

the situation in southern Lebanon, Israeli Prime Minister Yitzak Rabin made concerted efforts to rein in his pro-war Defense Minister Shimon Peres. The Chamoun network has received considerable military backing from Peres and Israeli troops stationed in northern Israel. However, Rabin, through European mediation, reportedly gave a green light to the Arabs.

Although Israel has lobbed a few shells into Lebanon reportedly in retaliation for Palestinian shells landing in Israel, Israeli response has so far been marked by its restraint, with Israeli officials dismissing the PLO

shelling into Israel as "inadvertent."

The sudden resignation of Rabin as head of government now makes southern Lebanon a flashpoint for war, as a former Pentagon official has indicated: "Lebanon is a serious, potentially explosive situation. If it is true that Syria is supporting the PLO and has become aligned with them to destroy the Christian buffer zone, we're in a new ball game. The Israelis are not going to cooperate. Their allies are the Christians led by Chamoun.... The Israelis will have to decide whether to tolerate all this, and I don't think they will."

Saudi Arabia, Iran Form Gulf Security Pact

IRAN

Saudi Arabia and its traditional regional rival Iran have secretly agreed on terms for a Persian Gulf Security Pact, according to informed European sources. The Pact is reportedly soon to be extended to include Kuwait and Iraq.

The pact effectively destroys the standing National Security option for an armed invasion of the Gulf Oil states. As the military correlate of economic initiatives to bring the Comecon's transfer ruble into the region, the pact will help free the oil producing states in the Gulf to seek markets outside Rockefeller multinational control and break with the dollar. According to *Newsweek*, the pact was worked out in Europe with collaboration from European leaders.

The Saudis are reported to be negotiating a \$3 billion loan to the ailing Iranian economy. This news belies press reports that tensions have increased between Iran and Saudi Arabia as a result of the Saudis' adherence to its cheaper oil pricing system. Even this sore point has been smoothed over, according to last week's *London Observer*.

The Persian Gulf Security concept is linked with similar efforts to neutralize the Red Sea in keeping with the Non-Aligned Movement's commitment to transform the region and the Indian Ocean into a "Zone of Peace." Both the Soviet Union and Yugoslavia have been diplomatically active in the Gulf States in securing this goal.

Soviet approval of a Gulf State agreement which could eventually draw the region under the Warsaw Pact defense umbrella now shared by Iraq was indicated last week when Kuwait signed an agreement with the Soviet Union to receive its first shipment of Soviet built SAM-7 missiles. The agreement signed in Moscow by Soviet officials and the Kuwait Defense Minister, could only have been finalized with an assenting nod from Kuwait's regional partner Saudi Arabia. According to socialist bloc sources, Yugoslavia is constructing naval and air facilities in Kuwait, and has arranged to supply the Kuwaitis with arms.

Iraq

Iraq's role in a Persian Gulf peace zone is crucial. A

high-level Soviet economic delegation visited Iraq last week, and the Shah of Iran's brother arrived in Baghdad for a week-long visit and talks with Iraqi leader Saddam Hussein, mooting the possibility for a breakthrough in Iranian-Iraqi relations. In June, Italian Prime Minister Andreotti will go to Iraq prior to his visit to the U.S.

A surprise visit last month of the Iraqi Oil Minister to Saudi Arabia indicates the high level of cooperation between the two states on oil policy. An Iraqi oil analyst recently concluded that the Gulf producers including Iran, the Gulf's leading oil price hawk, are quietly lowering their prices to the Saudi level. Several reports indicate that a three-tiered price system may soon be inaugurated which may provide more flexible pricing arrangements.

The Arab Dinar

The Security Pact is being cemented with the adoption of a unified regional currency to substitute for the U.S. dollar and a policy of a closer cooperation with respect to oil. *Mideast Business Exchange* reports that Qatar, the United Arab Emirates, Bahrain, and Kuwait have agreed on the adoption of a unified "Gulf Dinar." Gulf Central Bank governors are working out measures for implementation of the new currency, according to the journal. A Gulf Dinar is the first step toward the adoption of a pan-Arab gold-backed dinar which European banking sources view favorably as a link-up with a renovated European golden snake and a gold-backed Soviet transfer ruble. According to Egyptian sources in Bonn, circles in Cairo are eagerly anticipating the extension of the transfer ruble and reported that Egyptian President Anwar Sadat's recent speech in Bonn endorsing a new world economic order was the result of pressure from West German Chancellor Helmut Schmidt.

A deal between Iran and all of its Gulf neighbors will soon be completed to fund the expansion of a refinery in South Yemen. In the past, regional antagonisms have been deliberately exacerbated to splinter regional political solidarity and prevent cooperation around oil production. Given Arab moves to undercut Rockefeller's ARAMCO, Washington's remaining option is terror operations in the Gulf which would disrupt oil flows through the Straits of Hormuz and risk the outbreak of war, say State Department Gulf watchers.