

Q: Do you mean help them to pay you?

A: Yes, I mean to pay their creditors. Besides, the two billion deutschemark credit from the West German Dresdner Bank to Poland allows some indirect rescheduling. Sure, it is tied to machinery exports, but arrangements are being made. Poland's privately-held debt will be backed up by West German credit.

Q: What, then, are your problems?

A: Look, we have two main problems. First, there are two tiers of banks. On one side, very large banks, with very knowledgeable people, oriented toward project lending. But on the other side, we have a second tier of small banks which entered the market in 1974 to issue short-term credit because of high returns. These people are not knowledgeable, they are easily frightened. They have no long-term commitment. I am referring to California, Texan, Pittsburgh and Chicago banks. They are very volatile. Up to now they have followed the lead of larger banks. But if one breaks — I mean one of these small banks — the whole second tier can follow. And as a whole, these banks are important. If they stop issuing credit to Eastern Europe, we would have a bad situation.

On top of this, we have our second problem. Project loans are guaranteed by related exports, but if there is no recovery in Western Europe, the CMEA members will not be able to increase their exports. Everybody could be squeezed.

Q: Don't you believe the Soviets are thinking of solving these problems within the confines of a new monetary system? I am referring to transferable ruble proposals.

A: The Hungarians understand quite well all the advantages of such an operation, but the Soviets are over-cautious. There will be more convertibility within the CMEA itself. On that issue, the Soviets will reconsider their position and support CMEA transferability, because they are now aware of the advantages of surpluses in their current accounts with other Eastern nations. But they won't move on an broader scale. With such countries as Algeria, Mexico, Venezuela or Kuwait, they prefer to move on a bilateral basis. Besides, there is competition within Eastern European countries vis-à-vis the Third World and OPEC markets. Sure, they will strongly reorient their exports toward OPEC, export their technical expertise. They have been very disappointed with Western European markets.

But the Soviets are not able to see all the advantages of a multilateral approach. They probably think it is too risky. They do not understand all the potential advantages of a multilateral approach based on a transferable ruble. The Soviets have no strong leadership now, they have no more builders. Therefore they follow their short-term interest, and will not go further.

France, BRD Act To Save European Industry

West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing have greatly increased cooperation between their two countries on nuclear power, an issue of prime importance for the fate of Europe's industry. France is publicly aligning with Schmidt's policies of rapid development of nuclear energy sources, and is backing Schmidt's resistance to Carter administration dictates on reflation and energy conservation that would kill European industry. These agreements have also opened new vistas in the aerospace sector.

The improvement in Franco-German relations occurred after a telephone conversation between Schmidt and Giscard last week. The French president has since sent a special emissary to Bonn "to deepen the discussion." Both countries have big plans for the future nuclear industry in Spain. During Spanish Prime Minister Suarez's recent visit to France, Giscard recommended that Spain stop buying nuclear power plants from the United States, and instead cooperate with both France and West Germany. Spain has already shown much willingness to comply with such a policy, especially in the context of its prospective membership in the European Economic Community (EEC).

France's backing of Schmidt on the inflation question could not have come at a more opportune time. Schmidt will meet this week with British Prime Minister James Callaghan, and the latter is expected to repeat his recent call for West Germany to prop up the U.S. dollar by implementing reflationary monetary and fiscal policies.

The French newspapers *Le Monde* and *Les Echos* have praised Schmidt's "policy of no global boost" and have called the programs of President Carter, Callaghan and West German Atlanticist Willy Brandt "delusions."

Contrary to the broad hints being circulated in the American press, Schmidt has made no signs of significantly altering his policies, and in a recent television interview said that his country "is not in bad shape because of its strict anti-inflationary policy, which we will stick to."

Arab Aerospace Industry?

Last week, a huge \$1.5 billion deal was signed between France, West Germany and a number of Arab states, according to the financial daily *Les Echos*. The arrangements will rapidly coalesce a full-scale Arab armaments and aerospace industry, and vastly develop the Middle East's industrial infrastructure. The deal was arranged in the course of a recent visit by French Defense Minister Bourges to West Germany and a French visit by Egyptian President Sadat; it will include the sale of 26 French Mirage jets to Saudi Arabia (to be handed over to Egypt) and cooperation on the assembly of 200 Twin Alpha jets, which are a joint French-West German product.

West Germany is prohibited by constitutional law from delivering armaments to any designated "crisis area," but in the case of this deal it is expected to get around the regulation by only delivering components to France or elsewhere. Moreover, since such an Arab aerospace

industry would severely curtail dangerous U.S. influence in the Mideast, third countries are likely to acquiesce in West Germany's participation.

West Germany's cooperation with the most important such third country — the Soviet Union — has seen a marked improvement since the shameful "Potsdam incident" three weeks ago. At that time, the Soviets had soured relations with important industry-linked Christian Democratic leaders — Social Democrat Schmidt's crucial allies in the fight against the IMF — by refusing to allow them to travel to an historic site at Potsdam, East Germany. But since then, the East Germans in particular have gone out of their way to smooth relations. At the current international trade fair in Leipzig, for example, East German party chief Erich Honnecker went out of his way to visit all the booths run by West Germany's chemical corporations, and East German trade minister Soelle explained that his country's new thrust in economic cooperation is "to provide a sane basis for security and stability within Europe." Christian Democratic Union chairman Helmut Kohl was prominently escorted on a tour through the East German capital, Berlin.

The reasons for the shift in the Soviet Union's own attitude toward West Germany were recently laid out by Heinz Lathe, Moscow correspondent of the *Kieler Nachrichten*, a paper close to the Christian Democratic industrialist-politician Gerhard Stoltenberg. Although the Soviets have suffered difficulties in such areas as the Mideast and Africa, "it is only in Europe that prospects

for stable relations are opening up." This gives special importance to the upcoming visit of Soviet party leader Brezhnev to Bonn, and "these talks are planned to proceed on the Brezhnev-Giscard model."

Through planned announcements and leaks, the Bonn government is letting it be known that it expects positive results from the planned November visit of Soviet President Brezhnev to West Germany. At a Bundestag SPD fraction meeting Sept. 6, Schmidt said West Germany's relations with both the Soviet Union and the East bloc would be improved as a result of the Brezhnev visit. Schmidt also referred to a period earlier in the summer when European relations with the Soviet Union threatened to erupt into a "cold war" atmosphere. "Now this has been averted," the Chancellor concluded.

Schmidt's remarks followed a major turnaround in West Germany's lagging East-West trade last week when the largest trade deal ever between West Germany and the Soviet Union was announced at Moscow's "Chemicals 77" trade fair. The deal will involve \$4 billion in trade and will be one of the treaty arrangements that the West Germans hope to have ready for signing by the time of Brezhnev's visit.

Still further collaboration is in the works. West German "Internal German" trade minister Egon Franke recently travelled to Moscow, then stopped in South Korea and offered to act as an expert advisor on improving treaty relations between North and South Korea. West German trade attaché Rohwedder has also just travelled to the Soviet Union and East Germany.