

system in a Palestinian state," and added that Mr. Arafat said he "could not see the day when the new Palestinian state would have such military power that it would constitute a threat to, or cause concern on the part of, any of its neighbors."

"His whole objective is obviously peaceful," Rep. Findley said of Mr. Arafat, whom he had met for the first time. "He came through as a moderate, as one who would make concessions and who would be part of the peace process that is now underway, in Geneva or elsewhere."

### Saudis: "Moderate Stance by Arafat"

*This editorial appeared in the official Saudi Arabian newspaper Ukaz on Jan. 14. It stresses the growing conviction among conservative Arabs that the PLO is moderating its position.*

The new attitude of PLO Chairman Yasser Arafat is bound to strengthen the current direct peace negotiations, because an interim acceptance of a Palestinian state within a reasonable context that would be amenable to the coming stage of peace gives the Arab negotiator a stronger position and political leeway in the current negotiations.

This new change in the Palestinian thinking, which Yasser Arafat has clearly expressed, is of a special and new significance, particularly when we know that Arafat made this statement in Damascus. This implicitly means that it enjoys the sympathy of Syria, without which

Arafat would not have been able to make such a statement on the Syrian territory....

Moreover, the change in the Palestinian political thinking in fact stems from the full realization that the continued rejection of all the efforts being exerted by Egypt will harm the national interests of the Palestinian cause, particularly since in all its talks with Israel Egypt insists on the need to reach a total peaceful solution with the Palestinians because real peace in the Middle East is entirely dependent on the Palestinian solution....

We believe that following this Palestinian acceptance the United States must now play a major role in the negotiations with the Israelis to make the Israeli negotiator accept Palestinian participation in these talks, particularly since Arafat has given every guarantee possible against attack from the Palestinian state that will embody the Palestinians.

Therefore, the excuse that allowing the establishment of a Palestinian state neighboring Israel would be a danger to the Israeli existence and entity is no longer valid after the explanation that Arafat has made regarding the stages of creating a Palestinian state and its political aspirations in the Middle East once the state has reached the final stages of its formation in the peaceful atmosphere that will be realized.

Therefore, Israel must clearly understand that the offer made by the Palestinians will not be repeated, and therefore its rejection of such an offer will hamper the achievement of the desired peaceful objectives, whereas its acceptance of such an offer will determine its seriousness regarding the peace it is presently negotiating, the peace on which the future of the area and both the Arabs and Israelis will depend.

## The Crash Of '79:

# Can London Make It A Reality?

A recent best seller, *The Crash of '79*, describes a scenario in which conflict between the two Persian Gulf oil giants, Saudi Arabia and Iran, plunges the Mideast into a limited nuclear war. This suspense thriller is fiction, but an international banking clique seated in London is intent on making the scenario operational. While the plot of the novel, which centers on an international monetary collapse as the motivating force for the Persian Gulf holocaust, may be considered outrageous, it is nevertheless the policy of the conspiracy emanating out of London to bankrupt the dollar and thereby reclaim international financial hegemony.

The author of *The Crash of '79*, Paul Erdman, is known to have consulted with such London allies as Felix Rohatyn, the architect of New York City's Municipal Assistance Corporation, in writing the book. Then only last month, the U.S. Senatorial Committee on Energy and Natural Resources, chaired by Senator Henry Jackson (D-Wash.), printed a report titled "Access to Oil: The United States' Relationships with Saudi Arabia

and Iran," which is shockingly similar to Erdman's thriller.

Fortunately, London does not have the novelist's ability to make all the characters play their assigned roles. The Shah of Iran has made it clear that his government wants no part of the Jackson report script, scathingly calling it a "flight into fancy," and the Saudis are also refusing to play.

### *The Jackson Screenplay*

The Jackson report, like recent coverage in the *Washington Post*, advocates a major U.S. shift in Mideast policy whereby the economically and politically powerful U.S.-Saudi relationship would be replaced by U.S. dependency on Iran and Israel as gendarmes in the region. It is the Saudi-U.S. alliance, fundamentally based on maintaining the value of the troubled U.S. dollar and supplying oil to the U.S., which is the biggest political obstacle to London's economic offensive against the U.S.

Both U.S. Treasury Secretary Michael Blumenthal

and U.S. Energy Secretary James Schlesinger have collaborated with their London allies to provoke a reaction against the U.S. within Saudi Arabia. Blumenthal was the key "inside" man in Washington, keeping the Administration from intervening to defend the sagging dollar — a touchy topic with Riyadh since 85 percent of its enormous foreign holdings are denominated in dollars. Schlesinger, already an unpopular man in the Persian Gulf since his recent statements alluding to U.S. occupation of Gulf oil fields, last week visited Saudi Arabia, and his trip did not promote harmony between Washington and Riyadh. According to the *New York Times* there were marked "differences" between the Saudi leadership and the U.S. Energy Chief.

Following the Jackson report's release, the Persian Gulf again became the focus of international attention. The French press *Le Matin* and *L'Aurore* last week detailed analyses of divergent formulas for security for the Mideast. *L'Aurore* reiterated the traditional U.S. State Department formula for the Gulf and the Mideast which necessitates close relations between Saudi Arabia and Iran as the key to regional security. The paper called for the two countries to mend past differences that were consciously heightened by the war diplomacy by the former Secretary of State Henry Kissinger. *Le Matin*, on the other hand, prescribed the Iran-Israeli military axis in exactly the terms defined by Kissinger's foreign policy.

The leadership of the Palestine Liberation Organization has also stressed the dangers of such an alignment. Abu Iyad, the number two man under PLO chief Yasser Arafat, last week linked the Iran-Israel strategy to the dangers of a Mideast settlement of the sort Kissinger and his London backers desired: the PLO would be destroyed, allowing Jordan to assume control of the Israeli-occupied West Bank of the Jordan.

#### *Toward Real Gulf Security*

In an official Foreign Ministry statement issued immediately after the release of the Jackson report, the Iranian government stressed that Iran has no intentions of taking an "assignment" from Washington to intervene in the affairs of its Arab Gulf neighbors, most importantly Saudi Arabia.

In reality, all of the oil-producing nations of the Persian Gulf have redoubled efforts to achieve regional security based on a new level of political and economic cooperation. This process has been unfolding since the November 1976 meeting of the nine gulf states in Muscat, Oman to discuss a formal Persian Gulf security pact. Following the failure of the Gulf states to reach a consensus on a security agreement at that time, Iranian diplomacy began immediately to build organic links between the nine states and break down regional differences long exploited both by British colonial networks in the Gulf and by Kissinger. Most important, this effort cuts through traditional differences between the Arab states and Iran. The public condemnation by a number of Gulf leaders last fall of Schlesinger's open proposal of a possible U.S. military invasion of the Persian Gulf to "secure" its vast oil wealth was one indication of heightened concern within the region that independent

security measures had to be taken. Iran and the Saudis have closely coordinated measures to insure no terrorist incident occurs that could disrupt oil flows.

The Shah's visit to Riyadh earlier this month and his meetings with King Khalid and Crown Prince Fahd marked a breakthrough in Saudi-Iranian relations. There was unanimity on a number of crucial issues including a formula for a Mideast peace and joint work to insure continued moderation in the pricing front within the Organization of Petroleum Exporting Countries.

Furthermore, in the last two months the Shah has had personal consultations with the Sultan of Oman, whose country controls the strategic mouth of the Gulf, the Straits of Hormuz. The Shah also met with the leader of the United Arab Emirates, Sheikh Zayed. Following a series of high-level meetings between the governments of Iran and Iraq, the Shah announced last month that he would soon be making his first visit to Baghdad, a visit which is the product of a process of normalizing relations between the two Shi'ite Islamic countries since the historic 1975 Iran-Iraq border agreement.

The strategic importance of the growing political unity among the Gulf states has a twofold significance. First, it makes London's efforts to gain control of the region's oil resources more difficult. Second, it has direct relevance for the security of the Indian Ocean.

The Shah is expected to visit Indian Premier Desai at the end of the month to propose cooperation between the countries of the subcontinent and Iran patterned after Europe's Common Market. In this connection, Iran is playing a unique regional role of unifying the Gulf states and the Asian nations that would allow India, Iran, and Saudi Arabia to take the lead in providing stability to the region as a whole. This formula is favored by many traditionalists in the U.S. State Department.

#### *Counterattack: Provoking Iranian Instability*

The Iranian Foreign Ministry last month publically criticized both the British Broadcasting Company and the British Foreign Office for provoking instability inside Iran against the Shah. (see *Executive Intelligence Reviews*, Vol. V, No. 2.) The increasing openness of the Shah's positive diplomatic initiatives, and the obvious aim of the British *Crash of '79* policy, puts a new light on the "Iranian dissent" issue. In recent weeks, Iran has been hit with a new wave of terrorism which has led the government to close a number of universities. These terrorist operations are designed to break the Shah's long-standing internal security apparatus and allow British intelligence some breathing space to further increase operations against the Shah. British-linked Iranian dissidents have been demanding that the Shah "liberalize" his policies — a code word for the loosening of the present Iranian security and intelligence apparatus run through Iran's secret service, the SAVAK. If this liberalization, under the slogan of "human rights," were to materialize, the Shah would be much more vulnerable to assassination and his government more open to British-led subversion. Most likely, this is the only way that the City of London's strategic perspective of the Persian Gulf and the Mideast could be translated from scenario into reality.

—Judy Wyer

## Iran: Jackson Report "A Flight of Fancy"

*The Iranian Foreign Ministry's stinging condemnation of the Jackson Report's description of the Persian Gulf situation was printed in the Iranian state-owned newspaper Kayhan on Dec. 24, 1977. An Iranian Foreign Ministry spokesman Parvis Adl, particularly responded to a formulation in the Jackson report which stressed that Iran could be "called upon to intervene in the internal affairs of any Persian Gulf state."*

"Flights of fancy are now part of the regular stock of genius behind the production of films, novels, and other works in the U.S. Iran and Saudi Arabia are two friends and neighbors who are in no way engaged in, or heading toward, a confrontation. As for Iranian intervention in Persian Gulf states, Iran would provide assistance to these countries if, and only if, they request it, as the Shahanshah recently stated in Oman. And such assistance would continue only as the request remained in force."

*Adl criticized the study for its allegation of Iran's accepting an "implied assignment" from the U.S.*

"Iran's power is aimed at the protection of its national interests, peace and tranquility. At any rate, this power shall never be used at the instruction of others."

\* \* \*

## Moscow Says: 'The Gulf States Won't Bend'

*Radio Moscow questioned the motives of the Jackson report, in a commentary Jan. 12, speculating that an Iranian military threat to Saudi Arabia would be designed to pressure Riyadh to moderate its formula for a Mideast peace.*

"Official circles in some Western capitals believe that the stepping up of American pressure on Saudi Arabia is due to the position of the Saudi leadership which has diverged with Washington's plans for a Mideast settlement....But the forces behind this policy of pressure seem to have forgotten that the era of colonialist control of the Gulf region has gone forever, and that the peoples of this region reject any bargaining over their sovereignty and national independence. This is a fact not even political officials of the Gulf states can ignore; this is why, despite American pressure, Prince Sa'ud ibn Faysal has reaffirmed that his country's position is different from America's.

As for Iran, its leadership is conscious, too, of the dangers to Iran implicit in being dragged into American schemes in the Gulf area; for this reason, an official spokesman of the Iranian Foreign Ministry has described the plans of the American Congress to use Iran as a fist to be used in an attack against Saudi Arabia as an aspect of the old imperial credo, "divide and conquer."

## Documents Show Morgan's Role In IMF Austerity Plans For Egypt

*The Morgan family's role in coordinating the International Monetary Fund's attempts to override the Egyptian government and force draconian levels of austerity on that country is fully documented in a series of privately circulated reports that we excerpt here. The reports were provided to the Executive Intelligence Review by a leading Middle East official.*

*First, portions of a recent letter from an official of one of the Morgan banking group's commercial arms.*

As you know, the first phase of our assignment has involved working with GODE (Gulf Organization for the Development of Egypt —ed) and Egypt, first in connection with the payment of outstanding arrears on banking facilities and supplier credits, and then with the process of obtaining the remaining GODE funds for balance of payments needs . . . .

Egypt has been current in its banking facilities since the end of August, 1977. This development, as we have learned in our continuing consultations with them on your behalf, has been well received by the international banking community . . . .

As you know, in order to implement the first phase of our assignment as outlined above, it has been necessary

and desirable for Morgan Stanley personnel to be present in Cairo for extended periods of time. It has been clear, and we have all agreed in principle, that in order to fulfill our responsibilities it is necessary for Morgan Stanley to maintain a continuous presence in Cairo. . . .

. . . We might say at the outset that we expect that Morgan Stanley will be in a position to make a more substantial and lasting contribution to Egypt in these subsequent phases than circumstances of the first phase permitted. We look forward to that.

For instance, the next phase of our assignment will concern long range balance of payments matters. This phase will include the continuing questions of the rationalization and management of Egypt's external debt. We expect in this connection to be working closely with the Ministry of the Economy and Economic Cooperation, the Central Bank, the Ministry of Finance, the Ministry of Planning, the GODE States, the multinational commercial banks, the international agencies and other organizations and sources of funds as may be appropriate . . . .

During our last visit in Cairo it came to our attention that thought is being given to the recapitalization of the public sector companies in order to enable them to in-