

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-

dependently finance their operations in the capital markets. You have told us that in order to improve the profitability of these companies, consideration is being given to ending price controls, thereby allowing prices to rise to a level where operations could be self financing. We believe that Morgan Stanley can be helpful in this respect, in light of our considerable experience over the years with questions involving the capital structure and financing of corporations

For your information, we are pleased to report that we have joined the Egyptian-American Business Council. In addition, after discussions with you on the question of its appropriateness, I have agreed to assume the duties of Chairman of the committee on Egypt's foreign investment law. We have all agreed that this will be a positive move in the furtherance of our activities on your behalf

Morgan Stanley officials submitted this detailed report of their meetings with representatives of the International Monetary Fund and other monetarist interests while in Cairo and Riyadh. Presented in chronological order, the banking officials provide their superiors with profiles of Egyptian government representatives and of the current state of Egypt's finances.

Wednesday, November 30, 1977

EDMorris and ASFoda arrived separately in Cairo in the afternoon of Wednesday, December 30. EDMorris and ASFoda met at the Nile Hilton in Cairo where they briefly discussed the latest development on the Egyptian project and placed a phone call to Hans Gerhard, the IMF Representative in Cairo

At around 8:30 p.m. Hans arrived and after a brief exchange of pleasantries we started talking about the current economic situation . . . During the discussion, Hans stated that he is somewhat disappointed with the current economic situation and the management of the economy as a whole. . . He stated that Egypt had not yet taken the hard decisions with respect to the removal of subsidies and the rationalization of the general pricing system of the economy. He added that although the situation is substantially improved from a year ago, the hard decisions are yet to come to put the economy on the right course. He stated that the management of the economy is still inefficient and timid and that he and the IMF group which just visited have not seen any major changes in this respect. There is considerable frustration within the IMF with the reluctance of the Egyptian officials to undertake the major economic policy decisions. Hans added that the reason the Egyptians are still current on their banking facilities is the \$50 million grant that was received from Kuwait, otherwise Egypt would have been in arrears again. He characterized the people managing the economy as being timid, too politically oriented or incompetent. He explained that Dr. Kaissouni (Egyptian Deputy Prime Minister for Economic Affairs —ed.), in the aftermath of the January 17-18 economic decision and the riots, is too timid and unwilling to take the hard decisions needed to rectify the inadequacies of the current price system. He explained that Dr. Kaissouni has no lines of communications with the President

He characterized Dr. El-Sayeh (of the Ministry for Economic Cooperation —ed.) as too politically motivated and opportunistic and, therefore, unable to give sound advice to Dr. Kaissouni. With respect to Dr. Salah Hamed, the Minister of Finance, he explained that he is completely incompetent. When asked about other people in any one of the Ministries of Economy, Planning, or Finance who may be able to take part of the responsibility for rectifying the economic policy of Egypt he stated that he knew of no particular person who has the level of competence needed to undertake the job . . . He added that the IMF, during the visit to Cairo, had submitted a proposal for extended IMF facilities to Egypt. He stated, however, that he does not believe that with the current way the economy is managed that the Egyptian will have much chance in getting those extended facilities

Thursday, December 1, 1977

. . . At around 11:00 a.m. we were invited to meet with (Central Bank) Governor Mohamed Abdel Fattah Ibrahim. We reviewed with the Governor and Mr. Singer the arrangements discussed on the draw-downs of the second tranche. We expressed our pleasure to have the opportunity to continue our financial advisory assignment with Egypt and expressed the hope that we could do more to the Egyptian economy. The governor expressed pleasure with the continued involvement of Morgan Stanley and stated that he had a few projects that he wanted us to get involved with. . . .

Referring to Morgan Stanley he stated that we might be able to provide assistance in some other projects like the reevaluation of the capitalization of some of the public sector enterprises. He explained that some of the public sector enterprises are partly owned by the private sector. He added that during the last few years the Government had spent millions of dollars on these companies. These funds, however, have not been included in the current capitalization of the companies. The government is currently thinking of abolishing the price controls on the products of these companies which will make them very profitable. If this happens and these companies were to be resold to the private sector or their shares started to trade, the market value of these shares will greatly exceed their book value because the Government capital expenditures on these public sector enterprises were not taken into account. He therefore looks to us to provide assistance on the valuation of such public sector enterprises. On the other hand, he stated that under different circumstances there are some other firms that have completely exhausted their ability to be funded by the government. He stated that one such industry is the construction industry which has greatly exhausted its ability to be financed through the Government. He said that our work on the capital markets may provide an avenue for such firms to be financed directly through the public rather than through the Government . . . At this point we expressed our pleasure to be of further service to the Egyptian economy and the Central Bank and explained to the Governor that we have been considering a Morgan Stanley presence in Cairo so that we could be more effective in our service to the Egyptian Government. The Governor welcomed this idea and said

that this would be a good step and there has been discussion with Dr. Kaissouni and Dr. El-Sayeh with respect to a Morgan Stanley presence in Cairo. He said that he will be glad to be of assistance to Morgan Stanley in locating space in Cairo or in any other way. . .

The Governor asked us to write him a letter outlining the capabilities of Morgan Stanley so that he may make better use of our expertise. We promised to do so . . .

Friday, Dec. 2, 1977

During a dinner party, EDMorris had a discussion with Christopher Wren of the *New York Times* in which Mr. Wren stated that there were rumors that Kuwait has cut off its financial aid to Egypt because of the current political situation and the Sadat initiative. EDMorris denied any knowledge of such cut-off in the aid program to Egypt by Kuwait and added that the GODE program is a multinational program that has nothing to do with the country to country relationship and that the prospects for such a cut-off of aid are highly unlikely. Also during the same discussion EDMorris noted that there has been an article in the *New York Times* which was published recently which, he explained, was well intentioned but had misinformation with respect to GODE. This article stated that the drawdowns on the GODE loans had not yet started . . .

On Saturday morning we had an early breakfast and went to our appointment at the Ministry of Economy and Economic Corporation. At around 10:30 a.m. we met with Mr. Abdel Aziz El-Zahwy, Under-Secretary and Chief of the Minister's Cabinet . . .

We had a broad discussion of the Morgan Stanley assignment and expressed our desire to be of more service to the Egyptian Government and to be able to extend our expertise in areas which Egypt needs. Mr. El-Zahwy stated that he is aware that we are going to be working on the stock exchange assignment and that two Egyptian officials have been assigned to work with us on the stock exchange assignment.

We talked with Mr. El-Zahwy about our long term objective of being of service to the Egyptian Government as their main investment banker. We added that we had had discussions with the Minister of Economy and Dr. Kaissouni as well as Governor Ibrahim with respect to establishing a presence in Cairo. We stated that this presence would be costing around \$250,000 and that we looked forward to Egypt and the GODE to compensate us for this cost. . . .

. . . At around 2:00 p.m. we met with Mr. Sayed Singer, Mr. Mohamad Halfawi and Mr. (X) of the Central Bank of Egypt who invited us to have lunch with them. The lunch was quite cordial and during which we had a discussion on the Egyptian-U.S.S.R. trade relationship. We understood from Mr. Singer that the total volume of the trade is approximately \$120 million a year. One-third of this total amount is in traditional goods such as cotton and rice, etc. Mr. Singer said that the nontraditional goods, which are mainly privately produced, will be suffering a lot as a result of the breakdown in commercial relations with Russia. He stated that these goods are not up to the international standard with respect to quality and that Egypt will have a very hard time to export them to countries with which Egypt does not have

a bilateral agreement. He stated that some of the private producers are currently undertaking major investments to upgrade the quality of their products to bring these up to an acceptable level so that they can export them to free currency countries. During the meeting we also discussed the debt management unit and we learned that there are at least two units, one in the Central Bank of Egypt and the other in the Ministry of Economy. The debt management unit in the Ministry of Economy is under the direction of Mr. Abdul Aziz El-Zahwy. We understood from Mr. Singer that Mr. El-Zahwy has exclusive information relating to the utilization of Government loans. We understood that Mr. El-Zahwy has about 18 staff members in that unit and that those staff members collect this information from various ministries and organizations as to their utilization of the Government loans. The Central Bank, on the other hand, has data on the use of banking facilities and supplier credits transacted through the banking system. This data, collected by the Central Bank, is sent to Mr. El-Zahwy periodically. We understood from Mr. Singer that the flow of information from the Ministry of Economy to the Central Bank is less than forthcoming and that the Central Bank has problems in constructing a clear picture on the utilization of Government loans by the various ministries and organizations. It was clear that there was some kind of competition and ill-will between the two organizations and Mr. Singer expressed great frustration with the behavior of the Ministry of Economy with respect to supplying information to the Central Bank of Egypt. . . .

Sunday, December 4, 1977

. . . At around 10:00 a.m. we went to the Central Bank of Egypt where we had about a one and one-half hour discussion with Mr. Aly Negm and Sayed Singer, of the Foreign Department . . .

We then discussed with Aly Negm the Cairo office and went into the details of how we could be helpful in our assignment if we had a presence in Cairo and the cost of such a presence. We stated that we wanted some indication as to whether we are wanted in Cairo and confirmation that we are going to be paid for such a major commitment of Morgan Stanley's resources. Aly Negm said that this has been subject to discussions between Dr. El-Sayeh and the Governor and that from all indications, he knows that we are wanted in Cairo and he would personally like to see a Morgan Stanley presence in Cairo. He reiterated the fact that there have been several discussions between Dr. El-Sayeh, the Governor and Dr. Kaissouni with respect to a Morgan Stanley presence and ways to get Morgan Stanley paid . . .

Tuesday, December 8, 1977

. . . From GODE's office, ASFoda phoned Dr. Younes Al-Batrik at the Faculty of Commerce, Riyadh University. We agreed to have lunch with Dr. Al-Batrik who was to meet with us at the Intercontinental at around 12:30 p.m. Dr. Al-Batrik came to the Intercontinental and took us to a new restaurant in Riyadh called Al-Siteen. Dr. Al-Batrik has been a visiting Professor of Economics at the University of Riyadh for the past five years. We understood from Dr. Al-Batrik that he is also working as part-time advisor to the Ministry of Finance and in that function he is closely working with the taxation depart-

ment. He is also working with the economic planning department with Dr. Mansour Turki. We discussed with Dr. Al-Batrik the general economic situation in Saudi Arabia and the changes that are being brought about by the rapid pace of the economic development plan and the current construction boom that is apparent everywhere in Saudi Arabia. . . .

Discussions covered the real estate market in the United States, especially with respect to Dr. Al-Dukheil's plans to buy a house in the suburban surroundings of Washington D.C. This, we assumed, is in conjunction with the proposed appointment of Dr. Al-Dukheil as the Saudi Arabian IMF Representative. Dr. and Mrs. Al-

Dukheil left after about one hour. Thereafter we had some general discussion of the social situation in Saudi Arabia and the change that is being brought about by the rapid pace of the development in the Kingdom. . . .

At around 10:30 a.m. EDMorris returned back from the Saudi Arabian Monetary Agency (SAMA) and said that we most probably will be having lunch with some of the advisors, mainly David Mulford, and that he had to return back and wait because they're very busy and he is not sure when he will be able to meet with them. At around 2:30 p.m. EDMorris returned back from SAMA. . . .

PLO Charges Britain With Hammami's Murder

Simultaneous to the Executive Intelligence Review's (Vol. V No. 1) disclosure that British intelligence was responsible for the murder of PLO leader Said Hammami in London on Jan. 6, Moscow radio aired the statement of PLO official Muhammad ash-Shair accusing Britain of complicity in the assassination. Portions of the statement aired on Moscow's Arab-language station Jan. 9 are reprinted here.

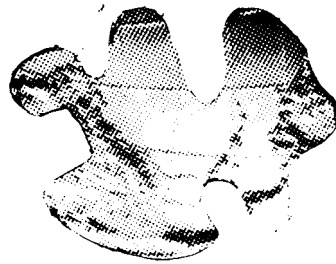
The assassination of the Palestinian leader Said Hammami in London on Wednesday, 4 January 1978, continues the chain of assassinations and treacherous liquidations the enemy has been carrying out with the direction and planning of the U.S., British, and Zionist intelligence services. All these are considered a single entity in their cooperation with each other and their links and aims which are to liquidate every national liberation movement, using all means and methods, including the fabrication of contradictions and disagreements inside and between the movements. This also includes buying people's loyalties, infiltrating some nationalist movements and political groups and, finally, assassinating leaders and active, effective patriotic elements.

The latest episode was the assassination of Said Hammami, official representative of the PLO and Fatah in Britain.

How could Said Hammami be assassinated when he was under stringent guard, as if in semi-confinement? How could Said be murdered when the British guard was only a few meters from the building in which he worked and how could his killer not be caught or his identity known? All evidence indicates that the assassination plot was prepared with the knowledge of the British authorities and their intelligence services. The PLO leadership referred to this in its statement on the assassination of Said.

In order to conceal this abominable crime as usual the British mass media seeks to portray to the world and Arab public that the assassination was the result of differences between the Palestinians themselves—between those who reject and those who approve of Sadat's policy...But such methods have been exposed and become known even to simple minded people. The coming days will reveal who was behind the crime and who prepared, planned, and carried it out. The world knows that it does not go beyond the framework of the British authorities and the Zionist and American intelligence services which collaborate with them....

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EXECUTIVE INTELLIGENCE REVIEW SPECIAL REPORT
DAILY ENERGY INTELLIGENCE BULLETIN
THURSDAY, JANUARY 11, 1978
LEADING U.S. BUSINESS DAILY CALLS FOR CUTOFF OF NUCLEAR COOPERATION WITH INDIA
JAN. 11 - THE WALL STREET JOURNAL, A LEADING U.S. BUSINESS DAILY, RAN A MAJOR EDITORIAL TODAY CALLING ON THE CARTER ADMINISTRATION TO DENUNCIATE AND ABOVE ALL HIS COSMETIC CONCESSION THAT HE WOULD AUTHORIZE SUPPLY OF ONE SHIPMENT OF ENRICHED URANIUM TO INDIA, FOR FUELING NUCLEAR COOPERATION RELATIONS WITH INDIA. IN A SCATHING DID AFTER THE INDIAN EXPLOSION. THE JOURNAL CONCLUDES "IT IS EASY ENOUGH TO BELIEVE THAT MR. CARTER DOESN'T NOTICE MIXES AND IS IN ADDITION SO CONFUSED HE THINKS A LETTER WILL KEEP HIS POLICY INTACT DESPITE THE HEAVY WATER SHIPMENT. BUT ON THE OTHER HAND, PERHAPS THE CANDIDATE CARTER WHO PROMISED NEVER TO TELL US A LIE WAS USING THE PLOY TO MISLEAD THE AMERICAN PEOPLE."
WHAT IS REALLY GOING ON?
WHILE THE DUST HAS NOT YET SETTLED ON THE CARTER TRIP, BRITISH PRIME MINISTER JAMES CALLAGHAN HAS ARRIVED IN INDIA TO SUPPOSEDLY EVOLVE THE COMPROMISE FORMULA TO BRING INDIA INTO AN ACCEPTABLE STATUS ON THE NON-PROLIFERATION QUESTION. WHILE THE U.S. STATE DEPARTMENT TODAY ADAMANTLY DENIED ANY TRUTH TO THE STORY THAT CALLAGHAN HAS SUCCEEDED WHERE CARTER HAS FAILED. AS PRESENTED BY THE LONDON TIMES AT THIS TIME, TODAY'S SECRET PROMISES AND TOALLY DIS- ONE IS TO ARRIVE AT A COMPROMISE AGREEMENT WITHOUT TALLYING GOALS. THAT CALLAGHAN HOPES TO TAKE DESAI'S SECRET PROMISES AND TO PRESS CLOSING DETAILS AT THIS TIME. TODAY'S SECRET PROMISES AND TOALLY DIS- PLEDGES. TO PAKISTAN WHERE HE WOULD USE THESE ASSURANCES TO PRESS THAT COUNTRY TO AGREE TO NEW RESTRICTIONS AND SAFEGUARDS ON ITS CONTRACTED FRENCH NUCLEAR REPROCESSING PLANT. CALLAGHAN ARRIVED IN PAKISTAN JAN. 11, ONE DAY AFTER THE NEW YORK TIMES ANNOUNCED THAT FRANCE HAS REQUESTED THE PAKISTAN IS CONSIDER ALTERATIONS IN CURRENT CONTRACTS.
MIDWEST COLD FREEZES ONTO COAL STOCKPILES
JAN. 11 - AS THE NATIONAL STRIKE OF U.S. COAL MINERS AND COAL-HANDLING MACHINERY, A SPOKESMAN HAS PROVEN ELECTRIC UTILITY TOLD THIS NEWS SERVICE FOR THE CUSTOMERS HAVE BEEN ASKED TO VOLUNTARILY CUT INT THAT THEY REGARD THE SITUATION AS "CRITICAL". THE UTILITIES AFFECTED ALL EXPECT TO HAVE T A DAY, HOWEVER A SECOND COLD FREEZE IS PRE- WEEKEND. THE ONGOING WINTER DURING SEV ALTERNATIVE USED LAST WINTER FROZEN COAL. IN FRESH COAL TO REPLACE FROZEN COAL. THE OHIO STATE ENERGY OFFICE DURING TV COAL DELIVERIES TO RESIDENTIAL USERS
A SPOKESMAN FOR THE U.S. DEPARTY WILL DO NOTHING IN THE PRESENT ST MAKES A STATEMENT HE ADDED THAT T PRODUCED BY THE ONGOING STRIKE AND UNTIL THEN THE GOVERNMENT CONSERVATIVE BRITISH FIRING OPPOSITION
KING, BRIT GOVERNMENT HIS O

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