng Hsiao-ping told American reporters accompanying Treasury Secretary Blumenthal in China that Peking is not afraid of the Soviet Union and made it clear that he thinks the U.S. is. Teng said: "Both the Cuba of the Orient (referring to Vietnam) and the Cuba of the West seem to be emboldened by the so-called tremendous backing force behind them. Now some people in the world are afraid of offending them (i.e., the Soviet Union). Even if they do something terrible, these people wouldn't dare to take action against them. It's a question of being afraid of them."

Teng dared the Soviet Union to act in defense of its allies in Vietnam while trying to encourage American illusions that the war in Indochina will be "limited." Teng again told reporters when asked about Soviet military intervention: "We estimate that the Soviet Union will not take too big an action. If they should really come, there is nothing we can do about it. We are prepared against them. I think our action is limited, and it will not give rise to a very big event."

Teng's remarks have been depicted as a response to a note from President Carter to the Chinese urging them to have restraint in their invasion and to withdraw. This does not reflect any change in the U.S. backing for China's "punishment" of Vietnam; the official stand of the U.S. remains a "neutrality" which justifies Chinese action as a response to Vietnamese actions in helping to topple the Chinese client regime in Cambodia. Rather it indicates a growing fear in Washington that Chinese assurances of a "limited" war that would not run the risk of Soviet military action may not be trustworthy and that Washington has gone too far in openly provoking the Soviet Union by their alliance with Peking.

The Soviet Union warns again

The Soviet Union, for its part, again made it clear that Washington's soft words in Teng's ear do not change anything — the fact remains that, in the Soviet view, the U.S. and Britain have been totally in collusion with Peking, and have put the Soviet Union in a position where defense of the very existence of the Soviet Union in face of a NATO-Peking "encirclement" is the issue before the world. In a 2,000-official TASS statement

printed Feb. 27 in the Soviet party daily *Pravda*, the Soviets declared that China has refused to listen to "the voice of reason" and must now withdraw its troops from Vietnam "quickly."

The target of the Soviet statement, however, was not Peking so much as Washington and London. The statement compares the present actions of these powers today in arming Peking to their 1930s backing for Japanese aggression against China, and to Nazi Germany's intervention into Spain in support of the fascists. The statement makes it clear that this time, the Soviet Union will not wait for an invasion of Soviet territory.

The Soviets warn: "Those who today hope to warm themselves by its flames (referring to the China-Vietnam war) rashly risk being the next victim of the aggressor and his adventuristic policy." The Soviet finger is then pointed in the appropriate direction: "The ambivalent stand taken by the U.S. ruling circles in the face of China's open threats against Vietnam has, as a matter of fact, contributed to Peking's openly taking the warpath."

U. S. warships on the prowl in Asia

Soviet warnings come as the Carter Administration, with public backing from British Prime Minister Callaghan, deploys its forces in a clear threat to Vietnam and the Soviets. U.S. warships have been dispatched into the region, with the carrier *Constellation* leaving its base in the Philippines to join a U.S. squadron already off the coast of Vietnam in the South China Sea. U.S. ships are provocatively shadowing Soviet naval vessels in the same area. At the same time, the U.S. carrier

Midway has left its base in Japan to participate in military exercises, "Team Spirit 79" being conducted in South Korea with the South Korean armed forces. U.S. reconnaissance planes have been making overflights of the battle zone in Vietnam as well.

On the ground in Vietnam the Chinese have hit hard in several areas, with some 300,000 Chinese troops already inside Vietnam and more pouring into staging areas just across the border. Already there are more Chinese combat soldiers engaged against Vietnam than at any single point during the height of the U.S. war against Vietnam. The Chinese have pointed their attacks at Lang Son, now evacuated of all civilians by the Vietnamese, with an obvious Chinese attempt to place maximum manpower and firepower on that point to break through Vietnamese defense lines. Other Chinese assaults have been mounted on the provincial capital of Cao Bang to the northwest, in the Lao Cai region farther west (the capital of Lao Cai is already captured), and in the coastal province of Qua Ninh. There has also been a movement of Chinese troops through Laos in the west into northwest Vietnam in the area of the province of Lai Chau, which includes the famous valley of Dien Bien Phu.

The Vietnamese have been fighting toughly at all points, inflicting Chinese casualties of 20,000 killed or wounded, and 300 tanks and armoured vehicles put out of action. Vietnamese diplomatic sources have stressed that something big is the offing, saying "remember Dien Bien Phu."

—Daniel Snider

China is ready for the IMF and war

In an interview with the President of Japan's Kyodo news service Feb. 27, Chinese Vice-Premier Teng Hsiao-ping declared China's immediate willingness to join the International Monetary Fund, and refused to discount war with the Soviet Union as a short-term outcome of his nation's invasion of Vietnam. Excerpts of Teng's remarks follow.

There will be no hitch on China's part in joining the IMF, if the Taiwan issue is settled....

Foreign governments possess basic data about China's economy (in accord with IMF requirements; China does not make data public — ed.). They have calculated our output of grains and our population ... (Their calculations are) not far wrong....

We wholeheartedly welcome the proposal made at the UN Security Council by the United States, Japan and two other nations calling for a pullout of China's troops from Vietnam and Vietnam's from

Cambodia.... We believe that our punitive action against Vietnam will come to an end in less than the 33 days required to settle the Sino-India border trouble...

We had considered certain risks in making the decision (to take military action against Vietnam) and had made sufficient preparations...

I expect these risks (Soviet intervention — ed.) will be averted, although they cannot completely be discounted...

We would not mind military achievements. But our objective is a limited one...

(Soviet forces) in the north are perhaps 1 million men, but the Russian deployment is rather sparse along the 7,000 kilometer border...

If we are afraid of that, other people would think we are soft. When we made up our mind, we kind of thought, "Let's see for ourselves if the Chinese had a nervous breakdown..."

China vulnerable to Viet-Soviet attack

The characterization of the Chinese invasion of Vietnam as a "limited punitive action" is as absurd as it is a criminally dangerous assessment, in a military situation that could bring the world to thermonuclear war. The Soviet Union, Cuba, and Vietnam have publicly defined the Chinese invasion as a replay of the Nazi invasion of Poland in 1939 and a prelude to a war against the Soviet Union.

As the Nazis were backed by assurances from the British, the Chinese are acting with the backing of the Anglo-American alliance as part of a global plan. Therefore, the Vietnamese front is being viewed by the Soviets in terms of global strategic calculations: it must be assumed that every Vietnamese military move down to the tactical deployments is being determined on that basis.

Soviet strategists at Red Army headquarters in Moscow studying their maps see the Chinese invasion as an obvious attempt to neutralize the Vietnamese threat on their southern flank, enabling troop redeployment to the Soviet front. A glance at the Eurasian map will reveal the strategic significance of the Sinkiang Province front with the Soviets. There, there are major Soviet industrial and military concentrations while on the Chinese border there are no population or industrial centers but only Chinese military staging areas for conventional and nuclear capabilities. The obvious threat posed to the Soviets in the Sinkiang border area makes it a primary candidate for a Soviet attack.

MacArthur, Giap, and Yang Te-shih

The Chinese commander, General Yang Te-shih, is conducting the Vietnam campaign as he conducted the Korean War three decades ago. The strategy involved is the sacrificial "human wave" tactics whose effectiveness is only guaranteed by the assurances that Chinese staging areas are secured from enemy attack. In Korea, Harry Truman covered Yang's flank by not allowing General MacArthur to attack those staging areas.

Vietnam's General Giap, being in the same tradition as General Tukhachevsky of the Red Army and General Douglas MacArthur of the U.S. Army, is pursuing an offensive strategy that, in avoiding frontal assaults, seeks the strategic mobility afforded by outflanking and enveloping his enemy. Unlike MacArthur, Giap has no Harry Trumans in Hanoi or Moscow.

The Chinese invaders crossed at four or five major points, but the topography of the border areas defines

the so-called "Friendship Pass" at Dong Dang in Lang Son province, and Mong Cai, along the coast, as the crucial areas, the traditional invasion routes over the centuries. (The last such Chinese invasion several hundred years ago failed miserably, with the Chinese suffering 300,000 casualties.) On the Chinese side of the border at these points are a dense communications and logistical infrastructure. General Yang, as in Korea, is recklessly counting on the immunity of these areas from enemy attack, as a result of China's "American card" protection.

This Chinese deployment was known well beforehand by the Vietnamese as a result of careful monitoring of the border situation over a period of a year, and most intensely over the past several weeks. On the ground Giap aims at employing the same strategy he employed at Dien Bien Phu against the French, and in the 1975 spring offensive in South Vietnam: draw his enemy out at a battlefield of his own choosing, creating the conditions for effectively outflanking, enveloping, and eventually destroying the enemy forces.

With reports of thousands of fresh Chinese troops pouring through the two main points, the knocking out of the staging areas inside China will become crucial for the Vietnamese. Despite the superiority of Vietnamese Mig-23s and captured U.S.-made aircraft, the Vietnamese have no strategic bombing capability, and no amphibious capability to use in a replay of General MacArthur's operations at Ichon during the Korean War, a highly successful amphibious landing behind North Korean lines. Moreover, despite the fact that the Vietnamese have superior weaponry, they lack an in-depth capability in terms of experienced cadre to carry out a protracted war, especially up against the "human wave" tactics of the Chinese. Moreover, the continued unstable situation in Cambodia could leave that Vietnamese flank vulnerable.

If the Chinese stay ...

If the Chinese do not withdraw, the only option becomes direct Soviet intervention, either a direct strike at the Chinese staging areas or some other appropriate target or combination of targets in China. The Soviets are steadily beefing up their naval presence in the region.

Fighting on their own territory, the Vietnamese nevertheless are giving the Chinese a bloody nose. The Chinese have suffered 8,000 casualties and have had over 100 of their tanks knocked out as a result of skillfully effected Vietnamese encircling tactics.

But as the Chinese commit more and more troops in the hope of gaining the initiative, they will only be lowering the threshold for a major Soviet intervention. The generals of Peking should heed Soviet warnings: "Hands off Vietnam."

— Dean Andromidas

China in Asia: blind aggression

Throughout the postwar period it has been the policy of the British oligarchy and related policymaking circles in the U.S. to groom China as a "second front" force against the Soviet Union. That policy, now known as "playing the China card," has been a consistent policy starting from the installation of Mao's government in 1949, it was the reason that the British supported Mao's Party prior to that point, and in fact is only a slight revision of the same geopolitical doctrine which led the British to back Japan in the Russo-Japanese war of 1904-5.

China's own policy in the postwar period has been based on the "Great Han" vision of dominating Asia from Pakistan to Japan; it has also been Chinese policy to "play the Anglo-American" card — to provoke NATO and Warsaw Pact forces into mutual thermonuclear annihilation. "Great Han Chauvinism" is no mere epithet in the mouths of China's neighbors; but an accurate description of Chinese policy.

The following grid summarily exhibits this Chinese policy during the period following World War II.

1950, Korea: The mass sacrifice of raw recruits in a "human wave" assault is first exhibited to the world by Chinese commander Yang Te-shih (current Vietnam invasion commander) in China's surprise attack on UN-Nations forces. British-advised President Truman denies General MacArthur permission to strike vulnerable invasion staging areas inside China. British triple-agent Kim Philby, then British Embassy first secretary in Washington, passes U.S. military secrets to the Chinese. **1951:** Chinese troops take over Tibet.

1954, Geneva Conference on Indochina: China, invited on the insistence of British Foreign Minister Anthony Eden, is thus granted the same great-power stature as the U.S. and Soviet Union at a major international conference. Eden planned an Asia reduced to China's sphere of influence, freeing France and the U.S. to concentrate on NATO.

1957, November: Soviet Union concludes China should not be given nuclear weapons, after Mao delivers speech in Moscow citing the "sputnik" as proof that "the East" could defeat "the West" in a nuclear war. Mao said that half of humanity would die, but the survivors would be "socialist."

1958, May-Sept.: After two months of military planning sessions, China threatens Nationalist-held islands (Quemoy, Matsu) in Taiwan straits. Campaign is post-

poned after Khrushchev visits Peking. In August, China begins bombardment of islands. U.S. 7th Fleet moves into Taiwan Straits. Soviets refuse to support China, reach accord with the U.S.

1959, Tibet: Several Chinese divisions move into Tibet to suppress revolt. India denounces action as threat to her security.

1962, Sino-Indian War: From illegally occupied Aksai-China (Kashmir), Chinese strike northeast India and Kashmir border region. As in Vietnam today, China complained of Indian "mistreatment" of overseas Chinese (opium financiers and wholesalers) prior to invasion.

1965, Indonesia: Britain plans to create Malaysia out of former colonies, as a Chinese puppet state (through expatriate financial power) neighboring Indonesia. Indonesian military denounces scheme. Pro-Chinese Communist Party attempts coup in Indonesia, resulting in a major bloodbath.

1965, Teng in Hanoi: During a state visit to Hanoi, Teng Hsiao-ping demands that the Vietnamese cut all ties with the Soviet Union, promising Chinese aid. Vietnam refuses.

1969, Sino-Soviet Border War: China launches surprise attack on Soviet territorial island in the Ussuri River. Soviets counterattack. Qualified observers agree Chinese attack was unprovoked.

1971: China backs and arms Pakistani military government in war of extermination against Bangladesh, and threatens India with retaliation for intervening.

1972, Paris peace talks: Talks to end the war in Vietnam are marred by what Japanese reports indicate is U.S. National Security Advisor Henry Kissinger's intent to have China take over Indochina. Japanese press said a Kissinger secret deal with Chou En-lai involved U.S. withdrawal from Taiwan in return for Chinese support of U.S. presence in Vietnam, and establishment of pro-Chinese governments in both South Vietnam and Cambodia.

1974, Paracell Islands: The Chinese army seizes the Paracell islands from Vietnam; the nearby U.S. 7th Fleet takes no action.

1975, Khmer Rouge takeover in Cambodia: Pol Pot-Chinese government begins immediate border incursions against Vietnam. Domestic policy results in death of 3,000,000 Cambodians by 1979; thousands of Chinese "advisors" and troops take up residence in Cambodia.

1978: Cambodia severs diplomatic relations with Vietnam, and escalates border attacks. In March, China cuts aid to Vietnam and escalates border attacks.

1979: Vietnam preempts China's "two-front" invasion plan by moving into Cambodia in force to back the Kampuchean liberation forces, toppling the Pol Pot regime, taking 10,000 Chinese troops prisoner.

Jan.-Feb. 1979: Teng Hsiao-ping pays 8-day state visit to United States, denouncing Soviet Union and Vietnam repeatedly. On February 17, China invades Vietnam.

Europe says no to China card

Giscard reemphasizes role of European Monetary System

The initially balanced statements from Europe, criticizing China's invasion of Vietnam and, in turn, Vietnam's disputes with Cambodia, have evolved into strong criticism of Chinese aggression. On Feb. 27, the European press broke the story that Chinese aggression against Vietnam had led in Western Europe to a sharpening of those factional alignments already deepening prior to the current crisis.

As identified by Italy's *Corriere della Sera*, acute "tension" has developed between France and West Germany on the one side and Great Britain and the U.S. on the other, with the dividing line being the issue of relations with the Soviet Union and related questions of international economic policy. It is in this context that French President Giscard has again pushed formation of the European Monetary System to the forefront of the diplomatic agenda (see below).

France's former defense minister and diplomat Georges Gorse in an authoritative article in *Le Monde* Feb. 26 detailed the French point of view. First, Gorse praises the Vietnamese for aiding the Cambodian people to "finally free" themselves from the "abominable regime" of Pol Pot, dismissing the contentions of China, the U.S. and Britain which have pretended to equate the Chinese invasion of Vietnam with the liberation of Cambodia.

Actions taken by the French government and subsequent information have confirmed that the policy viewpoint advanced by former Minister Gorse corresponds to that of French President Giscard d'Estaing. Furthermore, the West German government of Chancellor Helmut Schmidt shares the same policy outlook.

On Feb. 27, the French publication *Lettre de L'Expansion* published portions of a report authored by French intelligence which shattered any mythologies about a "limited" Chinese aggression against Vietnam. The report evaluated that the Soviet Union would retaliate against Peking by unleashing a conflict that would have "incalculable consequences" globally. The French intelligence report was reviewed by major press outlets in Italy, such as *Corriere della Sera*, which concluded correctly that the report echoed the views advanced by Gorse.

The French government last week issued a communiqué urging the halting of the aggression (by Peking

against Vietnam) and withdrawal to the international frontiers by the invading forces." Later, on Feb. 24, the French ambassador to the United Nations reiterated this demand warning against the serious risks of escalation at the Security Council debate and dissociating France from the U.S., Chinese and British position.

West German Chancellor Helmut Schmidt took the same position that West Germany, like France, is opposed to any obstacle blocking East-West detente. Schmidt also stated once again that his government is determined not to sell weapons to China.

Further indication of the Franco-German commitment to preventing World War III came from West German Defense Minister Hans Apel. Just back from a visit to the U.S., Apel diplomatically said that for West Germany, Moscow comes before China. He told the press that (because of Washington's current policies), a stronger Bonn-Washington axis as the "new backbone for NATO" was impossible as "it would weaken West Germany's international position, mainly among the Warsaw Pact states. There would be mistrust in the East...."

'French secret report predicts Soviet response'

Several European publications have reported on a French Secret Service report predicting a forceful Soviet response to the Chinese invasion of Vietnam. Following are excerpts of the account in Italy's Corriere della Sera, which appeared Feb. 27.

It was a report by the French Secret Service that provoked the recent stand by Giscard against China and, Friday, the decision to sound the alarm shared by German Chancellor Schmidt. This report in fact implies a Soviet "response" in the Vietnam-China conflict, and an enlargement of his conflict, "with incalculable consequences." In light of this document, Giscard, who a few days earlier still thought a limited conflict was possible, quickly judged it opportune to deliver a warning to the West on the risks (according to *Le Monde*) of an "insane gamble on Soviet passivity."

Schmidt: France, BRD concur on Indochina

In an interview with Corriere della Sera Feb. 26, West German Chancellor Helmut Schmidt discussed the nearly operational European Monetary System and its role in bringing political stability to Europe. In that context, the Chancellor commented on the conflict between China and Vietnam and stated emphatically that his government, unlike that of fellow European Community member Britain, would not sell arms to China.

Q: Mr. Chancellor, a political crisis developed in Italy over the question of whether to join the EMS or not. Because of that we now are disappointed: can you explain how a decision of such historical import has been embroiled in interests which certainly have no historical value?

A: I share your disappointment. . . . I continue to hope that in the course of the coming weeks we can overcome the difficulties that suddenly emerged in the course of the meeting of the agriculture ministers shortly before Christmas, around the problem of the compensatory amounts — a difficulty that today impedes the full functioning of the EMS. . . . The currencies are behaving well. They are behaving as if the EMS were already functioning.

Q: Mr. Chancellor, a new war has broken out in Southeast Asia. Do you see in this new danger for detente?

A: I am worried about the situation. The European Community, to which both Italy and the BRD belong, has asked France, which is currently holding the EEC chairmanship, to express this concern. On the other hand I don't include myself among those who present the situation with exaggerated and pessimistic predictions for the future of the whole world. Such a prophecy, once it starts circulating, can become self-fulfilling. So far I consider only those

positions, from East and West, that don't include threats of intervention.

At the end of the recent meeting with President Giscard d'Estaing, I indicated three points:

1. Between us and France there is agreement of views about the attitude to take on the Southeast Asian conflict;
2. We agree also on the fact that each state must respect the territorial integrity of its neighbors;
3. Finally we agree — and I explicitly emphasize this — that the events in Southeast Asia must present no obstacle to the continuation of our policy of detente between East and West.

Q: You also received a letter from Brezhnev. I don't know if you have replied to it. You said, however, that the BRD would not furnish arms to the Chinese: among all the recipients of Brezhnev's message, you are the only one to make such a public commitment. Why?

A: I have already responded to Brezhnev's letter. What I said publicly is a foregone conclusion for my country. This commitment goes not only for China, but also for the Soviet Union and other states of the world. For 10 years we have followed a consistent policy, by which we furnish arms and military equipment only to our allies. China is not our ally and therefore we don't sell arms to China, nor to Japan.

Q: You would refuse to sell even if it might compromise commercial relations?

A: Yes. . . . We don't give arms to Vietnam, to Cambodia, to the African states or to other states. It is a linear policy, which we have not changed on account of Mr. Brezhnev's letter. . . . I should add that the Chinese know of our policy and they have not asked us for arms.

The existence of this secret French report (which was supported yesterday by the intensification of the Chinese offensive, and the news of the Soviet airlift, is revealed by the *Lettre de l'Expansion* of yesterday. According to this source, it also seems that tension is developing between Paris and London because of the sale of British Harrier planes to China, confirmed in recent days. Giscard (who earlier agreed to negotiate with the Chinese on the sale of armored cars) is in fact convinced that the West must "limit as much as possible" the sale of arms to China: and in this context a "hard line" has been taken against London, along with a "critical line" towards Washington.

'Can't the USSR say it's being encircled?'

Georges Gorse, former Minister in the French government and now a deputy of the Gaullist party (RPR), argued in Le Monde Feb. 25-26 that China, not the Soviet Union, is endangering world peace. He brings his article, excerpted below, citing a conversation he had with General de Gaulle on this subject.

...De Gaulle told me, somewhat schematically, "the USSR and China will one day soon begin feuding: we

must do everything so that on this day the Russians consider themselves to be Europeans again.”...It is evident that this affirmation implied, in his thinking, the necessity of conceiving the policy of detente and cooperation with the Soviet Union which he later implemented...

I will admit that I am concerned to see so many people rushing towards China, which, we are told, is awakening. But there are several ways of awakening. Perhaps it would have been better to wait and see how this great country, whose about-faces have been so impressive in recent years, evolves. The reasons for this infatuation are obvious: for some it is to get a place on this immense market. For others, it's a strategic question: to balance Soviet military might. Mr. Nixon said it on French television, President Carter did not deny it, Teng Hsiao-ping repeated it, more aggressively. I am glad to note that the President of the (French) Republic has shown a completely different concern for balance and caution.

Certain eminent specialists (it is easy to pass for a “specialist” in France when you talk about a region that people don't really know anything about ...) affirm that China is encircled, or at least has the feeling of being encircled, which explains and justifies its reactions or actions. Simple geography, shows that this is not evident. Who is encircling who? ... Don't the Russians have the right, on their side, to feel encircled? On one side China, which is being armed, Japan which has signed a treaty with China and America, afar. On the other side, Europe, where there is every reason to believe that the integration wanted by some will include the military level...

Le Monde: 'a warning from the Elysee'

Here are excerpts of an analysis of the French reaction to China's invasion of Vietnam as presented by the daily Le Monde Feb. 25.

The affair was discussed at length by Mr. Giscard d'Estaing and Mr. Schmidt on Friday in Paris.... No joint declaration was published, but a little later the Elysee defined the French position.

One could regret the careful language in the French declaration, which does not cite any country and limits itself to reaffirming general principles.... (But) within several days the French authorities have hardened their position towards Peking: ... Paris is now implicitly condemning the Chinese offensive and calling for a concrete measure: the withdrawal of Peking's troops.... The massive offensive launched by Peking constitutes a demented bet on Soviet passivity.... The United States continues to put Peking and Hanoi on the same footing,

by putting the Cambodia affair and the present crisis on the same footing.

One can also not forget that one of the great differences between Bonn and the United States precisely concerns the Moscow-Peking-Washington triangle. Mr. Schmidt has always reproached President Carter, and especially his advisor Mr. Brzezinski, for playing with fire by giving too broad support to China and in particular for not having more firmly discouraged Teng Hsiao-ping from such an adventure when he was in the U.S. Far from representing an alignment on American positions, the evolution of the French position marks, on the contrary, the accentuation of a divergence which could in fact have repercussions on the French project for selling defensive weapons to China....

'Carter's Pole gave Teng a green light'

It was Zbigniew Brzezinski who facilitated the Chinese invasion of Vietnam wrote Philippe Bernet in VSD (Vendredi-Samedi-Dimanche), the French weekly, in its Feb. 22-28 issue. Mr. Bernet is reputed to have contacts within the French Interior Ministry and the SDECE, the French intelligence services; he specializes in terrorism.

For once the Americans were not taken by surprise. The gravest world crisis since the Cuban Missile Crisis: the lightning expedition of the Chinese in Tonkin, was not only expected by Washington; Washington programmed it. The only thing the U.S. did not know was the D-Day the punitive expedition would be unleashed against Vietnam. Friday, while he was in Mexico finishing up a trip that had been rather humiliating, Carter was secretly told it was the next day....

Starting with his first stay in China in May of 1978, “Zbig” discovered in Teng a realist, a privileged partner, open to his ideas. At the beginning of their secret meetings, Teng was a bit skeptical. Did Zbig really want to provoke a Peking-Washington rapprochement?... For 10 months Zbig will be the advisor of Teng as well as the advisor to Carter. Through his encouragement, his support, he will contribute to the consolidation of Teng....

At the same time in Washington Zbig himself makes a prodigious comeback. With the impossible peace between Egypt and Israel, the dramatic evolution in Iran, so many defeats for Cyrus Vance, Carter needs a success to wipe out all those failures. Zbig brings him one on a platter Dec. 15 in a speech prepared in secret by Michel Oksenberg who participated in all the Zbig trips to Peking. Carter announces the official normalization of relations between Washington and China. “Zbig” himself controlled the text of the speech....

Giscard moves EMS to front burner

French President Giscard d'Estaing is using his current trip to Mexico to reemphasize the Franco-German commitment to make the implementation of the European Monetary System a top European Community (EC) foreign economic policy. In a Feb. 26 interview on the Mexican television program "Twenty-four Hours," printed in the Mexican daily *Novedades* the next day, Giscard became the first European head of a member state in the EMS to announce explicitly that the EMS is no mere intra-European currency float. It will, he said, "control gold and the dollar in the foreign exchange markets...."

The EMS will in its full implementation stages, Giscard said further, produce an international gold rate for the dollar by making gold and the dollar interconvertible, as well as convertible into all European currencies at stable rates, through the clearing mechanism of the European Currency Unit (ECU).

Giscard also stressed that the EMS is a global institution for Third World development: he invited the Mexican National Bank to participate through the ECU clearing mechanism. Finally, he laid to rest the continued lies by antidollar British-school economists such as Robert Triffin that the ECU will, modeled on the IMF's SDR, be used to replace the dollar as a circulating international currency. Rather, Giscard said, the ECU will be used under the dictates of the reason of governments, by central banks alone.

In a related development, French official sources in Washington told the *Executive Intelligence Review* Feb. 27 that West German Chancellor Helmut Schmidt is in "full agreement with President Giscard on all aspects of the EMS negotiations" to finalize European exchange rates. These have been held up since December by France's legitimate demands for removal of the EC's archaic subsidies now preventing the technological development of European agriculture. The French official revealed that dissident West German Economics Minister Count Otto von Lambsdorff, who last week "predicted" the EMS would not be finalized until June, "was just speaking for himself. He's in back of German Agriculture Minister Oertl's opposition to the French; they're both supporting the backward Bavarian peasants. Lambsdorff's Free Democratic Party is threatening to bring down the Schmidt government. But

Schmidt intends to shove the EMS through in collaboration with Giscard at the March 11 EC Heads of State Summit — on the heads of state level."

Excerpts of the interview follow:

Q: Has the new European Currency Unit (ECU) conceived by France and Germany been put at the disposal of countries who can't make their purchases in dollars?

Giscard: I don't know if the Mexican audience is familiar with the European Monetary System. In effect, it is a unit which will be put into effect gradually. Our (the EC's) objective is to arrive at a stability of exchange rates between the different currencies and to try to unify ourselves (the EC central banks — ed.) in a central currency, in this case the "European Escudo" (ECU). This will be utilized by the central banks from the time at which this system is initiated, which is to say from this year, to effectuate the regularization between them. In this manner, we will progressively control gold and the dollar in the foreign exchange markets until we are able to convert either into gold, ECUs, and foreign exchange, whether dollars or other currencies.

You ask me if the Mexicans will be able to use the ECU. In principle, not even the French will be able to do so. It will be bank money (i.e., central bank — ed.), but in the second phase I believe that other central banks (i.e., non-EC), for example, the National Bank of Mexico, will be induced to use the ECUs according to our regulations, with our central banks. The ECU, this unified European currency, will be in the near future among the assets of the National Bank of Mexico.

Q: It won't be a circulating currency?

Giscard: Listen, if I had some I would give it to you. But unfortunately, you would have to be a central bank and I would have to be a central bank.... It won't be a circulating currency....

Q: Aside from oil, what does Mexico have to offer France in economic matters?

Giscard: In the economies that are diversifying, as is the case with all the developing economies, there are many areas for purchases and sales or exchanges.... We're making purchases of the traditional raw materials....

Also, I'm thinking about cooperation in the field of advanced technology.... I approve of the position Mexico has assumed: to be the national master of its economy, not to have an economy directed or dominated by foreign influences, which are excessive at present.... We have developed vanguard economies and technologies in a common field that can be of common interest.... I'll give you several examples: nuclear energy. We are in the present period, along with the United States, the only country in the western world that can assure the complete nuclear energy cycle.... But nuclear energy is not only a source of energy, it is also a technology.

Italian scores British in Mideast, endorses LaRouche for President

In an exclusive interview with the Executive Intelligence Review, Italian industrialist Dr. Adriano Valeri, Vice-President and Director of the Italy-OPEC Chamber of Commerce of Milan, charged that the oil crisis is a hoax, pointing out that Iran had been singled out for destabilization because of its commitment to economic development.

In his wide-ranging discussion, Dr. Valeri also commented on the Carter Administration's domination by the British monarchy and expressed the hope that the 1980 presidential election would not be dominated by the scripted candidacies of Sen. Ted Kennedy or General Haig. Going further, Valeri also became the first European industrialist to endorse the 1980 presidential candidacy of U.S. Labor Party Chairman Lyndon H. LaRouche, Jr.

Q: How do you think the U.S. and Europe are reacting to the latest economic and political developments in the Middle East, such as the crisis in Iran and the alleged oil crisis?

A: There is no oil crisis. The temporary reduction of Iranian oil production has been absorbed by an increase of production by Saudi Arabia. Whoever talks about an oil crisis is either misinformed or lying. In general, I think that the approach taken by the U.S. administration to the events in Iran and in the Middle East in general is completely inadequate from an economic and a political point of view. The fact that the Middle Eastern countries, rich in petroleum, are still in a substantially underdeveloped situation, demonstrates a lack of positive intervention on the part of the U.S. and Europe.

Q: Why is that intervention lacking?

A: The British domination of the Middle East, even if it has formally disappeared, still has a capacity for control in the financial and economic sectors, through the local intelligence networks hooked into the English Secret Service. The typically colonialist attitude of the British transforms the entire Mideast into one of the principal hot spots for war and blackmail for Europe.

I will say further, that if you consider the fact that Iran, the bastion of industrial development in the whole area, is now nonetheless perhaps irretrievably compromised, one must attribute the greatest responsibility to the British apparatus in the zone, and I think that the U.S. administration, unlike on other occasions, is im-

Q: How do you see the problem of the alleged Soviet threat — a threat emphasized both by Queen Elizabeth and by U.S. Defense Secretary Brown during their Middle East visit?

A: I think that none of the problems of the Middle East or in the rest of the world can be resolved without the prospect of peace and cooperation with the Eastern countries. East-West cooperation is indispensable for the development of the countries of the Third World, and the Middle East in particular. Any geopolitical approach, such as that of England, will produce nothing but war, as the history of two world wars has demonstrated. What the Middle East needs is economic and commercial development; this is true for the Arab countries and for Israel.

Q: Do you think that Europe, and Italy, can have an important role in this context?

A: Yes, a role that I would call vital, especially at this point; what's important is that we have the courage to pursue it. Look, with the Chinese-USA agreement, and the subsequent Chinese invasion of Vietnam, the deterioration of the strategic international situation is taking on ominous tones; to speak now of economic cooperations between East and West would seem strange; but I am convinced that this is the only way to avoid war. I am convinced that the countries that adhered to the EMS have the will to carry this grand design forward, they must do so before it is too late....

Q: What do you think could be the role of the U.S. economy in the Middle East?

A: I repeat, the U.S. economy, with the potentials it has, is indispensable, in collaboration with the Comecon, in order to plan for development in the area. Unfortunately the present policy of the Carter Administration goes in the opposite direction and is carrying the world toward a general conflict.

The candidates for U.S. president that have come forward, such as Haig and Kennedy, do not seem to be any better than Carter himself. I know that he is planning to use the Middle East to create a forward defense against the USSR. In the U.S., so far as I know, the only political platform coherent with the industrial development of the Mideast and the world, is that of Lyndon H. LaRouche, the president of the U.S. Labor Party and also a U.S. presidential candidate. LaRouche, whom I unfortunately do not know personally, launched, in 1976, a proposal for an International Development Bank (IDB) which poses East-West cooperation for the industrial development of the Third World. The IDB was the basis for the creation of the EMS. The LaRouche candidacy seems to me to represent the only alternative to the program of austerity and war of the present administration.

British bank takeovers stalled

USLP charges turn acquisition bids into political hot potato

Ongoing efforts by City of London clearing banks to take over American banking institutions with aggregate assets over over \$24.3 billion have run into severe trouble with the U.S. regulatory authorities and financial public.

According to exclusive information received by the *Executive Intelligence Review*, New York State Banking Superintendent Muriel Siebert has written to Chairmen Proxmire and Reuss of the Senate and House Banking

EXCLUSIVE TO EXECUTIVE INTELLIGENCE REVIEW

Committees demanding a full congressional investigation and public hearings on the "very large number of foreign purchases of U.S. banks" pending this year. Neither the New York State Banking Department (NYSBD) nor the Federal Reserve Board in Washington are willing to take responsibility for this political hot potato.

"Opening this issue up to Congress has tremendous implications," said one Washington source, "not the least of which is that all the acquisitions, already greatly delayed, would be delayed indefinitely."

Applications already pending at the Federal Reserve and other banking authorities include the acquisition by Hong Kong and Shanghai Banking Corporation of New York's Marine Midland; Standard Chartered Bank of Union Bank; National Westminster of National Bank of North America; and Barclays Bank of American Credit Corporation.

The real opposition to the British takeovers began with the U.S. Labor Party's Oct. 4, 1978 appeal to the Fed to deny Hong Shang's application, citing the Crown Colony bank as a major factor in the international illicit narcotics trade.

Delay hits Union stock

The U.S. political environment created by the Labor Party campaign has already impacted the market. On Feb. 9, for example, the Fed silently let the 90-day period which it had to comment on the Standard Chartered application for Union Bank lapse without a sign.

Word shot through the New York brokerage houses that the Labor Party allegations had delayed the Fed's deliberations to the point that the merger would not take place. Union's stock, which rose from \$12 per share to the \$30 dollar range on Standard Charter's \$33 per share offer, dropped sharply below \$25. It is now trading in the \$27-28 range for lack of further news.

But the real news is the delay on the entire British takeover scene — which could attenuate the already drawn-out business negotiations on all the mergers to the point that all the deals fall through. For example, Superintendent Siebert, referring to the Hong Shang bid, told a shocked financial press on Jan. 21: "I would expect a decision by the middle of the year ... I hoped to have a decision earlier ... (but) we still have a lot of material to sift through." But the May 18, 1978 Investment Agreement between Hong Shand and Marine Midland sets March 31, 1979 — not June — as the date on which the agreement terminates, unless either party explicitly reconcludes the agreement because the party "requires additional time ... to satisfy ... the Banking Department or Board of Governors."

"We ... are without question disappointed about the time span the superintendent outlined to the press," Edward M. Duffy, Marine's chairman, complained. "We think our shareholders deserve a speedier decision and we ... hope that she can make it sooner than mid-year."

The delay has also created a small panic at Standard Chartered. It showed through the extremely weak rejoinder written Feb. 14 by the bank's Washington lawyers Kutak, Rock, and Huie to the Fed Board in response to the Labor Party's January call for public hearings in the Union Bank case. The nine-page letter not only refuses to address the drug question completely, but attempts to prove the Labor Party has no standing in the case by citing a board ruling of Oct. 30, 1978 on a protest lodged during a domestic U.S. takeover situation.

A reading of the full text of the Fed Board ruling, however, makes it clear that the protesting party in the case cited was a banking association trying to get a hearing on the grounds that one of its members might be harmed by the takeover. That is, the party was not even claiming injury at all!

the party was not even claiming injury at all!

But the lawyer's real purpose comes out in their conclusion: "It appears that the goal of the Labor Party is in fact delay, ... the desire to conduct a mere fishing expedition ... not adequate grounds for a hearing." Their rather obvious focus on the standing issue is nothing more than an attempt to squeak the application through before a time-consuming hearing can be called.

The Long Island Trust precedent

The real precedent in the British takeover boom is the May 9, 1973 denial by the New York State Banking Superintendent of an attempted purchase by London's Barclays Bank of the \$500 million Long Island Trust Company. "I think this whole spate of takeovers is a dead duck just because there are so many places where they can be fouled up," said one bank stock analyst on Feb. 28; "a prime example is the LITC ruling, which the New York banking department is using, I've heard, to complain to the Fed right now."

The May 1973 ruling raises the weighty question of reciprocity. "Applicant (Barclays — ed) in its applications asks reciprocity based on its assertion that United States banks do business in the United Kingdom," the Superintendent's ruling reads in part. "I do not accept this concept of reciprocity. ... No U.S. bank has acquired an overseas bank as the Barclays Group is seeking to acquire Long Island Trust. ... Of the U.K. clearing banks ... none have been acquired by a New York banking corporation.... Most New York banks in fact only engage in wholesale banking (in the U.K.) rather than retail banking." As a New York State source put it more bluntly this week: "Would the Bank of England let Citibank buy National Grindlays or Barclays? We doubt it. And that's not reciprocity."

Reached for comment, British Executive Director to the International Monetary Fund William Ryrie, the Bank of England's representative in the United States, was aghast. "New York would not do that.... There's no basis for that ... nonsense," he fumed, "No one would dare charge the U.K. does not give reciprocity. It's the freest market in the world, and we don't have all these silly state laws prohibiting this and that.... Of course, if it was a question of Barclays ... I do think the authorities would do something" When it was pointed out that the Long Island Trust ruling is on the New York State books, he rushed off to read the precedent, of which he was completely unaware.

Accounting for their income

The stickiest point for the NYSBD and the Fed is the British banks' accounting system.

As Hong Shang's auditors Peat, Marwick, Mitchell and Co. and Price, Waterhouse and Co., have told the Fed, "the financial statements of HSBC are not required (under the Hong Kong Companies Ordinance) and do

not comply with either United States generally accepted accounting principles or regulation S-X of the U.S. Securities and Exchange Commission. To this day Hong Shang, according to its auditors, transfers "an undisclosed amount of net operating profit to inner reserves ... (due to which) profit or loss for any one year in accordance with United States generally accepted accounting principles can not be determined by an investor because transactions which would be reported as a part of profit or loss under such principles are recorded directly to inner reserves. The amounts of such transactions are not disclosed." Standard Chartered, National Westminster, Barclays, and all London-headquartered clearing banks admit to precisely this form of accounting until as recently as 1972.

It means, simply, that no one has any way of determining what the sources of such a bank's income were, or how it was disbursed, in a given year, and whether it was drug-related on the income or expenditure account.

One protest received by the Fed regarding the National Westminster acquisition application was in fact from an irate Nat West business client in London who wrote: "Nat. West. stated they maintain alternate figures of their statements of account to those published and refuse to provide such alternate figures to their customers.... It further appears that the bank has taken advantage of its computer-based central clearing system to eke additional hidden pecuniary advantage from its customers' businesses." That is, not only does Nat West stand accused of two sets of books, but of larceny by its British customers.

"The real question is whether the Fed staff or the board will want to take the responsibility, after all this drug-related publicity, of okaying the takeovers and then being asked later by irate congressmen why they did such a thing. Therefore they may decide to grant the USLP an open hearing in one of its protests and then all hell could break loose," one New York analyst said.

The Fed Board and staff, meanwhile, held a public hearing on Feb. 21 at which the staff, to protect itself, proposed to the board a "Statement of Policy on Supervision and Regulation of Foreign Bank Holding Companies," which the board duly issued on Feb. 26. The five-page policy statement "specifies that U.S. subsidiary banks (those purchased by foreign banks) shall be operated safely and in a prudent manner." What, but the narcotics issue, can possibly be construed by the term "safely"?

In fact, the Fed board has asked its staff to prepare a full-length report on all the implications of foreign bank purchases of U.S. banks which will focus heavily on the reciprocity question. There will certainly be no rulings on pending acquisitions until this report is complete, Fed sources say.

— Kathy Burdman

Supt. Siebert demands "national policy review"

New York State Banking Superintendent Muriel Siebert has shaken the British banking community with a strong call for "an immediate review on the federal level of U.S. national policy on foreign bank takeovers...." Mrs. Siebert itemized her objections to the ongoing spate of British bank purchases in the U.S. in a recent letter to Rep. Henry Reuss (D-Wisc.), chairman of the House Banking Committee, which Reuss released in full to the press on March 1.

All U.S. national banking regulatory agencies, including the Federal Reserve Board, Comptroller of the Currency, Federal Deposit Insurance Corporation, as well as the Securities and Exchange Commission, have been forwarded the Siebert letter by the House Banking Committee. They have received along with it a request for a full policy review statement, as has Rep. St. Germain's (D-R.I.) House Banking Committee Financial Institutions Subcommittee.

Mrs. Siebert's letter reads in part:

"I am pro-competitive... (but) in the United States there are now proposed foreign bank acquisitions announced over the past year alone totalling \$23 billion in U.S. banking assets, on top of the \$19 billion in existing foreign banking assets and if these were all accepted it would not be in the interests of competition.... New York has welcomed foreign bank branches and agencies... *de novo* operations are pro-competitive... Our banks for the most part started their international operations *de novo* rather than through acquisitions of existing major networks abroad....

"Regarding the International Banking Act of 1978... foreign ac-

quisitions of large domestic banks pose serious questions which have not been addressed.... The following points must be addressed:

"1. *Reciprocity*: ...On the basis of my discussions with my counterparts in other countries, no developed country other than the United States would permit any significant local bank to be acquired by a non-domestic bank. The opening of the U.S. banking system to foreign acquisitions probably will not create equivalent opportunities for our banks abroad.

"2. *Fairness*: "...I cannot reconcile the fact that our own U.S. banks operate under statutory and regulatory restrictions which place them at a distinct competitive disadvantage relative to their foreign bank competitors in these proposed acquisitions (ie., Citibank would not be allowed to purchase the banks which the British banks have targeted—ed.).

"3. *Impact on Worldwide Competitive Position of U.S. Banks*...

"4. *Impact on Control over U.S. Capital Resources*.... Many foreign banks are government-owned or controlled and operate in closer harmony with their governments than is the case here. *A U.S. bank owned by a foreign bank could carry out monetary or investment policy of its own country which were in direct conflict with U.S. policies. These conflicts could include foreign exchange operations, domestic or international credit restraint, types of credit extended, and levels of credit allocated to particular borrowers....* (emphasis added).

"5. *Amenability and Ability for Supervision of Resulting Institution and/or Its Parent Bank*..." Congressional sources have reported that Banking Committee Chairman

Reuss is indeed planning near-future hearings to investigate the issues brought forward in Siebert's letter. Such a probe promises to be very embarrassing for the City of London financial institutions leading the banking takeover drive, particularly to the Hong Kong and Shanghai Banking Corporation, which is awaiting a Federal Reserve decision on its bid to purchase the controlling interest of the New York-based Marine Midland Bank. As has been documented, the "HongShang" is involved up to its corporate ledgers in the international drug trade. A congressional investigation should reveal this illicit underbelly of HongShang's business enterprises, as well as the corporation's collusion with other British-based institutions to take over domestic credit markets and implement the deindustrialization of the USA.

Reached for comment on the Banking Superintendent Siebert's letter, a source at the Hong Shang said this week: "All of our worst suspicions about why the Fed has held up our acquisition of Marine Midland have been confirmed."

—Kathy Burdman

On the world credit markets

The ghost of Keynes strikes out at European Monetary System

The European Monetary System (EMS) strategy for a reform of the Euromarkets based on stable, *long-term* international dollar bonds, ultimately to be gold-backed, is entering rough waters. The week of Feb. 26-March 2 saw a generalized rush out of long-term instruments into short-term paper spread from the Euro-currencies across the international capital market. "Corporations, institutional investors, any money manager wants primarily liquidity right now," said a major New York Eurocurrency trader on March 1, "and there is a rush into short-term Eurocurrency deposits."

This morbid revival of Lord John Maynard Keynes's un-mourned "risk avoidance," as the Feb. 26 *Wall Street Journal* put it, is the latest result of the British government's not-so-secret war against the EMS. It is the politically motivated run-up in oil and commodity prices, together with shooting wars from Asia to the Middle East which feed the fears of inflation and credit crises behind this "liquidity preference." As our coverage this week documents, in energy, in commodities, in Asia and the Middle East, the British crown is behind each and every destabilization.

The new danger this week is the spectre of "liquidity inflation" haunting the strong-currency nations of West Germany, Japan, and Switzerland. Their governments are under pressure to follow the lead of the U.S. Fed and Bank of England toward harsh double-digit interest rates. If they do, the two-tier credit system "global EMS" on the agenda for the heads of state economic summit to be held in Tokyo during May will be rendered impracticable.

Why the EMS and Keynes don't mix

The core of the EMS as conceived by West German Chancellor Schmidt and French President Giscard d'Estaing is to soak up dollars through intervention and then increasingly through *long-term* Eurodollar bonds backed by remonetized gold, as Giscard emphasized in Mexico City on Feb. 28. The dollars are then loaned out ExIm Bank-style to high-technology and highly productive LDC development programs, yielding a high rate of return.

As part of the plan for a "global EMS," which the Japanese government announced as its program for the Tokyo summit before Ohira assumed the Prime Ministership, West German Finance Minister Matthöfer and the Japanese Finance Ministry have out-

lined what they call a "Consolidation Plan" or "transparency" in the Eurodollar markets. With the Bank of Japan joining in, these central bank "ExIm dollars" would be pegged to domestic German-Japanese interest rates, now at a 4-6 percent level. Thus, a "two-tier" international dollar market would be created: a profitable lower tier and a speculative upper tier at the London Interbank Offered Rate (LIBOR), currently over 11 percent. The Bank of Japan has already deposited dollars somewhat under LIBOR with Japanese banks.

In other words, under this regime the billions in dollar intervention by the EMS and Japanese central banks have until now been *dis-inflationary*, because they authorities have actually begun to provide dollars at subsidized rates to their commercial banks which have used them to generate foreign export orders.

But throw in soaring oil and commodity prices, wars, and threatened defaults, such as in Iran, on top of the dollar intervention, and inflation starts for real inside these intervening countries. The drains force available dollar resources to be kept liquid to pay for raw materials and for emergencies.

Tightening

Under the headline "Bank of Japan Studies 'Preventive Tightening Possibility,'" the *Japan Economic Journal (Nikkei)* on Feb. 20 signaled the alarming result: interest rates within Japan, the lowest in the lower tier, are under an upward pressure. The Bank of Japan is studying "combining ... raising the official discount rate and reserve requirement ratio, strengthening 'window guidance' of financial institutions (central bank monitored voluntary loan restraints — ed.), and inducing an elevation of short-term money rates.... With the welter of price factors in evidence, the situation is extremely severe."

In the German deutschmark sector, inflation fears have already forced three-month Euro-deutschmark rates up from 3 3/4 to 3 7/8 percent over the week. Rumors are flying that the Bundesbank will have to put up the Lombard rate (central bank repurchase rate — pegged to the discount rate) over its current 4 percent to stop the alarming recent 15 percent annual rate of growth of the money supply.

Any significant rise in these hard-currency sector interest rates would endanger the two-tier credit proposal.

The dollar bubbles

In the dollar sector of the international markets, "risk avoidance" has meant a dangerous bidding up of short-term Eurodollar bank deposits, as corporations and institutional investors, especially in the United States, rush to London to place their funds for six months at 11 percent. This has meant, temporarily, that the dollar is very strong. There is also a lot of liquidity, but it is extremely inflationary, since investors are demanding higher rates. While three-month LIBOR has held "meta-stable" around 10.5 percent, the medium maturities have risen inexorably; six-month Eurodollars have steepened from 11 percent to 11 3/16 over the week.

The effect on the international bond market has been electrifying: long-term instruments such as the \$200 million Dow Chemical issue in London, priced at 99.5, are trading in the 96 range; Honda's \$50 million 10-year convertible, priced at par, fell as low as 94.5. Unlike previous weeks, foreign exchange rate considerations have nothing to do with it; the Euro-DM and Euro-Swiss sectors are equally depressed.

Worse, the effect is very direct on Japanese and German mobilization of their own dollar reserves. The Bank of Japan reports that while it will be able to continue the

same volume of cheaper dollar deposits to Japanese banks, the banks have already had to cut their overall world dollar lending by 30 percent in January from the \$4 billion October to December level. The intense competition and high interest rates in the Eurodollar market, where Japanese banks get the majority of their dollar deposits, is to blame. The Japanese authorities fear the return of a 1974-style London "Japan rate" surcharge on their Eurodollar borrowings.

Finally, this bid-up of dollar deposits cannot go on forever. If it continues, "at some point, long-term prices will fall so far that no one will be willing to sell their bonds," a New York investment bank source said March 1. "Liquidity will disappear from the short-term market and the dollar will be in for a real fall." Chaos will hit the currency markets.

Given this ominous scenario, it might seem that Keynes's ghoul might indeed strangle the EMS. As an official in the European division of the IMF stated, "We have been warning for over six months that the inevitable rise of oil and world commodity prices coupled with runaway government spending and inflationary psychology will make the functioning of the EMS quite difficult if not impossible."

—Kathy Burdman

CREDIT MARKETS

U.S. credit markets are moving to the short side

U.S. banking liquidity shrank further this week under the impetus of Federal Reserve Chairman G. W. Miller's campaign to dry out bank lending to U.S. industry and agriculture, using sharply increased interest rates.

For the week ending Feb. 14, nationwide U.S. commercial and industrial (C & I) loans rebounded upward \$960 million. However, since the high point of November 1978, C & I loans have dropped nearly \$2.0 billion. Pacing this drop is the fall in

large placement of negotiable Certificate of Deposits (CDs) into the banking system. On an unadjusted basis, large scale CDs fell to \$99.4 billion from a high of \$101.4 billion just three weeks ago.

At the heart of this liquidity shift is the fact that higher interest rates combined with a series of scare rumors is forcing various investors and buyers onto the shorter side of the U.S. credit market.

Exemplary of this process is the stupendous growth in commercial

paper, which represents 30-to-270-days promissory notes. While U.S. banks are losing the industrial portion of their C & I loans, corporations are going to the commercial paper market which offers cheaper short-term rates. For instance, in a recent week, the interest rate on 30- to 60-day commercial paper ranged from 9.63 percent to 9.98 percent, while the banks were charging their best prime customers 11.75 percent plus bank balances.

This shift in U.S. banking liquidity, if it becomes more pronounced, will strike at a particularly bad time. The threat of the oil shortage hoax with an accompanying increase of oil prices and a run-up in raw material prices, would force panicked investors even further onto the short side of the market, just at the time when more liquidity is needed to finance energy and raw material price increases.

—Richard Freeman

COMMODITIES

Copper price boom betokens creation of 'common Fund'

U.S. Administration officials based in Geneva reported Feb. 27 that the U.S. had officially reversed its long-term opposition to creation of a \$1.4 billion international "buffer stock" for copper. The announcement took government officials and New York metals traders by surprise, leading one metals analyst to tell the *Wall Street Journal*: "This is a bad idea whose day has come."

The announcement follows a three-week boom in copper prices on the London and New York Metals Exchanges. Copper is now trading at 1974 "crisis" prices of

£1,000/long ton in London, while U.S. copper producers have linked their prices to open market quotations of a record 93 cents/pound. The speculative rush into copper has also encouraged major jumps in silver, platinum and numerous other metals prices.

There are some indications that the copper price "boom" may have been rigged by London and allied metals traders to set the stage for implementing the "buffer stock" scheme. Moreover, the buffer stock scheme, which indeed is a "bad idea," would be a precedent for im-

plementing a worse one, the global "Common Fund" proposal which would centralize all raw materials purchasing in the same way.

The "buffer stock" idea originates with the World Bank/International Monetary Fund, and is now chiefly advocated by the United Nations Commission on Trade and Development (UNCTAD) in Geneva. It is based on the false supposition that Third World payments deficits and debts can be endlessly financed by "price guarantees" from industrial consumers. What such price arrangements ignore is that, so long as the producing countries are forcibly prevented from acquiring necessary loans for long-term industrial development, price manipulations amount to "looting" from the industrial countries to finance fixed, low levels of productivity and persistent industrial poverty in the developing countries. It is an inflationary merry-go-round which would benefit no one.

FOREIGN EXCHANGE

Cross-stabilization of yen and deutschmark is under pressure

The Bank of Japan spent around \$160 million in the space of a few days to brake the depreciation of ... not the dollar, but the yen. Between Feb. 20 and Feb. 28, the yen dropped from 199.65 to the dollar to 202.31. And while on Feb. 20 it took 108.1 yen to buy a West German mark, on Feb. 28 it took 109.5.

This decline of some 2.5 yen against the dollar and 1.5 vis-à-vis the mark could be important. First of all, stable mark-yen and eventually mark-yen-dollar rates are a

key initial goal of the nascent European Monetary System (EMS). Some of the EMS's creators have said recently that their specific target parities are three marks to the dollar and 100 yen to the mark.

Most obviously, Japan's economy and balance of payments are the most threatened of any single country's by the prospect of fuel-price gouging, supply cutoffs, commodity price-hikes and protectionism. Erosion of the yen would compound cost inflation. And this is

not to mention the present and potential destabilization of Japanese trading partners in Southeast Asia and the rest of the world.

Reports surfaced Feb. 26 that the Tokyo Ministry of Trade and Industry (MITI) will decide at its March 2 Export Surveillance Committee meeting to abandon the export restriction guidelines instituted at last July's Bonn meeting of Western heads of state. The *New York Journal of Commerce* cited MITI sources as expecting that "demand for Japanese products in global markets in the new year will be beneath that which prevailed in 1978," adding that in fiscal 1978 Japan apparently held to its limits on exports of cars, televisions, steel products and ships, and demand is not expected to rise.

Nevertheless, MITI's Toshikazu Hashimoto announced in Tokyo Feb. 26 after a trip to Washington, the Carter Administration has again

Alternative approach

In early Jan., a spokesman for U.S. National Security Council economics advisor Owen told a reporter that Owen was determined to push the Common Fund through at the March UNCTAD conference, to thwart West German and French efforts to launch an alternative, highly ambitious solution to producer-consumer conflicts over raw materials.

On Feb. 25, West German Finance Minister Matthöfer detailed what this approach must be in an interview with regional newspapers. He reported that Chancellor Schmidt is considering using the surplus dollars held by the Bundesbank to finance a major raw materials stockpiling program. Matthöfer emphasized that the purchasing agreements being considered would be tightly linked with allocations to Third World raw materials producers of substantial loans, which would then be used for

industrialization projects and technology transfers.

Price boom like Common Fund

Owen wants to wreck these European efforts — which also include negotiations for linking prices to development loans with 56 developing countries which jointly signed the 1975 “Lomé accord” with the European Community — because the U.S. Administration is committed to backing London’s policy of preventing Europe from making the European Monetary System the foundation for a new world monetary system through such arrangements with the Third World.

The recent boom in copper and other metals prices strengthens the joint London-U.S. efforts against France and West Germany. The price boom works on the same principle as the Common Fund: looting and weakening of the industrial sector in behalf of recycling surplus

dollars into Third World deficit financing.

A prominent New York analyst emphasized that this is now happening in Zaire, with Zambia on target. “Do you think Chase and Citibank,” he asked “wouldn’t get in on a copper boom if they thought it would protect their loans” to those countries?

The same analyst thinks the metals boom has just begun, predicting copper prices ranging from \$1.00-1.20/lb. in the short term; rising price patterns at least until the end of August; and a rush into agricultural commodities (especially beef) at the point that a massive inflationary crunch hits the western consumer, forcing consumers to concentrate on the “bare necessities.”

—Renée Sigerson

threatened to impose surcharges on imports from Japan. Some Japanese banking sources also indicated privately the Bank of Japan’s yen support reflects pressure from the U.S. Treasury Department not to help the dollar appreciate.

Alongside these superficial rumors is the real danger of Japan’s isolation. Even in the absence of the imminent potential for 1974-and-worse Japanese import disruption and inflation, the fact is that — especially given the brunt of its dollar-denominated trade financing — movements either way in the dollar-yen parity are counterproductive. Until there is a mark-led appreciation of the dollar in relation to the fixed-rate EMS, when the yen could comfortably return by some 67 percent of its unsought rate gain to the 300-to-the-mark level, there is no benefit to anyone in downward pressure on the yen.

—Susan Johnson

KEEPING TABS ON THE ECONOMIST

Our regular check on the accuracy of the London Economist turned up the following in the publication's Feb. 24 issue:

The economist

“Grand economic planning is long dead.”

“China’s thrust into Vietnam was circumscribed...”

“... the toppling of the Chinese-backed government in Cambodia by the Soviet-backed Vietnamese was the casus belli.”

If China achieves its limited objectives “it will have helped to make the world a slightly stabler place.”

The facts:

The European Monetary System is a clear refutation of this claim.

The Chinese met unexpectedly strong resistance from Vietnamese border militia.

China had planned its invasion of Vietnam before the overthrow of Cambodia’s Pol Pot, according to West and East bloc intelligence sources.

The Chinese have brought the world to thermonuclear Armageddon, as even British Prime Minister Callaghan implied in a speech Feb. 26.

—Richard Schulman

BRITAIN

British production figures belie the promise of the North Sea boom

The latest set of figures from the Government's Central Statistical Office reveals that during the fourth quarter of 1978 the British economy virtually froze. Based on Gross Domestic Product figures published by the Department, the British economy not only stopped growing last year, but actually contracted. The drop was sharpest in productive sectors even before the current wave of strikes disrupted output. Manufacturing stood a mere 2.7 percent above the 1975 level.

It is not exactly news that the British economy has been in fun-

damentally senile shape for many decades. What is worth underlining is the accumulated evidence against the past several years' torrents of claims that the speculative North Sea oil development would do great things not only for sterling, but for the United Kingdom's economy.

Gross Domestic Product, based on total output data, declined by .2 percent between the third and fourth quarters of 1978 and stood only slightly above the second quarter level. In the last three months of 1978, GDP stood at 108.4 (at constant prices, 1975 = 100) compared

with 108.3 and 108.6 respectively in the previous two quarters. According to the *Financial Times*, most economists expect total output to be even lower this year while the Confederation of British Industry's monthly trends for inquiry, published last week shows that demand has further weakened in the last two months.

The underlying level of industrial output has changed little since a sharp rise between the spring and early summer and the all-industries output between October and December fell 1.2 percent from the level of the previous three months. Manufacturing production was down 2.1 percent from the third quarter.

Overall, domestic output grew by about 3.5 percent during the whole of 1978, but there was a gain of only .7 percent in manufacturing production.

The detailed breakdown shows that in the last three months of 1978,

GOLD

Gold prices reflect dollar stabilization

The spot price of gold continued to hang fire below the \$254 an ounce peak three months ago, though it reached \$251.50 at Feb. 28 deadline, reflecting heightened fears over the Mideast and China's war.

Not only has the interim dollar stabilization produced the ordinary countereffect — under extraor-

dinary conditions — of slowing gold demand, with Bankers Trust senior vice-president Gordon Curtis the latest to stress the dollar's firmness. As well, a margin of flight money has flowed into silver rather than gold in the past few weeks, as well as into sterling. Silver futures have also jumped.

The latest U.S. Treasury gold auction sold a million ounces at \$252.38 an ounce, up from \$219.71 at the January auction. Dresdner Bank, one of the prime movers in creating the new gold-backed European Monetary System, bought almost the entirety.

James Blanchard's latest *Gold Newsletter* is full of smug projections that "there will be a *perpetual* atmosphere of world crisis," to cite Blanchard himself, emphasis his; but the newsletter also carries a more sober, if not better-intentioned, appraisal of the EMS's gold remonetization by Robert Guy of N.M. Rothschilds, along with Guy's expectation that Japan, which has not officially upvalued its reserves like the Europeans, will follow suit. Guy added that this brand of "pro-gold" sentiment is emphatically not anti-dollar.

—Alice Shepherd

output in the metal manufacturing sector was 4 percent lower than in the previous quarter and production in engineering and allied industries was 4.9 percent lower. Textile output was down 2.1 percent, with shipbuilding also dropping.

Despite this startling evidence that the British economy has ground to a halt, the British Tourist Board has invited 100 foreign journalists to London to dispel the idea that the country is on its knees.

No nuclear power for Britain: The achievement of negative economic growth has prompted British authorities to consider seriously the findings of a recent study by the International Institute for Environment and Development which calls for the scaling down, if not outright scrapping, of Britain's nuclear energy goals. Based on a two and a half year research project funded jointly by the Ford Foundation and British Petroleum, this crew of environmentalists has concluded that official forecasts have greatly overestimated future energy requirements. They warn that if these forecasts go unchallenged, money could be needlessly wasted on the development of new energy sources. In the opinions of the study's authors, Britain could stop building nuclear power stations, reduce its nuclear industry to a fraction of its present size and still produce enough energy to ensure "substantially higher living standards."

According to the group's findings total energy use in the year 2025 could be no higher than 1975 without adversely affecting the British way of life. "It is astonishingly easy to save energy," the authors told the London Guardian. "It had really surprised us over the past two years how easy it is to achieve zero energy growth..."

—Marla Minnicino

TRADE

Chinese cancellations shock trading community

The ink was barely dry on over \$2 billion worth of Japanese industrial deals with the People's Republic of China when China announced this week that all post-Dec. 15 projects with Japan are suspended. Earlier suspicions that many of the vaunted China trade possibilities are a swindle were further confirmed by the British Coal Board's collusion in planning to dump Chinese coal onto third markets. Meanwhile, qualified observers say that the Chinese move against Japanese industry is intended to punish Japan for its refusal to support China's instigation of war.

The major Japanese trading companies abroad voiced their shock at being "bluntly notified by the Chinese that all contracts signed since mid-December were not to be considered effective for the time being," reported the March 1 *Journal of Commerce*. The \$2.1 billion subsumed 49 contracts, including the \$1.1 billion Paoshan steel mill near Shanghai, a giant petrochemical complex, and a fertilizer plant. Japanese trade representatives left for China Feb. 28 to notify Peking that the "suspension" action is "unacceptable."

What the Chinese are demanding is that these major deals, concluded on a cash basis, be renegotiated on a deferred settlements, or effective credit, basis. This reflects China's shortage of foreign reserves, stressed both New York and Western European sources. It is now clear that the Chinese are out to garner the bulk of international financing for its military purposes, at the expense of developing nations who propose to use credit for industrialization and modernization

of agriculture. British spokesmen — including Lord Eric Roll of S.G. Warburgs in a Frankfurt speech we reported last week — have been perfectly candid about their commitment to serving as China's brokers in deploying hundreds of billions of Eurodollars to the Bank of China.

Coals to Newcastle:

Britain also intends to help China get foreign exchange through export earnings of a singular kind. The London *Financial Times* reported Feb. 7 that China envisages making its coal into a major export item. In fact, it has told some of its trading partners in Europe that it intends to sell 60 million tons a year by 1985, a huge increase in total market supplies that would greatly depress the price and that could only be carried out as a massive dumping operation. The situation came to light because China is demanding that Great Britain accept coal as payment for building a \$200 million coal mine in China — an attempt to sell coal to Newcastle, since Britain itself is a coal exporter. China's demand has stalled negotiations to wrap up the deal. Britain's only option is to try to market the Chinese coal abroad, but, according to the head of the National Coal Board, this might pit Britain against Germany, which apparently has been asked to take coal as well. The *Financial Times* author neglected to mention that Britain would also be selling Chinese coal in competition with its own. In fact, he said, Britain may accept the absurd package in order not to prejudice other deals in the works.

—Peter Rush

Would you buy a used car from Lazard Freres?

It has recently come to our attention that the Paris and New York offices of the Lazard Freres investment group are overly enthusiastic about getting a "piece of the action" of the coming business boom in Mexico. It seems that members of the Lazard staff have been feverishly calling many Japanese companies and peddling the firm as an expert in doing business in Mexico. Lazard hopes to take advantage of Japan's growing interest in Mexico as a source of oil and a market for high-technology exports. While more than willing to listen to the opinions of the influential Lazard group, the Japanese are known to hold the view that the overpriced "advice" of the firm is in fact a classroom lesson on how *not* to do business in Mexico.

Every salesman has his own sales plan and, thus, there are variations on the advice being given by the representatives of Lazard. However, there is a distinct and common theme running through the various approaches toward Mexico being peddled by the firm: every approach suggested by Lazard stands in stark opposition to the stated policies of the Mexican government, which has the final say over the major economic directions the country will take.

According to very well informed U.S. corporate sources, Lazard has been visiting the offices of leading Japanese banks and "informing" them that the Mexican government desires economic cooperation with Japan in labor-intensive, low-technology projects throughout the country. The highest levels of the

Mexican government hold this view, according to Lazard, which claims to be in close contact with "powerful" Mexican officials.

As one Lazard salesman tries to peddle this policy approach to the Japanese banks, others have been visiting representatives of the powerful Japanese trading companies, with a different sales technique. Lazard is offering the services of some politicians in Mexico who, the firm claims, carry the bags of Lazard godfather Andre Meyer and who could be instrumental in cutting through Mexico's "red-tape" to deliver contracts to Japan. The name most often mentioned by Lazard in this regard is that of the current governor of Baja California, Roberto De la Madrid.

What Lazard has failed to inform its prospective Japanese clients is that a developmental strategy based on labor-intensive agricultural and industrial projects has been rejected outright by the Mexican government and that the unpopularity suffered by both the Carter Administration and the IMF-World Bank throughout Mexico would also be suffered by Japanese firms if they adopt such a business approach. Moreover, Lazard's reputed "big-fixer" in Mexico, Governor De la Madrid, is a well-known leading proponent of the "Hong Kong" and "Monte Carlo" strategies for development: the promotion of gambling, tourism, and related "industries" most associated with former Mexican President Miguel Aleman. The governor is also known to maintain

very close ties to his counterpart across the border, California Governor Jerry Brown. The Mexican government and especially President López Portillo have angrily rejected these ideas as viable plans for the future of Mexico.

When Lazard's "advice" to Japan is viewed along with the firm's ties to the World Bank and to Sen. Edward Kennedy (D-Ma.), the leading U.S. proponent of labor-intensive projects for Mexico and the use of Mexican oil by the United States to bust the OPEC cartel, then one must conclude that Lazard has the political intention of inhibiting Mexico's heavy-industry-based development, as well as disrupting independent relations between Mexico and Japan on oil development.

All of this just goes to show that when choosing a consulting firm, as when buying a used car, one must know the *intentions* of the salesman.

— Peter Ennis

The AFL-CIO refuses action on Chinese threat of war

The AFL-CIO Executive Board concluded its semi-annual week long meeting in Bal Harbor, Fla. without taking any policy stand whatsoever on the Chinese invasion of Vietnam and its threat to global peace.

The U.S. media has chosen to focus on the Executive Board's ample criticisms of Carter Administration domestic policy — most of which are incompetently formulated. In an upcoming issue we will more closely examine them. Such "pronouncements" are not the most important story of the Executive Council meeting; they are misdirection — and the media knows it.

What we present below won't be found in any other paper or magazine.

According to sources close to the meeting, a debate raged within the Executive Board up until the last moments of its meeting on what to do about the Chinese invasion.

One grouping centered around the leaders of the Building Trades, the Steelworkers and the Longshore union, viewed the Chinese action as contrary to U.S. policy interests and endangering the nation with potential, unnecessary thermonuclear confrontation with the Soviet Union. These leaders viewed the Carter Administration as "stupidly playing with fire," with its implicit encouragement of the Chinese during the Teng visit to the USA. From early last week, this grouping, some of whom were receiving updated briefings on developments in Indochina from the U.S. Labor Party, attempted to hammer out a policy statement that would place the Chinese on notice that the United States did not support their invasion. They further wanted to demand that the Chinese withdraw and to call on the President to state publicly that the U.S. would not come to China's aid — even if the Soviet Union was forced to

Kirkland: Let the Soviets and Chinese fight

In an interview last week with a foreign journalist made available to this news service, AFL-CIO Secretary Treasurer Lane Kirkland stated that it was his "opinion" that it would be in the U.S. strategic interest to "let the Chinese and Russians bleed each other."

Kirkland stated that he found former Secretary of State Henry Kissinger's recent interview in the London *Economist* as a "good summary of our strategic situation worldwide.... I find little to quarrel with in it ... we are getting pushed around everywhere by the Soviets and we are letting them get away with murder with the SALT negotiations." He called for the rejection of the upcoming SALT treaty.

"Let me paraphrase an old maxim from Napoleon," Kirkland said, "when your enemies are chopping each other up, don't interfere.... The Soviets, the Chinese, the Cambodians — they are all our enemies. Let them bleed...."

There is "no real threat" of any kind of war that would involve the U.S., Kirkland assured the repor-

ter. "We have no real interest in this affair...."

He further stated that while he personally had "some criticisms of the Administration's foreign policy and China policy," the current war in Indochina had nothing really to do with it. It is an outgrowth of ancient hostilities.... The Chinese hate the Vietnamese and vice versa.... This could have happened any time...."

Told that some analysts in Europe and elsewhere thought that it was likely that if the Soviets were forced to intervene they would use nuclear weapons on China, Kirkland became agitated: "Sure that's a possibility.... But nobody I'm talking to says its likely and I don't think that the Soviets would use nuclear weapons.... Do other countries think that? What do the British think?"

Stressing that the above were all "my own personal opinions," Kirkland said that "the AFL-CIO has found that in this case, silence is the best policy...."

take action in defense of its Vietnamese allies.

Such leaders were stymied by the efforts of Lane Kirkland, the AFL-CIO Secretary Treasurer, his side-kicks on the Executive Board such as Zionist lobby operative Sol Chaitkin of the Garment Workers and the AFL-CIO International Affairs Department, under the effective control of long-time Anglo-American intelligence operative Irving Brown. These networks are plugged directly into the State Department and into the National Security Council and Zbigniew Brzezinski — the American players of the “China card.”

The fight

Kirkland and the people who were pulling his strings tailored their operation to the profiled weaknesses of the best of the AFL-CIO leaders. These leaders, while attempting to shoulder their responsibility to their memberships and the nation, have, over time, been made to feel totally dependent on a gaggle of so-called experts who “advise” them on their opinions. Kirkland has been carefully cultivated as an expert with access to “inside” sources for national security briefings. Backed by the International Affairs Department, he is known to push AFL-CIO leaders to “trust him and the experts” on crucial foreign affairs matters. Kirkland, part of the Committee on the Present Danger circles which take a hard-line, provocative stance on relations with the Soviet Union, is occasionally challenged by “left-Fabian” social-democratic circles such as those around William Winpisinger of the machinists, on defense spending and arms limitation, but such debate is inconsequential and for the most part contrived.

What marks the policy discussions on the Chinese invasion is that they almost went out of control. For the first time in recent memory, people within the Kirkland CPD clique began to break profile. Many of these people had wandered into the Committee on the Present Danger thinking that it was an “American patriotic” oriented group. When confronted with the apparent and obvious lunacy of the China policy, these leaders bolted and began to verge on a policy position that actually represented U.S. strategic policy interests.

The weakness

But their own feeling of inadequacy and their anti-communism apparently did them in. Under pressure, Kirkland, who was reportedly kept updated by State Department sources on the projected course of the war, moved first to forestall a policy resolution. At midweek he was telling other AFL-CIO leaders that they had nothing to fear, that there was no cause for alarm. Sources in Washington indicate that the State Department backed up Kirkland by urging the council not to do anything that would interfere with U.S. efforts to force the Vietnamese to withdraw from Cambodia in exchange for a Chinese withdrawal from Vietnam.

But many executive council members were not convinced. Pressure continued to build through last weekend for a policy resolution. Kirkland and his allies scrambled to sow confusion, adopting a consciously fraudulent line that “no one really knew what was going on in Indochina.” The AFL-CIO should not take any action, but should “wait and see what develops....” He was aided by reports in the major U.S. media which consistently played down the danger of a global thermonuclear war. Kirkland whipped up their anti-communism by pointing to the war as a fight among “our communist enemies.” He and his cothinkers gave assurances that a Sino-Soviet war — if one should develop — would be in U.S. policy interests. Warnings about a Soviet thermonuclear strike against China were “exaggerated out of proportion.”

In the end, it came down to whether the AFL-CIO leaders were prepared to act upon the evidence of a global war threat and the U.S.-Peking alliance for a thermonuclear showdown with the Soviet Union or whether they were cowed by Kirkland and his “State Department” briefings. They listened to Kirkland.

The “official” excuses for this posture were almost laughable. “It’s too hard to tell what is going on in Indochina,” AFL-CIO public relations director Alan Zack told a reporter. “Rather than say something stupid, the AFL-CIO is going to say nothing.”

LABOR PERISCOPE

Jack Jones is in Detroit to study UAW model for Britain

Jack Jones, the former leader of Britain's Transport General Workers Union, left Detroit last weekend after nearly two weeks of meetings with officials of the United Autoworkers union. UAW Solidarity House headquarters is very "hush-hush" about the content of Mr. Jones's discussions with UAW President Doug Fraser and others. They say only that Jones, who is known to be a big "China booster," talked about a "wide range of subjects."

Other sources report that Jones, the head of an international pensioners movement, was particularly interested in promoting an international form of the Kennedy Health Bill, which the UAW supports.

Jones was also "studying the structure of the UAW," to see what he could do with it in Britain, said another UAW official in Detroit. The British trade union leader was given the "royal treatment" by his UAW hosts. He plans to do likewise for UAW officials slated to visit Britain in late summer.

"We share a great number of common interests with our British friends," said a Solidarity House spokesman.

Bad company: Several leaders of the building trades, as well as former Secretary of Labor Peter Brennan—presently of the New York State Building trades—showed up three weeks ago at a weekend conference in Washington, D.C. of "Energy Advocates." The conference was organized under the auspices of the Heritage Foundation, a group regularly attacked in AFL-CIO

literature as antilabor and a key component of the right to work lobby.

People at the Heritage Foundation are trying to play the labor involvement as low key, so as "not to scare people away."

The "bait" for the conference was that it was supposed to defend the nuclear industry from environmentalist attack—at least that is what Mike Coupoulos, the Heritage organizer for the conference told labor leaders and others.

They had invited Building Trades leader Robert Georgine, but he reportedly backed out under pressure. But the Heritage people, on closer examination, are "not all that tied to nuclear power." They would like to see labor shift away from its strong support of nuclear power and instead back soft-energy—nonviable—options such as wind and solar. People, especially labor leaders, "start out as pronuclear and then we soften them up and open their eyes to other options," said a Heritage source.

Somebody is being taken down the primrose path. (*See upcoming Executive Intelligence Review for a full report on this hoax.*)

Teamster "dissidents" in trouble in Motor City: On-the-scene reports from Detroit indicate that the Kennedy machine-controlled dissidents inside the Teamsters union, PROD, Inc. and the Teamsters for a Democratic Union are in big trouble.

While TDU-PROD leaders call for a strike when the master freight agreement expires March 31, they can't get Teamsters to their

meetings, and "membership" appears to be dropping rather than growing. Last weekend's Detroit meeting of the Majority Contract Coalition—an amalgam of PROD, TDU, and assorted disgruntled Teamsters—attracted only 50. A month before they drew about 150. Observers noted that the Coalition was down to the "hardcore." TDU blowhard Pete Camarata looked discouraged, as did other coalition leaders.

TDU-PROD strategists place high priority on Detroit Local 299 for a "show of discontent" with Teamster leadership. Local 299, the former base of Jimmy Hoffa, is also Teamster President Frank Fitzsimmons's home local.

TDU-PROD leaders pretend nothing is wrong, but others close to the MCC say there is "big trouble." They talk of the split in PROD (see *Executive Intelligence Review Vol. 5 No. 8*) and the "goddamn U.S. Labor Party," which has circulated evidence that the TDU and PROD are part of a high-level, foundation-funded conspiracy to destroy the Teamsters. "If we can't get something going in Detroit we're hurting bad," said one discouraged TDUer.

TERRORISM

Is the ADL behind a U.S. terrorism outbreak?

A reputed ADL member, Mordechai Levy, was reported by the Feb. 21 *Philadelphia Journal* as being responsible for attempting to organize a Nazi Party rally which was to be held in Philadelphia Feb. 25. Before the rally's Zionist link was exposed, it was being built up nationally as likely to trigger violent confrontations between the Nazis and Jewish militants. Since that exposure, however, the rally was called off, and no violence erupted.

ADL officials have made no comment on the *Journal's* exposure, and national media which were touting the prospects of violence are now playing down the entire affair, some trying to dismiss it as a hoax. According to our informed sources, Levy also functions as a high-ranking member in the Jewish Defense League chapter of Philadelphia. It is also reported that Levy is now being hidden in Brooklyn by members of the violent, Maoist Progressive Labor Party (PLP). Moreover, according to a source close to the U.S. Department of Justice, Levy is under investigation by the FBI for his involvement in the unsolved December 1975 LaGuardia Airport bombing in which 12 people died.

Despite the ADL's silence, the affair closely parallels earlier incidents in which one James Rosenberg, linked to both the ADL and to Israeli Intelligence, was caught organizing violent confrontations between the Ku Klux Klan and the Progressive Labor Party in Trenton and Philadelphia. And it coincides with a rash of incidents which appear to intersect prominent ADL figures, Zionist lobby-linked politicians and organized crime. The incidents cohere with evidence of ADL involvement in criminal activities,

including drug-running and terrorism, documented in the best-selling paperback, *Dope, Inc.*

The indications of a terrorist escalation in the United States include the following:

- The near-defunct Jonathon Jackson-Sam Melville Brigade bombed the Westchester, New York Mobil Oil offices on Feb. 27. The unit had not been active since the summer of 1976 when local law enforcement authorities initiated a series of arrests of the group's members. At that time, it was reported that the group had been created out of Thomaston Prison in Maine where a \$20,000 a year drug-running operation and bomb-making instruction were components of daily life at the correctional facility.

It was also reported in 1976 that MIT linguist and brainwashing expert Noam Chomsky and former Weatherman terrorist Eric Mann were directly involved in orienting the original prison networks toward the birth of the terrorist group. The Washington, D.C.-based Institute for Policy Studies was also involved.

- In Seattle, Washington, the terrorist George Jackson Brigade carried out a bank robbery using a diversionary bombing and bomb threats during the course of the robbery. The Brigade's "above ground" unit, the Revolutionary Communist Party (RCP), led a 20-person paramilitary march in downtown Seattle, wearing matching jackets and berets and brandishing 3-foot fighting sticks.

- At the same time there occurred a spate of terrorist-linked bank robberies in Vancouver, British Columbia, including a weapons assault on the British Columbian Coordinated Law Enforcement Unit (CLEU). According

to local sources, the CLEU has been chiefly responsible for large-scale drug-seizures, the most recent being last week in which over \$20 million in heroin was confiscated. It was theorized that the terrorist attacks against the unit were coordinated by organized crime interests.

Antiterrorism experts in the region are exploring tentative links between the George Jackson Brigade and the leading Seattle-based Zionist lobby figures. They include: Senator Henry "Scoop" Jackson; Stanley Golub, owner of the Mariners professional sports team and the 1976 Treasurer of the Jackson for President Campaign Committee; Herman Sarkowsky, owner-general partner of the Seahawks and the Sounders professional sports teams and member of the Washington State Horse Racing Commission; Jack Spitzer, Security Savings and Loan Association banker and newly elected International President of B'nai B'rith; and Merle D. Cohn, Security Savings and Loan banker and National Commission member of the ADL.

- In Baltimore, a Revolutionary Communist Party unit and another organization, the Youth Against War and Fascism (YAWF), featured prominently as provocateurs during the Feb. 19 and 20 "snow riots" in that city. *Baltimore Sun* news columnist Neal Sidon reported that the RCP used bull horns to encourage more looting. The YAWF was given extensive local television coverage imploring persons to join in the looting. The YAWF grouping was identified last year as functioning directly under the ADL in a terrorist assassination capacity.

—Robert Kay

Reform of the antitrust laws

Kennedy sponsors 'legal' onslaught against U.S. industry

In January, the President's Commission for the Review of Antitrust Law and Procedures issued its report and recommendations for reform of the antitrust law. Legislation to implement the commission's procedural proposals was immediately introduced by Sen. Howard Metzenbaum (D-Ohio). Hearings are now being held in the Senate.

The report itself has left corporate attorneys and anyone else who has assessed its implications reeling. The commission went far beyond any mere procedural review of the difficulties of antitrust litigation and enforcement. Major changes were proposed in the very nature of the antitrust law as it was enacted in the Sherman Act of 1890.

If the recommendations become law, there would be a vast and radical reorganization of the American economy — a result largely predicated on Louis Brandeis's 60-year-old vision of the world as a collection of small villages, "freely interacting." The American industrial capacity would be decentralized, the ability of major corporations to generate and concentrate capital for investment would be vastly limited, forcing their reliance upon an increasingly centralized banking

system — the British model. In fact, current trends in banking would indicate that such a centralized credit system *would be* dominated by British and Canadian banking institutions.

Needless to say, such a result would, for all intents and purposes, return the United States to its pre-1776 status as a British colony — a result supported only by a handful of radical environmentalists and the City of London. But various stages in the step-by-step process embodied by the commission report have far broader support. As Senator Edward Kennedy, Chairman of the Senate Judiciary Committee presiding over the implementation of the commission recommendations, announced at the August convention of the American Bar Association, he has welded together a coalition of liberals and conservatives, based on a commitment to "free enterprise," to back the recommendations of the committee. The Senator's staff told the *Executive Intelligence Review* last June that "divestiture is a growing trend."

The most solid evidence of the strength of this peculiar Kennedy "coalition" was an August report of the prestigious American Bar Association Committee

Who joined Kennedy on the National Commission

Almost 10 years in the making, the National Commission was established by President Carter six months ago without any input from Senator Kennedy's antitrust subcommittee. But Kennedy wasted no time to meet with Carter and muscle his way onto the commission. He helped to stack the deck with structural antitrust reformers:

- Senator Howard Metzenbaum, who, with Kennedy, is on the Senate Judiciary Committee.
- Senator Jacob Javits of the Joint Economic Committee.
- Rep. Peter Rodino of the House Judiciary Committee.
- Rep. Barbara Jordan also of the House Judiciary Committee.
- G. Michael Pertschuk, a Federal Trade Commissioner and a former close associate of Ralph Nader's Raiders.
- Maxwell Blecher, a Los Angeles attorney.
- Warren Sullivan, a University of California at Berkeley law professor.
- Eleanor Fox, a New York University law professor.
- John Shenefield, the Assistant Attorney General in the Antitrust Division of the Justice Department.

"Even if they had considered the other side of the question," one attorney has commented, "they wouldn't have had the votes on the commission to put it through."

on Law and the Economy, chaired by John J. McCloy. That committee proposed the elimination of major areas of regulatory authority, in favor of "free enterprise" — all made feasible by "more effective" enforcement of the antitrust laws.

A prescription for divestiture

The commission report proposes to rewrite the antitrust law to make it "more effective." Its most important recommendations would amend the Sherman Antitrust Act to establish proofs of monopoly or conspiracy to restrain trade that are purely structural: What is the corporation's percentage of market share? Are there similarities in pricing? Nowhere would it have to be shown that the corporations involved were either likely to succeed in their efforts to monopolize trade or actually engaged in predatory business behavior. This, in itself, is a prescription for divestiture of many major corporations, and will have a significant impact on cor-

porate decision-making concerning growth and the development of new technologies.

Consider Section 2 of the Sherman Antitrust Act of 1890: "Any person who shall monopolize, or attempt to monopolize ... any part of trade or commerce ..." may be fined or imprisoned for violating the antitrust laws. The courts have always ruled that an antitrust case has to be proven. How? By showing that the corporation intended to create a monopoly and had a "dangerous probability of success" in doing so. The commission has made recommendations that would abolish such standards of proof and substitute structural determinations of the nature of that particular economic sector for proof of actual intent to monopolize.

"Persistent monopoly power can be *presumed* (emphasis added) to be maintained through deliberate conduct that would violate traditional Sherman Act Section 2 standards," says Recommendation 2 (b). The commission's rationale here is that any proof of predatory pricing or other "bad business conduct" simply "illuminates" the monopoly power of a corporation. By implication, a "monopoly" is simply a function of the market share of any particular corporation, whether or not that corporation does anything to discourage other corporations from competing with them for the same market. A number of large corporations, whose growth has been based upon technological innovation, like IBM, Xerox, and Kodak, have already been subjected to antitrust actions by both the federal government and private individuals because of the large market share their innovations have obtained.

One well-connected corporate attorney pointed out that these recommendations, if implemented, would act as a restraint on corporate growth and the rate of technological innovation. If corporations fear to cross some ill-defined "magic line" by expanding their marketing or financing research and development to create a new product line, they will necessarily hold back on growth and aggressive competition for fear of drawing antitrust action down upon them. Aggressive competition was never placed in the same category as anticompetitive business conduct by the Sherman Act. Multinational corporations which tend to expand their foreign markets based upon research, development, and marketing in the United States, will be particularly hampered in their efforts to compete with aggressive, foreign trading consortia.

Disincentive to growth

The second major structural recommendation of the commission has equally dire consequences for American industry. The commission suggests that prosecutions for attempts to monopolize, under Section 2 of the Sherman Act, should not have to depend, as they do now, upon showing that the attempt has a "dangerous probability of success." The only requirement should be for the government to show that the corporation had

Kennedy's Illinois Brick bill

With the National Commission's proposals out, Senator Kennedy has now introduced his long-promised *Illinois Brick* bill, named after the famous case that set the precedent preventing consumers other than those buying directly from a company in violation of antitrust laws to collect damages. Kennedy's bill would permit the purchasers of every loaf of bread, for example, to sue and collect treble damages from a flour mill that had supplied bakeries with flour at an inflated price because of antitrust violations.

This is a Ralph Nader dream of a bill with 22 cosponsors in the Senate. Any company that loses an antitrust action faces bankruptcy at the hands of angry consumers.

Another example: if IBM loses the 10-year long antitrust suit which the Justice Department is prosecuting against it, then IBM, under Kennedy's bill, would be liable to pay treble damages to potentially every individual who received services from a bank relying on IBM equipment.

“significantly threatened competition.” This effectively eliminates most of the traditional defenses to antitrust action and lowers the threshold for violations.

The purpose of this recommendation: restraining the growth of larger firms in favor of smaller ones, decentralization of industry. The commission is very specific in this regard. They suggest that Congress examine the reforms “in view of possible disincentives to business growth or public perceptions of unfairness.” The courts “should not accept any form of relief that is inadequate to restore competition even though adequate relief may have adverse tax or other financial consequences for the divesting firm or third parties.” The third party here is the American public, which will be paying inflated prices for obsolescent technologies and productive capacities.

The commission then proposes to end government’s role in the development of the infrastructure that is vital both to industrial production in the United States and to exports. Antitrust immunities of the trucking industry and railroads should be eliminated and those industries be substantially deregulated, goes the proposal. The same is recommended for ocean shipping, if defense and diplomatic considerations make that feasible.

The American transportation grid, despite certain problems, is probably the best in the world. From at least 1919 on, it was developed as a joint government-private industry venture to permit the levels of investment and extent of services necessary for a growing industrial economy. This joint venture, the commission proposes, should be abolished and the industry thrown open to “free competition” — route cutting, price wars, and an end to capital investment as innumerable small companies attempt to establish a niche for themselves.

The deregulation policy coheres with the overall objectives of the commission’s recommendations to decentralize the American economy. In their minds, this is a desirable *social* policy to be enacted by manipulation of the antitrust laws.

Hoping for nothing too drastic

Public scrutiny has been assiduously avoided in every step of the commission’s operation. The commission was established with a six-months duration, extraordinarily short for the complex issues to be considered. Senator Kennedy’s staff has explained to the *Executive Intelligence Review* that this is no problem because “the most effective way to get results would be to hammer out the guidelines before the commission began its work.” These “guidelines” included a number of procedural recommendations, subsequently adopted by the commission, a proposal to review all regulated industries exempt from antitrust prosecution and eliminate those exemptions, and to facilitate divestiture. The work was well-prepared far in advance, the commission was stacked with trustbusting advocates and, by the time the recommendations were issued, legislation was

already drawn up to begin implementing the recommendations.

An *Executive Intelligence Review* survey of House and Senate Judiciary Committee members, conducted six months ago, indicates that none of them, besides Senator Kennedy, has the least understanding of what is underway. Senator Paul Laxalt’s office commented last June: “As far as we are concerned the commission will begin and end with no reforms proposed.”

Corporate attorneys were playing the same game of biding their time and hoping that nothing too drastic will result, making a compromise here or there on procedure, airline deregulation and so forth. But the cards are on the table. Senator Kennedy and his allies have announced their platform: U.S. industry is to be divested and shrunk to tiny, decentralized entities, organizationally and financially incapable of making the necessary technological advances.

—Felice Gelman

The Metzenbaum bill

Senator Howard Metzenbaum (D-Ohio) has introduced legislation to amend the Antitrust Civil Process Bill in a first step toward implementing the National Commission’s proposals. The bill deals entirely with the commission’s procedural recommendations, all of which place great pressure on attorneys, judges, and corporations to avoid or settle antitrust litigation, while providing private trustbusters with a major incentive to sue.

The bill would:

- provide the government with access to discovery material on the record in separate private cases for use in prosecuting an antitrust action against a corporation;
- permit any judgement won by the government in an antitrust action to be introduced as *prima facie* evidence in a private antitrust action;
- increase sanctions against corporate attorneys who delay the prosecution of an antitrust case;
- permit a plaintiff who has won a private antitrust suit to collect interest on the amount of the judgement from the time the complaint was filed in court, thus increasing the pressure on corporations to settle fast, rather than fight litigation.

The Vatican's world diplomacy is key to fight for progress

The editor of the Vatican's Spanish-language newspaper, Monsignor Calderon, told the press on Jan. 25 that "the pontificate of Pope John Paul II will be decided" by the political and theological stance that he would take at the third Latin American Episcopal Conference (CELAM) a few days later. In fact, Pope John Paul's speech at that conference confirmed his intention to carry forward the policies of his predecessors, Paul VI and John Paul I.

These policies have placed the Vatican in a leading role in global efforts to establish industrial progress — particularly in the Third World. And they are increasingly drawing the hostile attention of opponents of the industrial movement, throwing a spotlight on the more overtly feudalistic tendencies within the Church such as

the Georgetown Jesuit heresy and the "conservative" movement of oligarchist-allied Archbishop Lefebvre in Europe.

As Calderon had indicated, John Paul II put forward two principal features of the foundation for his pontificate in his address to the CELAM III meeting in Puebla, Mexico: first, the Catholic Church's recognition of its duty to involve itself in solving major social problems, while simultaneously condemning the pseudo-revolutionary doctrines of certain Latin American bishops; and second, an ecumenical commitment to open dialogue with all international forces regardless of their formal religious views.

Pope Wojtyla's speech made repeated references to Pope Paul VI's encyclical *Populorum Progressio* as the basis of current Vatican policy. This encyclical was authored over 10 years ago to formulate Church support for Third World industrial development as the means of ensuring the necessary moral development of these populations.

Prior to his much-publicized Mexican trip, the tenor of Wojtyla's political orientation had been made amply clear during his brief tenure in the papal office. For example, he immediately moved to pursue the plans of his predecessor John Paul I to initiate direct Vatican participation in the Middle East peace process. John Paul I had planned to visit Lebanon to attempt a peace mediation. Wojtyla sent Cardinal Bertoli to Lebanon in early December to investigate the situation, following two lengthy consultations between himself and Jordan's King Hussein at the Vatican beginning Dec. 14. While speaking with Hussein, John Paul II was also meeting with representatives of African liberation movements in an attempt to mediate a peace in southern Africa.

Speaking to the international press corps on Jan. 13, the Pope identified five strategic areas in which the Church planned major interventions: Lebanon, the Far East, Northern Ireland, Latin America, and Iran. While his intervention at the Mexican CELAM meeting

In this section

Our Special Report this week is on the Vatican, its worldwide diplomacy, and its role in the fight for progress.

- Valerie Rush from our Latin America desk reports on the CELAM III conference held in Mexico during January, providing a background to the significance of the conference's affirmation of science and development as Church policy.

- The Theology of Liberation, the heresy in Latin America, and its predecessor, the Cristero movement, in Mexico.

- The Vatican's commitment to development — the new name for peace — with excerpts from Pope Paul VI's *Populorum Progressio* and from John Paul II's speech to the CELAM III conference reaffirming that policy for progress.

- And from our Europe desk, Vivian Zoakos explains who the schismatic Archbishop Lefebvre is and who and what he represents.

undoubtedly represents Wojtyla's most decisive intervention into Latin America, he earlier attempted to mediate a dangerous dispute between Argentina and Chile, dispatching Cardinal Antonio Samore to both countries as his personal representative.

Most indicative, because most controversial, have been Pope John Paul's activities and pronouncements in relation to the communist countries of Eastern Europe and the communist movement in the West. As he told the reporters in January, "the task of Vatican diplomacy is to serve the cause of peace," proposing that full official relations be established between the Vatican and the socialist countries. Since that time, negotiations between the Vatican's negotiator and Poland have reportedly yielded significant results, and the Italian press now predicts that official relations will be established between the two probably before the end of the year. Much will depend on the Polish visit which Wojtyla now plans for May, a trip first discussed shortly after Wojtyla's election. The Pope also granted a lengthy audience to Soviet Foreign Minister Gromyko on Jan. 24, which was described as extremely cordial.

Especially indicative of his willingness to pursue Paul VI's course of open dialogue with communists was the exchange between Wojtyla and "Vaticanologist" Santini, the correspondent for the Italian Communist Party newspaper. Interviewed by Santini on an airplane headed for Mexico, Wojtyla pointedly said that "the first newspaper I read in the morning is the leftist press, starting with *Unità*. This newspaper makes some criticisms, and I like it." He continued: "The Church lives in reality everywhere, in Poland as in Italy, as in Mexico. The Church wants to serve everybody if it wishes to be what it must be. The aim of the Church is the common good, and to further that unity, that solidarity which you were speaking about."

Pope Wojtyla has made several significant gestures to socialist Europe, all of which have led his former anti-communist admirers to speculate publicly in the press whether the Pope is not in fact "a left winger" despite earlier predictions to the contrary. For example, on Jan. 18, John Paul sent a message of good will to the Polish government noting that "he wishes their cooperation in the common task of securing peace," a message the Polish government published in all major national media.

In the following report, *Executive Intelligence Review* examines the Vatican's policy, including quotations from the encyclical *Populorum Progressio*, which charted the Church's recent role in favor of industrial progress, statements by Pope Wojtyla, and a report on the CELAM III conference. And we provide a profile of the policy's opposition, featuring an in-depth report on the movement behind Lefebvre — the first in a general circulation English-language publication — by our European desk chief, Vivian Zoakos.

CELAM III: policy is science, growth

The Third Episcopal Conference of Latin American Bishops, held in the Mexican city of Puebla, concluded earlier this month with a programmatic victory for those forces within the Catholic Church that are viewed by friend and foe alike as the "Paul VI" faction. Despite much public fanfare in the United States and Latin American press over a supposed factional battle within the Church, the reality is that the medievalist tendency associated with both the Marcel Lefebvre forces on the "right" and the "Theology of Liberation" forces on the "left" was soundly trounced.

The crucial issue: the sanctity of the human mind.

According to the Message to the People of Latin America issued at the close of CELAM III, "God's power requires that man contribute his maximum efforts to the fruition of his labor of love by all means possible: (through both) spiritual force and conquests of science and technology in favor of mankind." By the exercise of his creativity in the service of God, man will foster a "Civilization of Love" characterized by peace, industrial and scientific development, and respect for his fellow man. This is man's "transcendental vocation" and thus man will "live to the fullest his divine filiation."

Medellin, 1968

The battle fought out at Puebla had been defined much earlier, in fact 11 years earlier, at the historic CELAM II conference in Medellin, Colombia in 1968. At that conference, forces allied with Pope Paul VI succeeded in splitting the Latin American church away from the so-called traditionalists, those encrusted reactionary layers within the Church hierarchy largely identified with Latin America's land-holding oligarchy, the latifundists. Pope Paul, the first Pope to travel to Latin America, made an unprecedented intervention to inaugurate the conference. CELAM II had been chosen by Paul VI as the springboard for his revolutionary encyclical *Populorum Progressio*, and through this statement, he provided the small core of humanist bishops who took control of CELAM with a potent instrument for reforming or even "revolutionizing" the powerful Latin American Catholic Church.

Populorum Progressio defined the rights of man as being social and economic as well as spiritual but, more significantly, defined creativity — the use of man's intellect to perfect the world around him — as primary to the evolution of a new humanist world order. "The Bi-

ble, from the first page on, teaches us that the whole of creation is for man, that it is his responsibility to develop it by intelligent effort and by means of his labor to perfect it, so to speak, for his use."

Populorum Progressio also explicitly identified the role that science and technology must play in pursuit of this new humanism. "It is sufficient to promote technology to render the world a more human place in which to live ... Far from being the ultimate measure of all things, man can only realize himself by reaching beyond himself."

Under the title "Development is the new name for peace," Paul VI's encyclical demonstrated how commitment to progress can be actualized through global development based on technology transfer, industrialization, and mutual human understanding.

Theology of Liberation

Paul VI's success at Medellin was a bitter pill for the oligarchists within the Church to swallow. Counter-insurgent networks, largely trained by those elements within the Jesuit order associated with the medievalist Archbishop Lefebvre, were activated inside Latin America to counter *Populorum Progressio* with an anti-humanist, countercultural reinterpretation of Paul VI's initiatives.

Using a "left" cover, the "Theology of Liberation" was spawned, its "preachers" interpreting *Populorum Progressio* as a call for armed insurgency against "capitalism": i.e., industrialization, urbanization, advanced technologies, anything which threatened the controllable narrow universe of the superstitious Latin American peasant. The "Liberationists" were lavishly funded by U.S. and European foundations that specialized in sociological profiling of target populations, as well as by Church funding organizations, such as Adveniat and Misereor of West Germany, which financed the Church's right wing in such adventures as the overthrow of Chile's Allende.

The Theology of Liberation was created as a cult by the very oligarchists it alleges to oppose for one primary purpose: to channel the discontent and the hopes of the Latin American population into violent anarchist upheavals where possible, and if not, into general defense of the World Bank's genocidal no-growth policies.

It was the Theology of Liberation, which had falsely claimed Medellin as *its* victory, which was defeated at CELAM III.

The divinity of Christ

The issue of the divinity of Christ was made the central polemic at the Puebla conference as the most effective way of addressing, in theological terminology, the attack on the Church's humanist policy of industrialization mounted by the Theology of Liberation. The "Liberationists" premise their "theology" on the asser-

The Cristero heresy in Mexico

For those Mexicans at CELAM III, Pope John Paul II's challenge to the proponents of the Theology of Liberation held a special historical significance. Fifty years ago, the Cristero movement was launched, a shock troop of backward peasants and displaced rural layers deployed in opposition to those secular and clerical forces that waged Mexico's progressive revolution of 1910.

A decade after the Revolution, President Calles implemented legislation to grant substantial government authority over Mexican oil. In the interests of the British and American oil companies, the oligarchist faction within the Mexican Church deployed the Cristeros for three years of armed and bloody warfare. Their slogan: "Viva Cristo Rey" — "Long Live Christ the King." The cardinal who led the uprising was a Knight of Malta.

Only when President Cardenas took power was the Cristero movement defeated. With a popular mass movement behind him, Cardenas was able to enforce the 1938 nationalization of Mexico's oil.

But the antiurban, antitechnology Cristero tradition has survived. In the 1950s, remnants of the Cristero movement and the oligarchists of the Monterrey Group conducted book burnings throughout the country. Mexican Bishop Arceo, the renowned "Red Bishop" and a leading spokesman of the Theology of Liberation in Mexico, was identified with the Cristeros for his book burning orgies. He led one of the more virulent antigovernment religious groupings.

In the 1970s, the Cristero tradition merged with the Theology of Liberation, advocating cultural relativism, and the brainwashing of peasant recruits to carry out "revolutionary violence" against the established governments of Latin America. Their heresy is identical: the "theology" of medievalism, the worship of rural life, and a hatred of any industrial and technological progress.

The Theology of Liberation

Liberation Theology, the organized opposition to the industrial development policies of the late Pope Paul VI, first appeared in 1968 to disrupt the Pope's influence at the second Conference of Latin American

Bishops (CELAM). To free the Latin American peasantry of the "imposition" of the cultural and material benefits attendant on industrialization — cultural relativism — is the trademark of Liberation Theology, a counterorganizing method dating from the 1950s work done at the Louvain University in Belgium, a stronghold of the Action Française movement. There, Father François Houtart trained a nest of counterinsurgents in sociological profiling of peasant populations. Among his better-known graduates are the counterinsurgent priest Camilo Torres, and one of the earliest proponents of Liberation Theology, the Jesuit Roger Veckman.

Veckman, together with other primarily Jesuit collaborators, helped to found numerous institutions of sociological profiling and terrorist subversion throughout Latin America, including the Theology for American Development and Integration in Bogota, Colombia, the Latin American Pastoral Institute in Quito, Peru, and others.

The role of these and similar institutions has been to profile populations for potential terrorist belief structures which can be channeled into outright "guerrilla" and related acts which undermine the Vatican's aid in the industrial development in Latin America.

A spokesman for the Liberation Theology Center for American Development and Integration in Bogota, Colombia told *Executive Intelligence Review* in a recent interview that man is an "insatiable animal" and never satisfied. A new world economic order to provide man with a higher material standard of living, he insists, will only whet the appetite for more. Thus, economic development must be opposed.

An excerpt from a statement issued by Liberationist spokesman Ismael Silva Fuenzalida suffices to indicate the essence of Liberation Theology:

... Therefore, we are presented with a picture in which masses of people, whose forms of cognition are basically preindustrial, are experiencing a growth in their expectations, masses who, without possessing 'rational' controls, proceed to act in accordance with that newly acquired potential... Thus, the neo-Liberal tendency, in the effort to overcome the ills of underdevelopment through large-scale industrialization and its allied human resource qualification programs, has not proved operationally useful in Latin America..."

tion that Christ was mortal, a revolutionary. By denying Christ his divinity, and thus his unique relationship to both God and man, the Liberationists deny the possibility of bridging the void between man as a biological entity and man as "God-like," self-perfecting, and capable of self-perfection expressed through scientific discoveries. Universal law (God) becomes unknowable, unreachable, and man is condemned forever to be the bundle of animal impulses the Liberationists portray him to be. Christ himself is relegated to the role of "subversive of Nazareth," as Pope John Paul II observed, and the moral imperative which he represents in Church doctrine is reduced to a single historical moment.

At CELAM III, Pope John Paul II's inaugural presentation countered the Theology of Liberation with a polemic on Christ: "In some cases either the divinity of Christ is silenced, or is made an object of erroneous interpretation. Christ would only be a 'prophet,' an announcer of the reign and love of God, but not the true son of God ... Any silence, neglect, mutilation or inadequate emphasis on the integrity of the mystery of Jesus Christ ... cannot be the valid content of evangelization...."

Finally, CELAM III concluded with an unmistakable reaffirmation of Paul VI's *Populorum Progressio* as it was meant to be understood. In the Message to the People of Latin America, representing the prelude of the conference's final document, CELAM asserts that "a civilization of love" cannot exist as long as "fundamental human rights" — the right to a livelihood, and education, to culture, to physical and mental integrity — are violated. It calls on "all men of good will, and those who have missions in all the fields of culture, science, politics, education, labor, the communications media, the arts ... to become the builders of the 'civilization of love'."

And in an appeal for universal cooperation in the creation of Paul VI's "new world order," the message urges the advanced nations not to stand in the way of the development of the Third World, but rather "to help us, with a higher purpose, to break the barriers of our underdevelopment, respecting our culture, our principles, our sovereignty, our identity, our natural potential. Within this spirit, we will grow together as brothers, members of the same universal family."

— Valerie Rush

John Paul affirms industrial growth

In his address to the Third Latin American Episcopal Conference (CELAM III), delivered in Puebla, Mexico, on Jan. 28, 1979, Pope John Paul II reaffirmed Pope Paul VI's policy of industrial progress articulated in Populorum Progressio, and lashed out at the anti-technology movements clustered under the rubric of the "Theology of Liberation." Following are excerpts of the official text of the Pope's address.

... This Third Conference should, therefore, take as its point of departure the conclusions of Medellin (CELAM II), with everything positive that it has to offer, but without ignoring the incorrect interpretations sometimes made which require serene judgment, timely criticism and a clear statement of position

... As shepherds, you have the clear consciousness that your principal obligation is to be teachers of the truth. Not of human, rational truth, but the truth that comes from God; that carries with it the principle of authentic human liberation....

Today in many places "reinterpretations" of the Gospel have been in circulation — and this is not a new phenomenon....

In some cases either they obscure the divinity of Christ or they indict themselves with interpretations at variance with the faith of the Church. (To them) Christ would be merely a "prophet," an announcer of the kingdom and the love of God, but not the true son of God, and thus would not be the center, the subject of the very evangelical message ...

Any silence about, any forgetting, any mutilation, or any inadequate emphasis on the integrity or the mystery of Jesus Christ that distances itself from the faith of the Church, cannot be the valid content of evangelism....

If the Church is active in the defense or in the promotion of the dignity of man, it is so in accordance

Populorum Progressio for world peace

The Ecumenical Fight for Progress

The 1967 Populorum Progressio, presented by Pope Paul VI to the 1968 CELAM II meeting in Medellin, Colombia, is the official ecumenical program for the organizing activity of the Catholic Church. From the section entitled To the Bishops; Priests; Religious; the Faithful; and to all Men of Good Will, we present the following excerpt:

Part I For man's complete development

Christian vision of development

If further development calls for the work of more and more technicians, even more necessary is the deep thought and reflection of wise men in search of a new humanism which will enable modern man to find himself anew, ... This is what will permit the fullness of authentic development, a development which is for each and all, the transition from less human conditions to those which are more human....

Less human conditions: the lack of material necessities for those who are without the minimum essential for life, the moral deficiencies of those who are

mutilated by selfishness.... Conditions that are more human: the passage from misery toward the possession of necessities, the victory over social scourges, the growth of knowledge, the acquisition of culture. Additional conditions that are more human: increased esteem for the dignity of others, the turning toward the spirit of poverty, cooperation for the common good, the will and desire for peace....

Industrialization

... If it is true that a type of capitalism has been the source of extensive suffering, injustice, and fratricidal conflicts whose effects still persist, it would be wrong to attribute to industrialization itself evils that belong to the woeful system which accompanied it. On the contrary, one must recognize, in all justice, the irreplaceable contribution made by the organization of labor and of industry to what development has accomplished....

Program and Planning

Individual initiative alone and the mere free play of competition could never assure successful development.... Hence, programs are necessary in order "to encourage, stimulate, coordinate, supplement, and integrate" the activity of individuals and of intermediary bodies. It pertains to the public authorities to choose, even to lay down, the objectives to be pursued, the ends to be achieved, and the means for attaining these, and it is for them to stimulate all the forces engaged in their common activity. But let them take care to associate

with its mission which, although of a religious and not social or political nature, can do no less than consider man in the integrity of his being....

The Church... always wants to be at the service of man; and to man as the Church sees him in the Christian vision it holds of anthropology. It does not need to resort to systems or ideologies to love, to defend, and to collaborate in the liberation of man....

It is therefore not out of opportunism or desire for novelty that the Church, "*expert in humanity*" (Pope Paul VI, speech to the UN, Oct. 5, 1965), is the defender of human rights....

Faithful to this commitment, the Church wants to stay free in the face of competing systems to opt solely for man...(it is) not through violence, power plays, or political systems, but by means of the truth about man (that) the road to a better future (can be found).

Thus is born the constant concern of the Church over the delicate question of property.... Pope Paul VI spoke on this question with special force and profundity in his encyclicals *Populorum Progressio* and *Mater et*

Magistra....

It is at these moments when the teaching of the Church, according to which all private property carries a social pledge, acquires a special urgency. With respect to this teaching, the Church has a mission to carry out: it should preach, educate individuals and collectivities, form public opinion, orient those responsible to the people. In this way it will be working in favor of society

It is vital that an economic system be just, that it promote development and the spread of public instruction and culture. The more just the economy, the deeper the consciousness of culture. This is precisely in line with that affirmed at the (Vatican) Council II: that, to achieve a life worthy of man, it is not possible to limit oneself to having more, one must aspire to be more

When Paul VI declared that "development is the new name for peace" *Populorum Progressio*, he had in mind the ties of interdependence that exist not only within nations, but also outside of them, on a world level

We again cry out: respect man, (for) he is the image of God

private initiative and intermediary bodies with this work....

... It is not sufficient to increase overall wealth for it to be distributed equitably. It is sufficient to promote technology to render the world a more human place in which to live....

... Basic education is the primary object of any plan of development....

Part II The development of the human race in the spirit of solidarity

...Every nation must produce more and better quality goods to give to all its inhabitants a truly human standard of living and also to contribute to the common development of the human race. Given the increasing needs of the underdeveloped countries, it should be considered quite normal for an advanced country to devote a part of its production to meet their needs, and to train teachers, engineers, technicians, and scholars prepared to put their knowledge and their skill at the disposal of less fortunate people...

But it is necessary to go still further. At Bombay, we called for the establishment of a great World Fund, to be made up of part of the money spent on arms, to relieve the most destitute of this world. What is true of the immediate struggle against want, holds good also when there is a question of development. Only worldwide collaboration, of which a common fund would be both

means and symbol, will succeed in overcoming vain rivalries and in establishing a fruitful and peaceful exchange between peoples.

... Developing countries will thus no longer risk being overwhelmed by debts whose repayment swallows up the greater part of their gains. Rates of interest and time for repayment of the loan could be so arranged so as not to be too great a burden on either party, taking into account free gifts, interest-free or low-interest loans, and the time needed for liquidating the debts. Guarantees could be given to those who provide the capital that it will be put to use according to an agreed plan and with a reasonable measure of efficiency...And the receiving countries could demand that there be no interference in their political life or subversion of their social structures...

Development is the new name for peace

Excessive economic, social and cultural inequalities among peoples arouse tensions and conflicts, and are a danger to peace.... Peace cannot be limited to a mere absence of war, the result of an ever precarious balance of forces....

We are all united in this progress toward God. We have desired to remind all men how crucial is the present moment, how urgent the work to be done. The hour for action has now sounded....

Who is Archbishop Lefebvre and who does he represent?

Most people, including many Catholics, consider the schismatic Archbishop Lefebvre to be a mere dissident religious figure within the Catholic Church hierarchy, an ultraright conservative clergyman of no interest to anyone except the orthodox Vatican leadership. In part, this mistaken view can be attributed to the general misconception of the uninformed, who fail to understand the enormous political role played by the Catholic Church internationally, a role that has been at least marginally decisive at important moments not only in the historical past, but throughout the 20th century. Today, the Vatican leadership under Pope John Paul II, as earlier under Popes Paul VI and John Paul I, is one of the very crucial international political and moral forces behind the creation of the European Monetary System planned and implemented beginning last summer by West German Chancellor Helmut Schmidt and French President Giscard d'Estaing.

For the Vatican, this represents the continuation of a policy vigorously pursued by its finest leaders since the end of the 19th century, a policy of politically allying France and West Germany, together with Russia, in order to establish the international political and economic base from which to challenge the amoral, looting policies of Great Britain and its allies within the European "black" aristocracy.

Archbishop Lefebvre is the contemporary representative of a fascist movement created in 1898 immediately following the Dreyfus affair and under the cover of in-place oligarchist networks inside the French Catholic Church. That movement was known as the Action Française or "integralists" and was founded by Charles Maurras, agent of the Orleanist pretender to the French throne.

The tasks of the Action Française were two-fold. Immediately, it was to maintain the rupture in Franco-German relations for which the Dreyfus affair was concocted. Its long-term perspective was to catalyze the creation of a European-wide fascist movement, a movement that was to culminate in Mussolini's Italy, Nazi Germany, Vichy France, Franco's Spain, and Salazar's Portugal.

Lefebvre is the cult figurehead of an international network of terrorism whose immediate origins trace back, on the European side, to the Action Française. The network's controllers bear the same family names as the controllers of the Action Française and the backers of its Mussolini fascist heirs.

Foremost among them is the Principessa Elvira Pallavicini, the reigning empress of the ancient and ignoble Pallavicini family. At an earlier point in its history, the Pallavicini family had been responsible in large part for the "Vatican's" Albigensian Crusade that slaughtered the leaders and supporters of the Provençal renaissance in 1208. Today, Princess Elvira Pallavicini is the "controller" of Archbishop Lefebvre, whose religious beliefs afford a classic cover for the most heinous political activities, including operations against republican institutions and fascist terrorism on both sides of the Atlantic.

Lefebvre and the international cult of fascism

A listing of Lefebvre's supporters in Western Europe is sufficient to indicate the nature of his political credentials. An adequate cross-section is provided by a glance at the guest list attending the fête which Princess Pallavicini gave in his honor at her home on June 6, 1977. This all-day affair was sponsored by the Princess to launch her protégé into the international limelight. There, he would stage his well-documented attacks against the political and moral leadership of Pope Paul VI.

Present at the affair was Prince Camillo Borghese, son of the "Black Prince" Valerio Borghese, thus named for his leadership of "black shirt" terrorists from the period of Mussolini's 1943 Salò Republic until his death in the 1960s. Also attending was Princess Antonella

Colonna, representing the powerful Hapsburg-connected Colonna family, and Countess Elizabeth Gerstner, leading a delegation of German noblewomen representing the West German aristocratic supporters of a European Hapsburg monarchical revival. Intermixing with the various marquises and princes from all over Europe were Prince Filippo Orsini of the neofascist Italian MSI Party, Pino Rauti, founder of the outlawed Black Order terrorist gang, and finally, Franco Antico, who, together with the "Black Prince" Borghese, ran the bloodiest of the "black shirt" formations during the Salò Republic (the Nazi puppet state set up in northern Italy with Mussolini as its figurehead after the Duce was toppled from power in 1943), and who later (in 1973) covered Milan with posters of Hapsburg Emperor Franz Joseph calling for the restoration of the Hapsburg empire.

And there was the hostess herself, Princess Elvira Pallavicini, a noted financier of international terrorism and dope trafficking. The Princess heads the Pallavicini family, one branch of which sired the indicted murderer of former Italian Prime Minister Aldo Moro. Princess Elvira also operates vast networks into Latin America which are the support layers of Archbishop Lefebvre in these areas. As the homeland of exiled postwar European fascists, Argentina is appropriately enough a known center of her networks. Another center is the faction which supports Conservative Party leader Alvaro Gomez Hurtado in Colombia. In Mexico the liaison runs through Princess Beatrice of Savoy — daughter of the pretender to the nonexistent Italian throne — out of her house in Cuernavaca. From Cuernavaca, Beatrice is in constant contact with the rotund figure of Italian Christian Democrat and "Catholic integralist" Amintore Fanfani, Pallavicini's court clown, who played a key role in the January collapse of the Italian government of Christian Democrat Giulio Andreotti.

Fanfani frequently visits Mexico in Pallavicini's behalf to meet with the sizeable community of convicted Italian criminals who escaped there as well as with the leading figures in the Mexican opposition to President López Portillo's policies of domestic tech-

nological development. During his last visit during September 1978, for example, these included a leader of the fascist, dope-trafficking Monterrey group, Mexico City Mayor Carlos Hank Gonzalez.

It was on the occasion of this grand fête in Pallavicini's home, and surrounded by the strongest of his sponsors and supporters, that Archbishop Lefebvre launched his attack on the ecumenical and Ostpolitik policies of Pope Paul VI. He formulated the basis of his dissent from Pope Paul's policies as their differing conceptions of the nature of Christ. According to Lefebvre, Christ was a member of the "social royalty" and thereby the cult property of the aristocracy. From this pagan conception of Christ as a social aristocrat, Lefebvre attacked Pope Paul's ecumenism as encouraging "a religious freedom which is the negation of the social royalty of Christ."

This should not be misconstrued as an esoteric theological argument. As Pope John Paul II forcefully reiterated in Mexico last month in his attack on the "Theology of Liberation" terrorists allied to Lefebvre, the core of the Neoplatonic tradition in Catholic doctrine lies in its view of Christ as the God-man who both mediates and symbolizes the capability of every individual to become God-like through the exercise of his reason. Lefebvre's thesis of Christ as a member of the social aristocracy is the most succinct expression of the motivating political world view of his aristocratic backers, which demands a world order in which the elite few dominate uninformed sheep-like masses through an arsenal of social control techniques in which the use of religion as a cult object plays a prominent role.

Lefebvre's origins: the Action Française

Lefebvre was educated at the French seminary in Rome during the period in which the seminary was under the

directorship of Henri Le Floch. Under Le Floch, that institution functioned as a propaganda center and cadre training ground for the Action Française. It was not until 1927, one year after the great Pope Pius XI had enforced a formal Vatican condemnation of the Action Française, that Le Floch was ousted from his post for teaching the anti-Christian Action Française doctrines. A simultaneous attempt was made to purge the French seminary of this doctrine altogether.

The Action Française was created in June 1898 under the sponsorship of the French House of Orleans for the declared purpose of overthrowing the Third Republic and restoring France to a monarchical regime. It was not until 1937 that the House of Orleans was forced by political expediency and Vatican pressure to break its public ties with the Action Française and its journal of the same name. The journal had, until that time, loyally borne the battle cry of the Orleanist pretender under its banner: "As head of the House of France ... heir of the forty kings who, in a thousand years, made France ... etc."

Founded by Charles Maurras while he was in the employ of the Orleanist pretender, the movement functioned as the organized continental center of the cult of positivism and the anti-Christ, providing the doctrinal underpinnings for subsequent fascist developments throughout Europe.

The timing of its founding is indicative of its political goal. The Dreyfus Affair exploded in 1894, shortly after Hanotaux was brought into the French government as Foreign Minister with a policy of forging a Franco-German rapprochement. Hanotaux also signed a treaty with Russia which pointedly lacked any anti-German bias. The burgeoning tripartite alliance was a serious threat to Britain and her aristocratic cothinkers on the continent, so the Dreyfus Affair was launched, followed by the Action Française movement, whose adherents were initially recognized by their common support of the infamous forger of the case against the innocent Dreyfus. Hanotaux's "Grand Design" temporarily collapsed. Ten years later the French government signed an Entente Cordiale with London while renegotiating the 1894 Franco-Russian Treaty to turn it into an explicit anti-German document. A year later, in 1905, Russia was put through a massive nationwide destabilization — known as the 1905 "revolution" — and Europe was headed for World War I.

A dangerous psychotic, Maurras played a role that was identical to that of today's creators of such cult ideologies as environmentalism and the Jonestown Peoples' Temple, to cite some well-known examples. Maurras's model was the ancient mother of cultism: the Roman Empire. According to his personal testimony, his ideas originated with Auguste Comte, the father of sociology (social control), whose "utopia" was a state like that of classical imperial Rome in which the elites

would control the masses through the instrument of a "de-supernaturalized" Catholic Church modeled on the image of the Roman pagan cults.

Maurras followed Comte's prescription faithfully. He preached an end to all republics; governments were to be placed firmly in the hands of the aristocracy, with Britain serving as the latter-day model. As with Comte, Maurras wanted Church doctrine divested of all "meta-physical absolutes" and its priests converted into a caste of "positivist sociologists" to manage the "organized empirium" he would help bring into being throughout Europe.

Fascism's debt to the Action Française

From its founding, the Action Française was the protected instrument of the black nobility within Catholicism. But it was able to rapidly swell to mass-based proportions, because the papacy for a time was captured by the pagan cultists of the black nobility, who had always maintained control of important factions within the Vatican. This occurred with the election of Pius X (1903-1914). It was Pius X who rapidly replaced French bishops who opposed the Action Française with others who were willing to sponsor the movement. During his reign, 11 of the 13 bishops of France were avid Action Française supporters. Pius X similarly caused to be "misplaced" a curial condemnation of the Action Française, a condemnation which did not see the light of day until his successor, Pius XI, forced its publication in 1927. Pius X is, not accidentally, the patron saint of Lefebvre's movement.

Despite the curial condemnation, however, the Action Française continued to flourish under the powerful sponsorship of contaminated Church layers. In the 1920s, it had acquired an astonishing domination over Catholic writers and intellectuals. Its doctrine was taught and its journal was widely read in Catholic seminaries.

With the reign of Pius XI (1922-1939), the papacy once again returned to its Grand Design plans for a Franco-German alliance. One of Pius XI's first encyclicals, *Ubi Arcano Dei*, preached against the disastrous Versailles Treaty which was devastating Germany, and was followed by documents calling for reconciliation between France and her defeated World War I enemy. In Germany, the Vatican backed the pro-industrialization strata through the Centrum Partei, while in France the Pope's Nuncio was the first to congratulate Foreign Minister Aristide Briand when he called for Germany to be allowed to enter the League of Nations. The Vatican

under Pius XI continued to back Briand's efforts at reviving the "Grand Design" by effecting a genuine reconciliation with Germany. France evacuated the Rhineland five years before the appointed time and reconciliation was well under way when the bottom of the international economy fell out after the manufactured Wall Street crash of 1929. In 1930, 107 Nazi followers of Hitler took their seats in the Reichstag, the Briand government fell, and the world was on its way to World War II.

Maurras and his movement had attacked Briand in this period for being, alternately, a German agent and a Vatican agent. They called him "St. Aristide" and were responsible for generating some of the mass unrest that led to his fall from power. Meanwhile, the Action Française had already well established the precursors of Mussolini's "black shirts." Some of its offshoot operations included the Camelots du Roi founded in 1908. These "strongarm squads" of the Action Française, as the Camelots were known, then spawned such overt "black shirt" groupings as the Secret Committee for Revolutionary Action, which maintained the closest ties to foreign fascist movements and even carried out assassinations in behalf of Mussolini. The Action Française also provided the forum for slanders, put out by the infamous Sapinière secret society, against the republican military and political leadership.

Besides providing the foundation for the Mussolini movement, backed by Pallavicini and the royal House of Savoy, the writings and networks of the Action Française were influential throughout the rest of Europe. In Belgium, its most effective propagandists were certain

factions among the religious orders, particularly the Jesuits, working out of the University of Louvain. Louvain University today trains some of the leading sociologists operating in Latin America within the Theology of Liberation framework. In Spain, the Falangist movement acknowledges its debt to the Action Française, including portions of the Falangist Church hierarchy. Most notorious was the Falangist butcher, General Moscado, who had close personal relations with Maurras until the latter's death in 1952. In Portugal, **Salazar closely collaborated with Maurras. In Romania** the aristocracy regularly dispatched its offspring to Paris to learn from the movement. The result was that Action Française "integralism" became the hegemonic doctrine of the Romanian intelligentsia.

As with Maurras then, so with his spiritual heir today: the Lefebvre networks represent the opposition to the "Grand Design" which the Vatican is again engaged in organizing with the governments of France and West Germany. The essence of their shared doctrine lies in Lefebvre's contention that Christ — knowledge — is the special property of an aristocratic elite. In no respect has there been any change in policy over the past century. That still remains fascist terrorism and epistemological subversion as the weapons for fending off the "Grand Design" efforts to constitute a world order based on a commitment that can be effectively identified with a Christian framework as the notion of Christ as the mediator of human perfectibility available to each and every individual.

— Vivian Zoakos

WORLD TRADE REVIEW

New trade deals

PRINCIPALS	PROJECT/NATURE OF DEAL	COST	FINANCING	STATUS
France/Brazil	Financing for Tucuruí dam (I).	800 mn. francs sought	NAv	IV
BRD/Brazil	Financing for nuclear program (I).	\$6.5 billion	With Siemens (KWU)	
France/Brazil	Glass plant.	\$29 mn.	NAv	II
Canada/Argentina	Four fission plants	NAp	NAv	V
BRD (KWU)/Argentina	Fission plants.	NAp	NAv	V
Nigeria/BRD-Austria	Warri Steel Project.	\$1.126 bn.	Deutschebank-led group	III
West Germany/South Korea Deutsche Babcock and Daeso	Joint venture to produce power station equipment in South Korea.	20 mn. DM	NAv	I
Agricultural Committee of International Co-op. Alliance/Indian Agri. Co-ops.	\$200 mn. worth of agricultural equipment per year for 3 years.	\$600 mn.	Private-M. Doumeng	III
France/Mexico CFP/Pemex	5 mn. tons oil per year starting 1980/for technology.	NAv	NAv	Protocol to be finalized shortly.
Mexico/Spain	Mexico to supply oil for refining in Spain and shipment throughout Europe.	NAv	NAv	Agreement in principle.
Mexico/Japan	Oil for technology (deepwater port and off-shore pipeline).	NAv	\$350 mn. loan to start	I
Mexico/Soviet Union/Cuba	Triangular deal — Mexico to supply all oil to Cuba; Soviet Union to supply agricultural machinery to Mexico.	NAv	NAv	Informal IV
Algeria/Poland/Japan	Polimex-Cekop (Pol.) and Marubeni-Hitachi (Jap.) to build 2 fertilizer plants for Sonatrach.	NAv	NAv	II

Cancelled deals

PRINCIPALS	PROJECT/NATURE OF DEAL	COST	FINANCING	STATUS
Brazil/Iran	Soy oil plant.	NAv	NAv	II
Brazil/Iran	1.2 mn. kilowatt hydroelectric dam.	NAv	NAv	IV
BRD/Brazil	Nuclear program.	May be reduced from 8 to 4 plants, says future Brazilian Energy Minister.		} Cancelled until further notice
U.S./Iran	8 U.S. built nuclear reactors for Iran.	\$20 bn.	NAv	
France/Iran	2 nuclear reactors for Iran.	\$ 3 bn.	NAv	
W. Germany/Iran	6 nuclear reactors for Iran.	\$10 bn.	NAv	

Abbreviations:

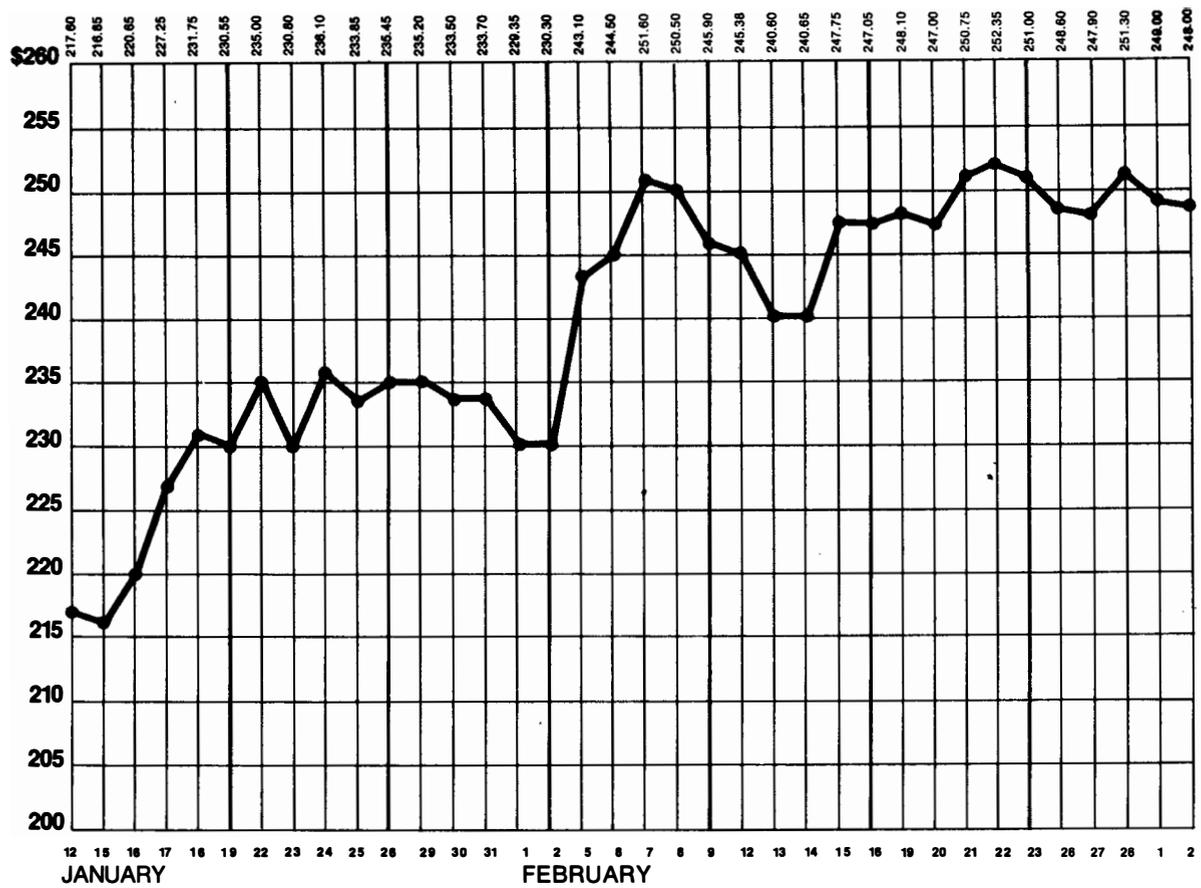
U = Undetermined
NAp = Not applicable
NAv = Not available

Status:

I = Signed, work in progress
II = Signed, contracts issued
III = Deal signed
IV = In negotiation
V = Preliminary talks

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London afternoon gold fixing



The Dollar (in Deutschemarks) — New York foreign exchange closings

