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16 March 1979

TRANSLATIONS ON NEAR EAST AND NORTH AFRICA
(FOUO 8/79)



NEAR
EAST



NORTH
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INTER-ARAB AFFAIRS

OPEC OFFICIALS CONSIDER USES FOR SPECIAL FUND

London THE MIDDLE EAST Feb 79 pp 90-91

[Text] Although it is acknowledged that the needs of the developing countries are far greater than can be met by the combined efforts of all the world's aid institutions, there is growing evidence to suggest that available funds are being blocked because of a lack of specific outlets and uncertainty as to exactly how they should be spent. Naomi Sakr reports on the opinions expressed on this issue within the Organisation of Petroleum Exporting Countries (OPEC) and the agencies it has helped to set up.

It is becoming a matter of some concern, among those who consider the gap between the rich industrialised countries and poorest developing countries to be widening dangerously, that some of the newest agencies set up to help the poorest countries may find themselves subject to constraints in speeding up disbursement of their funds.

This time the potential constraints are not the result of red tape or unwieldy bureaucracies within the agencies themselves but are largely felt to be due to the fact that there are not enough carefully-studied projects to warrant loans. In fact the new agencies have a constitution which is deliberately designed to keep their staffing levels and infrastructure to a minimum and it is that policy which is now beginning to reveal the dearth of project preparation capabilities in those geographical areas most badly in need of funds on easy terms.

The donors in this case are

primarily OPEC members, as two of the world's most recently established lending agencies owe their existence to OPEC. These are the \$1.6bn OPEC Special Fund, established in January 1976 and the \$1bn International Fund for Agricultural Development (IFAD), set up with a \$435mn contribution from OPEC in December 1977.

The OPEC Special Fund has achieved a surprising amount in its two years in operation and can hardly be presented at this stage as evidence of lending bottlenecks. The Fund's Director-General, Ibrahim Shihata, told *The Middle East* that about \$900mn of its capital has been committed and that over half of this has been disbursed.

Moreover, the Special Fund has lately reaffirmed its commitment to support the Common Fund to stabilise commodity prices which has been under negotiation within

UNCTAD for so long. It is proposing to pay not only OPEC members' contributions to the Common Fund but the contributions of the 29 least developed countries as well.

The Special Fund, Shihata said, gives 70 loans a year on average, covering about 60 different countries in the process. These loans, some for balance of payments support and others for project lending, are interest free and maturity is generally 20-25 years. By the end of 1978, 112 loans should have been completed and the plan is to have at least 40 or 50 loans this year.

But, he added, "it takes two to make a loan. If we had waited for applications, by now we would have made perhaps only 15 or 20 loans. In many cases we offered assistance rather than waiting for applications."

For IFAD the lack of suitable applications has had a more visible effect on lending. By the end of 1978, exactly one year after its launching, IFAD had 51

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projects pending and had announced 10 loans worth \$120mn for 10 different countries. But it had actually disbursed nothing.

Like the OPEC Special Fund, IFAD too has had to take the initiative in proposing loans. Missions were sent to 16 countries during 1978 (not counting those countries which received loans), half of them at IFAD's own suggestion and only half at the request of the governments of the countries concerned. A similar mix is expected for the 25 missions which are to be sent this year.

But the results of those missions will take time to materialise into disbursements. For example, IFAD's President, Abdel-Mohsen al-Sudeary of Saudi Arabia, recently visited the Sahel and announced that IFAD would be willing to finance a project in each of the Sahelian states. But to do this there has to be a project in need of financing and someone somewhere has to draw it up.

As a senior IFAD staff member explained: "It is essential to realise that it can take two to three years for a project to run the full cycle from idea into bankable proposition. Many of the 51 projects before us now are still only ideas. We're trying to shorten the cycle as much as possible. As for the 10 loans agreed in the Fund's first year, these had to be for projects which were already well under way."

IFAD's small staff of 80 or so were stretched to the limit to achieve last year's level of activity and, with commitments scheduled to triple to \$375mn this year, they have little prospect of an easier time. They are hoping in fact to initiate as many as 10 or 12 of the 30 projects which are expected to be submitted to the Executive Board this year; the remainder will come from other development assistance bodies.

There can be advantages to relying on projects identified and prepared by other sources. The OPEC Special Fund for its part gives priority to co-financing of projects which have already been appraised and has actually co-financed in all but one of its loans so far.

This not only results in savings in time, money and staffing, but, as Shihata himself explains, it allows OPEC to step in as "gap financier", making possible the immediate implementation of projects which might otherwise be postponed indefinitely until the financing gap can be filled.

In addition, an agency drawn into a project at a later stage of the preparation cycle is in a better position to assess the project.

But co-financing in itself does not enlarge the global pipeline of bankable projects. And, as the dilemma within IFAD suggests, there is a growing feeling that, if new project preparation capabilities are to be created this should not happen within the big international agencies.

Instead, as World Food Council President Arturo Tanco explained at a recent press conference, they should be developed within the needy regions themselves, possibly through the regional development banks which have firsthand knowledge of the area. IFAD would then, as OPEC is already doing, continue to "piggy-back" on the existing project appraisal institutions.

Not everyone is convinced, however, that the dearth of prepared projects is universal. There is an argument which says that, in the case of IFAD, those countries which are capable of coming forward with their own well-defined development schemes could ultimately be deprived of funds because IFAD's lending criteria are too restrictive, concentrating heavily on the poorest of the poor as defined by per capita income.

This aspect of IFAD's lending policy provoked some lively debate at the Fund's Second Governing Council meeting in Rome at the end of last year. There, the 125 member countries were presented with a proposal, drawn up by the Executive Board, that special loans on highly concessional terms should be provided preferably but not exclusively to countries whose per capita income (in 1976 dollars) is approximately \$300 or less.

Special loans in this instance refer to interest-free loans with a 1% service charge and 50-year maturity, and there is a proviso that these will not exceed two-thirds of the total amount of loans which the Fund may extend. It is the existence of this "two-thirds" stipulation that has given rise to two schools of thought.

The dominant view on the Executive Board is that the Fund was not set up for the so-called "threshold" countries, such as Mexico and Brazil, which have reached a comparatively advanced stage of development and have a per capita income, in many cases, of over \$1,000 a year.

Certainly, they say, a proportion of IFAD money should go to countries with a per capita income of over \$300, since these loans will carry interest rates of 4-8% and will have shorter maturities - meaning that the Fund can recoup some of its resources. Anyway, they add, IFAD's performance in 1978 put the two-thirds rule into practice, since three of the 10 loans agreed went to middle-income Third World states, namely Ecuador, Guyana and the Philippines.

As for per capita income serving as an index of need, most donor countries in IFAD feel it to be quite satisfactory.

IFAD donors consequently came to the Governing Council meeting with the opinion that the lending policy as defined by the Executive Board should be adopted without further delay,

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so as to enable the Fund to move ahead at full speed.

In fact, the Governing Council did adopt the policy by consensus because it was stressed that it would be implemented flexibly and would be reviewed at a later stage. But this did not prevent several participants from expressing their concern.

The Tunisian Governor of the Fund, Mohsen Bel Hadj Amor, told *The Middle East* that his country - like many others in the same income bracket - was ready to absorb IFAD financing straight away. Why, he asked, should funds be kept blocked and frozen until projects can be prepared in countries that conform to IFAD lending criteria, when there are valid projects ready and waiting for finance in countries above the \$300 level.

Tunisia has made sacrifices to achieve its per capita income of \$860 a year and, he said, (in line with several independent observers inside Tunisia) is still badly in need of a final dose of concessional lending to help it to cross the development threshold.

There is no guarantee, the Tunisian representative continued, that, once the two-thirds rule is written into the organisation's terms of reference, any future managerial body will apply the rule as flexibly as most middle-income recipients would hope.

These sentiments are shared by a number of IFAD members with economic characteristics similar to Tunisia's, including countries such as Morocco, Jordan and Turkey and others in Latin America. Their

approach would be to introduce indices other than per capita income to pinpoint countries in need of IFAD's help. These indicators, as suggested by the Turkish delegate, could include a country's agricultural production potential, its unemployment status, its balance of payments, its literacy rate and the per capita income.

Whether or not this special group of countries has a sound case will become apparent in the Fund's success rate in implementing its \$375mn lending target this year. For the moment there are some doubts as to how far the Fund, for all the dedication of its staff, can realise the target and still adhere to the lending criteria prescribed, so long as the present attitude of most industrialised donors as regards minimising project preparation facilities prevails.

That attitude, frequently expressed in the phrase "we don't want to see a single dollar of this hard-won money go to waste", may be founded on a sincere desire for economy, or, as some observers suspect, on a wish to see IFAD remain an "underdog", dependent on the technical back-up of other UN agencies.

Certainly the dilemma is in need of further discussion and interested parties are hoping that this discussion will take place at the coming world food conference, planned for Bellagio (Italy) in April. The purpose of this conference is to identify and sort out lending constraints.

Participation in the conference will follow four categories, the international aid institutions led by the World Bank forming one, the in-

dustrialised bilateral donor countries the second, OPEC donors the third and recipient developing countries the fourth. Each group will be required to come to Bellagio having researched into its own difficulties and bottlenecks and it is hoped that, as a result, a new tide of development finance will be released.

Primarily this money will be geared to raising the growth in world agricultural output to at least 4% a year, but if this comes about as a result of a "spring-cleaning" within the various groups then development in other sectors should benefit as well.

If the record of the OPEC Special Fund is anything to go by the members of the third group can attend the conference with the least spring cleaning to do. According to the latest OECD aid review, OPEC members, jointly and individually, sustained a level of over \$5.5bn in net disbursements of concessional assistance between 1975-77. Ibrahim Shihata has pointed out that in 1977 OPEC donors gave at least 2.5 times as much as the US and that, if industrialised countries were to give concessional assistance in the same ratio of aid to GNP as OPEC members, they would have given more than 10 times the amount they actually gave in 1977.

Nevertheless, all four groups feel they can benefit from taking a fresh look at their operations and it is only such a process which can reveal, once and for all, exactly where the shortcomings in development aid lie.

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INTER-ARAB AFFAIRS

U.S. STRATEGY IN MIDDLE EAST CONCENTRATES ON OIL

Paris AL-WATAN AL-'ARABI in Arabic 18 Jan 79 pp 16-19

[Article: "The Battle for Black Gold between the Eagle and the Bear"]

[Text] Will it become necessary to link the U.S. F-15 fighter planes to critical developments in the Middle East? The deal, under which Saudi Arabia will receive 60 of these planes--the fastest and most modern in the American arsenal--was subjected to strong Zionist, and even Iranian pressures. At the time, Saudi Arabia held to the viewpoint that the sale symbolized the special Saudi-American relationship and that Washington must nurture this relationship by approving the sale. The deal was consummated and delivery of the planes will begin in 1982. The controversy over this sale finally subsided as an item of political interest, but not for long. The problem has surfaced again with a political and strategic twist as a result of President Carter's decision to send a squadron of 12 F-15 fighters--with approximately 300 technical support personnel--to show the flag in Saudi Arabia's skies, and perhaps to be based there for a while. The planes may remain there as a first, urgent delivery of the deal due to the Saudi Kingdom's need to strengthen its strategic defense capability following the power vacuum caused by Iran--a development seen by the Saudis as constituting a Soviet threat to the Red Sea area and the Horn of Africa.

AL-WATAN AL-'ARABI learned from informed sources in Washington that orders have been issued that a naval exercise should accompany the aerial muscle-flexing exercise in the Indian Ocean. It is believed that an 11-ship task force has been ordered to the Gulf area.

Simultaneously, these moves are accompanied by a new attempt to strengthen military ties with Turkey. This task has been given to Assistant Secretary of State, Christopher Warren. Mr Warren is bringing to Ankara an offer of \$200 million in new military assistance in return for easing restrictions on the use of Turkish bases by American planes.

This is the second time that the United States has used its airplanes to demonstrate its support of Saudi Arabia. In 1963, President Kennedy ordered

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a squadron of F-104 jet fighters from Frankfurt to Saudi Arabia. The planes performed an aerial exhibition in the skies over Riyadh and Jeddah. According to diplomatic sources, the Carter Administration based its decision to send the planes on a letter sent in mid-1962 by President Kennedy to King Faysal, crown prince at the time, in which the former president pledged to guarantee the security and territorial integrity of Saudi Arabia. At that time Saudi Arabia was in conflict with Egypt over Yemen. Cairo's intervention in Yemen on behalf of the Republicans prompted the Saudis to support the Royalists. The dispute became critical when Egyptian bombers based in Yemen attacked the southern towns of Jizan and Najran, located near the border with Yemen.

President Kennedy's letter to King Faysal was followed by the dispatch of F-104 planes to Saudi Arabia. In a subsequent series of letters to the king, the President established what, according to diplomatic observers, amounted to an unwritten alliance between the two countries. Subsequent to this exchange, the special, bilateral relationship between the United States and Saudi Arabia grew and strengthened. The latest U.S. government move is based on this relationship.

AL-WATAN AL-'ARABI's correspondent learned from informed sources in Riyadh that the Saudi Government asked that the planned overflights by the F-15's include the southern towns, particularly Khumays Mushit, as well as the eastern petroleum region. The original U.S. plan omitted these locations in order to avoid the appearance of provocation, particularly since takeoff from the Khumays Mushit base in a southwesterly direction would bring the planes close to Aden's airspace. It is clear from this that the Americans are trying to avoid provoking the Soviets directly by limiting the overflights to Saudi airspace. The move is meant only as a deterrent.

The value of the overflights is viewed with skepticism by some of the major U.S. newspapers. The Washington STAR described the American strategy as "drowning in anarchy." It said that it is not able to understand the strategy or the reasons behind the move to flex American muscles in the Gulf region. Many U.S. papers highlighted the divisions within the government over the interpretation and ramifications of the events in Iran.

Although American sources claim that the Iranian problem will not be repeated in Saudi Arabia due to fundamental differences in the situation in the two countries, they nevertheless acknowledge that the United States felt, in view of international developments, that it must demonstrate to the Saudis its commitment to defend the kingdom against external threats. Basically, the operation is intended to deter the Soviets from exploiting the collapse of the Iranian government or taking advantage of their position in Ethiopia or their air and naval bases in Aden.

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The U.S. Government was also careful to leak the news that President al-Sadat was formally notified of the move and that he had expressed his support. The U.S. air and naval measures appear to signal a renewal of determination to secure the traditional route to India via the Arabian Gulf.

American strategists believe that the collapse of the Western-oriented government of Iran may, despite its seriousness, have some positive effects. The United States, they believe, must secure its vital interests by insuring that its oil supply line through the Gulf remains open by reconciling its interests with those of the oil producing countries in the region.

It is well known that freedom and security of navigation in the Gulf, particularly through the Hormuz Straits, was the only common denominator on which Iran, Saudi Arabia, the Gulf countries and the Western world were in agreement. But all efforts to form a common and formal security arrangement among Iran, Saudi Arabia and the other Gulf countries failed due to Arab fears of the shah's expressed ambitions for the area. These ambitions came to the fore forcefully when the newly formed Arab Emirates came into confrontation with Iran over the Tumb Islands, which were later occupied by Iran in 1971. Regardless of what ultimately happens in Iran following the present crisis, this fear will always play a sensitive role in future policies of the Gulf countries. The emergence of a militarist revolutionary regime in Iran--a likely possibility--is bound to heighten Arab anxiety about Iran's expansionist ambitions. On the other hand, the rise to power of a leftist republic will raise fears that Iran may become a base for extending leftist influence over the sources of oil and oil supply points in the Gulf region. This is in addition to all the other far-reaching ramifications of a revolutionary regime in Iran.

Aware of these possibilities, political analysts are convinced that, barring the return of the shah to power, the security of the region hinges on the emergence of a moderate government in Iran. Thus, there was a feeling of relief when Iran's Prime Minister, Dr Bakhtiar, announced that his country will no longer play the role of "policeman of the Gulf region," and that it will restrict its attention to Iran's security.

Analysts are carefully monitoring reports from Iran, particularly those dealing with the intense American efforts to prevent a rightist, military coup d'etat and the collapse of the Bakhtiar government, which is seen as a nucleus of a possible compromise leading to the establishment of a moderate government, one with which it will be possible to deal and that would not give rise to renewed fears in the area.

These reports have revealed that Gen Azdeshir Zahedi, top advisor to the shah and his ambassador in Washington, has strongly disagreed with General Huyser over Zahedi's attempt to use military hawks to convince the shah to give the green light for a military takeover and to remain in the country.

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According to Washington, General Huyser, with the aid of the shah himself, was able to keep the military hawks neutral. He also convinced the shah to leave Iran as soon as the Bakhtiar government received a vote of confidence from Iran's parliament.

Ambassador Sullivan is said to have assisted Gen Robert Huyser, a four-star Air Force general, in convincing the Iranian military establishment to remain neutral. General Huyser is the deputy commander of U.S. forces in Western Europe.

Convinced that the shah cannot remain in power without risking a civil war that would wreak havoc in the country and make it an easy prey for Soviet maneuvers, U.S. State Department analysts felt that the United States must avoid a repetition of what happened in Vietnam in 1962, when the U.S. Government gave the green light for a military uprising against its ally President Ngo Dinh Diem. That military takeover led to a period of confusion and a series of ineffective military governments in that country.

Commenting on the situation, Gen George Buis, the former president of the National Defense Institute in Paris, wrote an article in which he reviewed the U.S. strategy in the Gulf region and the Indian Ocean. The article, based on the U.S. moves in Iran, states:

"The U.S. strategy in Iran developed in three stages, all of which boil down to the fact that the security of Iran, in the view of American planners, was essential to the success of American geopolitics. The importance of Iran grew as a result of that country's strategic location, particularly as a center for communications and as a consequence of technical advances in the development of weapons systems.

"The first stage occurred during World War II when the United States, beginning in 1943, accepted the responsibility for supplying its ally, Russia, via Iran. It established what was referred to as the "Persian Gulf Command" with 30,000 troops, in addition to sending a military delegation to take control over the Iranian police by placing it under the command of General Shawarzacub, a principal pillar of U.S. intelligence.

"The second stage of the American strategy followed the end of World War II and the withdrawal of British forces from Iran, which shares a 2,600 km border with the Soviet Union. The United States was determined to make Iran a strategic protectorate in view of its location on the northern security belt against Russia, together with Turkey, Pakistan and Afghanistan. It is correct to say that the arming of the shah's army with modern weapons began at this time under the direction of a 200-man military delegation, 50 of whom were senior officers. The military delegation gradually assumed greater control over the Iranian chiefs of staff and Iranian military units.

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"The third stage is just beginning and is prompted by a desire to fill the present power vacuum."

Observers and political analysts are now trying to assess the immediate and future effects of the Iranian events on the Arab oil producing countries. Saudi Arabia occupies a prominent position in these considerations. The prevalent opinion among the analysts is that the Iranian developments will force the Gulf countries to seriously consider compulsory military service and the establishment of a workable, common security arrangement. Furthermore, they will attempt to settle border disputes in an effort to remove all obstacles to their military and internal security, particularly in the event of increased tension between the West, represented by the United States, and the Soviet Union, should a communist--leaning government assume power in Iran.

Informed sources in Riyadh told AL-WATAN AL-'ARABI that the issue of joint security in the Gulf region is now paramount and occupies the attention of senior Saudi officials. A new, high level Saudi initiative relating to the security of the Gulf region is expected to begin soon. Experts and planners are reportedly preparing for the initiative. It is expected that Crown Prince Fahd ibn 'Abd al-Aziz will head a large delegation on a preliminary tour of Gulf countries to present the details of a joint military defense plan. The tour will be followed by invitations to the heads of state of the Gulf countries to attend a summit meeting in Riyadh.

Observers in Riyadh are optimistic that the tour will successfully end border disputes and open the path for a real and complete cooperation toward a joint, military defense program. Informed sources report that the tour will include Iraq as well, since the country is considered a Gulf state and cannot be ignored in any future defense plan. Furthermore, the sources indicate, Saudi Arabia's initiative is not intended to create a narrow and parochial defense axis. The sources added that Iraq, which has so far resisted all plans for a regional military alliance that included Iran, may welcome participation in a new defense plan involving only Arab countries. The official scheduled visit by Mr 'Izzat Ibrahim, member of Iraq's Revolutionary Council and interior minister, to Riyadh in the near future will provide an opportunity to discuss security in the Gulf region and to improve the countries' bilateral relation. It is hoped that the visit will lead to wider cooperation.

The Saudi position relative to developments in Iran was explained by Prince Fahd when he announced that "his country's policy is to support any legal government in Iran." It is noteworthy in this connection that Saudi Arabia dispatched two oil carriers to help to relieve Iran's fuel shortage. The oil shipment was among the largest received by Iran from outside.

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Political observers do not expect the Soviet Union to react quickly to the dispatch of American planes to Saudi Arabia despite the fact that IZVESTIA, which speaks for the Soviet government, castigated the American move and said it was directed against the Iranian people. The Soviet paper also criticized the dispatch of the U.S. naval task force to the Gulf waters. At the same time, American observers noted an increase in the number of Soviet radio broadcasts in Farsi directed at Iran which were strongly critical of the American moves in that country.

According to reports gathered by AL-WATAN AL-'ARABI's Washington correspondent James Mora, Americans expect the dispatch of the planes to Saudi Arabia to have a direct and positive effect on the U.S. attempt to conclude a peace treaty between Egypt and Israel. It is believed that developments will convince both sides of the necessity of making all possible concessions toward the realization of a permanent settlement in the Middle East. The same quarters believe that the signing of a peace treaty will insure a secure and steady supply of oil to Israel to replace shipments from Iran, which appears bent on cutting oil supplies to Israel for the foreseeable future.

Our correspondent also learned from U.S. State Department sources that, in view of Iranian developments, they believe Israel will moderate its position and offer the necessary concessions in order to conclude a separate peace treaty with Egypt. They base their reasoning on the assumption that Israel now sorely needs peace with Egypt, perhaps more than ever before, and this despite the cost and what might appear as a political victory, aided by the U.S., for President al-Sadat. The fact is that Israel has lost a third base of support in Iran following the collapse of the shah's regime, which had a de facto alliance with Israel, one that was supportive of the shah's expansionist ambitions in the Gulf region.

This loss comes in the wake of the collapse of another base of support for Israel in Turkey. It is a known fact that in 1958 David Ben Gurion made a secret visit to Ankara to negotiate a pact with 'Adnan Menderes and his foreign minister. Fatim Zorlu directed against the threat of a resurgence of Arab nationalism. Menderes also felt threatened by the rise of Arab nationalism and saw in it a deterrent to Western influence in the area. But Menderes and his regime fell in the aftermath of the coup d'etat led by General Gursiel, and Turkey's political direction changed from one of support for Israel to seeking better relations with Arab countries. This, in turn, led to a diminution of economic ties between Turkey and Israel as well as to more restrained diplomatic relations.

Soon afterward, Israel's third base of support in Ethiopia fell. Israel had long benefitted from exploiting Emperor Haile Selassie's fears of an

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impending Arab attempt to transform the Red Sea into an Arab lake. The Israelis offered the emperor help against Somalia in exchange for a secret pact that would permit the Israeli Air Force to use Ethiopian bases to threaten Egypt's rear. But the Tel Aviv-Addis Ababa axis collapsed in 1974 following a military coup d'etat. Although the ensuing military regime initially maintained the services of Israeli trainers and military advisers, Colonel Mariam, under Soviet pressure, ordered the Israelis out of the country in March of last year, after it became evident that they were supplying the United States with intelligence on Soviet moves in that country. It is no secret that Colonel Mariam had graduated from the Harar Military College, which was established and directed by Israeli personnel during the Najashi regime.

In light of these facts which show beyond doubt that Israel has lost its last secret ally in Iran, U.S. State Department sources are convinced that Israel will lessen its intransigence and modify its plans.

Informed sources also disclose that the shah attempted to play a role in mediating the Israeli-Egyptian conflict, particularly after al-Sadat's trip to Jerusalem. Israel is said to have sent Moshe Dayan on a secret visit to Iran on the eve of Al-Sadat's trip. The purpose of his visit was to assess the shah's intentions and to find out whether he still perceived Israel as a useful instrument in diverting the Arab's wrath from Iran and its ambitions in the Gulf region. The visit also was aimed at evaluating the shah's willingness to continue his strategic cooperation with Israel.

It is reported that the shah's responses were ambiguous, perhaps as a result of his feeling that the United States has accepted Egypt as a strategic equivalent to Israel in the Middle East and particularly with respect to securing the oil network in the region. In contrast, the shah is said to have once described the Iran-Israel relationship as a genuine, but illicit, love affair.

When the Suez Canal was closed to navigation, Iran made extensive use of Israel's Eilat-Askelon pipeline to ship oil to Europe from the Mediterranean coast. The shah also opened major opportunities for Israel--as revealed recently by the Iranian opposition movement--including the military field in exchange for Israel's assistance to the shah's army in putting down resistance to his government. Israel, together with a number of the shah's close associates and members of his family, was the beneficiary of a large number of Iranian construction contracts and food delivery agreements. It is estimated that the Sulil Boneh establishment, which belongs to the Histadrut [Israel's Labor Union] received contracts in excess of \$150 million. Up to the moment when violence erupted in Iran, 1,500 Israelis, representing a variety of companies and industries, were reportedly in Iran.

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Oil played a decisive role in U.S. strategic planning in Iran and the Gulf. It is evident that the shah lost his value in the U.S. strategy when he and his huge military apparatus appeared unable to maintain the flow of oil and to end the labor strikes which threatened the safety of Americans working in the oil industry. When Washington became certain of that, it dropped the shah and began to make friendly gestures toward the opposition, represented by Bakhtiar. This was followed by an unrestrained attempt to ease the shah out and replace him with a national government.

The cutoff of Iranian oil not only threatens U.S. and Western oil supplies, but touches the U.S.-Middle East strategy in a sore and critical spot. A secure and dependable oil supply for Israel has always been a cornerstone of America's Middle East policy. America's abetting of the shah's ambitions in the Gulf region was in effect a defense of Israel's existence. Iran was producing 280 million tons of oil annually, or the equivalent of 10 percent of the world's oil supply. It occupied fourth place among the oil producing countries and supplied 60 percent of Israel's oil needs.

It has been observed that the anxiety occasioned by Prime Minister Bakhtiar's announcement confirming Khomeini's declared intention to cut off oil supplies to Israel has disappeared from Israeli official announcements. In fact, Israel's energy minister, Yitzhak Modai, recently said: "Our storage facilities are full and we have arranged for regular supplies from other quarters." Israeli officials do not say who their new suppliers are. The answer may lie in the U.S. guarantee of adequate oil supplies to Israel, or in the Suez oil fields which continue to be pillaged by Israel, or perhaps, with the aid of American intervention on Israel's behalf, through Nigeria. Possibly, too, the minister's remark refers to oil supplies from Mexico, which make up less than 5 percent of Israel's oil consumption.

It has also been disclosed that Israel attempted to obtain a share of Norway's oil supply from the North Sea fields, but Norway is understood to have turned down the Israeli proposal. Norway's share of the North Sea oil is not enough to satisfy its own demands.

Since the June 1967 war and until the 1974 disengagement agreement, Israel controlled the Egyptian Abu Rudays and Ra'as al-Sudr oil fields on the Gulf of Suez. Two oil carriers were used to transport pillaged Egyptian oil to the port of Eidat, and from there the oil was moved through the Israeli pipeline to Askelon. It is noteworthy that this pipeline was constructed with the aid of a substantial monetary assistance from the Rothschild Bank in France. It is also significant that Israel did not use the oil from the Egyptian field but exported it to Europe. When Egypt regained control of its oil fields following the disengagement agreement, the United States guaranteed Israel it would have adequate oil supplies in all circumstances. For this reason, the United States financed the construction of huge oil storage facilities, capable of supplying Israel for several months in the event of an oil cutoff.

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During this period, with aid from American and British companies, Israel expanded its oil exploration of the part of the Suez Gulf it still controlled. This operation continues in the Akka field, which supplies 10 percent of Israel's oil needs.

Egypt is expected to regain control of this field 9 months after the conclusion of a peace treaty that would return the Sinai desert to that country. It appears, however, that Israel is reviewing its position and demanding that the agreement be modified to exclude the return of the oil fields, unless Egypt agrees to let Israel operate the fields jointly, or pledge to sell it Sinai oil under a favored-nation status.

The newspaper MAARIV expressed the Israeli viewpoint when it said: "The real proof of Egypt's good intentions does not lie in the exchange of ambassadors but in assuring Israel a steady supply of Sinai oil."

Thus, it appears that the changing petroleum situation is having an effect not only on the course of Egyptian-Israeli negotiations, but on the state of American-Israeli foreign relations as well. This development requires close watching and follow-up to see where it might lead.

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NORTH AFRICAN AFFAIRS

POSSIBILITY OF IMPROVED RELATIONS AMONG NORTH AFRICAN STATES DISCUSSED

Paris MARCHES TROPICAUX ET MEDITERRANEENS in French 26 Jan 79 pp 176, 177

[Article: "Algeria, Morocco and Mauritania: From Intransigence To a Possible Compromise"]

[Text] Apparently, from the very beginning in Algiers Morocco was considered to be one of the countries which expected Algeria to lose its political balance and, maybe, to have to change its regime in a more liberal direction following the death of President Boumedienne.

As a matter of fact, during the month of December new reasons for disagreement between the two countries occurred. The affair of an arms drop at Cape Sigli in Algeria, during the night of 10 to 11 December, which had remained relatively unpublicized, provoked a sharp exchange of violent mutual accusations between Algiers and Rabat, which went on for about a fortnight. And on 26 December, unofficial Algerian information called attention, with particular emphasis, to the call from the National Rally of Independents, a political group presided over by the prime minister of Morocco, asking the Moroccans to face "the expansionist designs of the rulers in Algiers."

Solidarity With Mourning Algeria

Occurring at this time, the death of President Boumedienne, however, did produce expressions of condolence, most frequently accompanied by pacifying formulas, on the part of the political groups and their press organs.

Following a lengthy reminder of "the decisive action" taken by President Boumedienne for the liberation of the Maghreb, the secretary general of the Istiqlal, Mr M'hamed Boucetta, who is also minister of foreign affairs, expressed his sympathy and "profoundly hopes that brotherhood and solidarity may always be the rules of our action, as they have been in the past, for the greater happiness of the people of the united Greater Maghreb."

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The secretary general of the Moroccan Popular Movement, Mr Mahjoubi Aherdane, hoped that God "will guide the two countries toward everything which is likely to consolidate and to reinforce their solidarity and their brotherhood, and to ensure them glory and greatness."

AL-MAGHRIB, the journal of the National Rally of Independents, believed that the event "should incite Moroccans and Algerians to consider only the ideal to which these two people aspire"; it added in a more ambiguous way: "It is more than ever necessary to examine one's conscience, however painful this may be."

The legal opposition on this occasion adopted a similar attitude to that of the government parties.

In addition, the USFP [Socialist Union of People's Forces] has recently held its congress (8-10 December), during which only a few young militants, who claim to be supporters of the exiled "Fqih" Mohammed Basri, criticized the party, which they considered not to be radical enough. As for the secretary general, Mr Abderrahim Bouabid, he did not fail to assert, primarily for the sake of the foreign delegations, that the Sahrawi claim is without any foundation, and that there will never be any question of giving up the slightest parcel of national soil. On the contrary, in the written report intended for those who attended the congress, the secretary general of the USFP reproached the government leaders for being insufficiently pugnacious. "If Morocco has not yet perfected its territorial unity," he wrote, "and continues to face the problem of the Sahara (...) it is because the governments of our country have rejected and continue to reject the global strategy of liberation which our party has proposed: to respond to the offensive by an offensive in all areas, political, diplomatic and military." Thus he entreated the government "to abandon their halting and wait-and-see policy ... a direct consequence of the anti-popular and anti-democratic options which have been chosen for the last 20 years."

Further, the USFP journal, AL-MUHARRIR, did not fail to add a few wishes to its expressions of condolence, which appeared to infer certain difficulties in Algiers: "We sincerely hope that our Algerian brothers will be able to overcome the problems they are currently facing. We have the eager hope that the succession will take place in a healthy manner and by democratic means." (28 December).

The Algerian press published, with an appreciable delay, a long telegram of condolence, presented as coming from "the USFP and the Veterans and Resistance members of the Moroccan liberation army, living in Algeria." This document praised the battles fought by the deceased in favor of "just causes, especially the Palestine cause," his actions "in favor of the unity of the Arabian Maghreb," his "firm support ... for the liberation movements in Africa, in Asia and in Latin America," etc..., without any reference to the Sahrawi question; it ended with the promise to continue "the struggle for the Arab cause and the unity of the Maghreb."

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"Fqih" Mohammed Basri, and several leaders of the Moroccan underground opposition "in exile," attended the national funeral of President Boumedienne. But the excerpts from condolence telegrams from the illegal Moroccan movements, published in the Algerian press, were scarcely in contrast to the content of the messages from the legal opposition. The Union of Moroccan Revolutionary Forces referred to the example provided by the deceased in "the struggle ... for the freedom of man." The 23 March Movement recalled his efforts "in the struggle against colonialism, imperialism and reaction." The message from the Moroccan Unitarian Socialist Rally is described by the Algerian press as "written in the same spirit."

Rabat On Maghrebian Affairs

However, Moroccan radio adopted a less discreet attitude toward Algeria than the legal parties. Indeed, its political commentator felt it necessary to add a kind of warning to the attestations and wishes of "solidarity, understanding and cooperation."

As a matter of fact, the hope is thus expressed that the new Algerian leaders will opt for a policy capable of solving "the heavy legacy of accumulated mistakes due to bad appraisals" of the situation in the region. It is thus hoped that "the new leaders will use a different road from that used by their predecessors" to get the Arabian Maghreb out of the impasse it got "bogged down in during a period which we hope is gone for good."

The royal government nonetheless decided to be represented at the funeral of President Boumedienne by a high level delegation, to be headed by the prime minister, Mr Ahmed Osman. But Algeria refused to receive this delegation. This gesture is resented all the more in Rabat because, on the other hand, a warm welcome was reserved in Algiers for the Mauritanian delegation, which was received without any objection in spite of the already long standing break in diplomatic relations between Algiers and Nouakchott.

King Hassan did not hide his disappointment; he recalled that a meeting had been planned between President Boumedienne and himself, in a neutral country, and he expressed the opinion that the leaders in Algiers are divided into "doves" and "hawks," and that the latter are prevailing at the present time.

Moreover, the determination of the Moroccan government was confirmed by the nomination, on 2 January, of a secretary of state for Saharian affairs, himself a native of that territory. He was Mr Khalil Hanna Ould Rachid. Born in 1942, Mr Ould Rachid was, until May 1975, secretary general of the Party of Saharan National Unity, the only party authorized by the Spanish authorities. Having thrown in his lot with Morocco three-and-a-half years ago, he was already a member of the Rabat government as secretary of state to the prime minister, from April until October 1977.

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On 6 January, Mr M'hamed Boucetta went to Nouakchott and gave the head of the Mauritanian state a message from King Hassan. The next day, his party's journal, AL-'ALAM, printed in Arabic, published an editorial, the restrained tone of which was noticed: "Morocco would like to forget the past and to open a new page with Algeria. On the other hand, Algeria longs for new horizons, devoid of complications, in order to allow it to get out of a difficult power crisis. Moreover, both countries are aware of the seriousness of the internal problems which condition their economic and social development. If Morocco is currently extending its hand, as has been demonstrated by the recent statements made by King Hassan II and the projected meeting between the sovereign and President Boumedienne, the other hand should also be extended so that together we might open the door of hope for new fruitful relations."

Mauritania Favors Peace

If Rabat still wants to put some hope in a hypothetical change in Algeria, they cannot fail to note the development in the Mauritanian policy. Since his accession to power last July, Colonel Mustafa Ould Mohammed Saleck has adopted a carefully nuanced attitude: he gives the impression of sincerely looking for a solution, but sometimes he seems to be procrastinating: to him a compromise probably seems just as timely as it is hard to define.

However, in December various indications of the non-alignment of Nouakchott with Rabat came to light. During an interview with the periodical DEMAIN L'AFRIQUE (1 December), Colonel Ould Saleck confirmed his numerous talks with the leaders of the neighboring countries, including Algeria; with regard to the Moroccan troops, he stated that due to the new situation created on 10 July, arrangements "are being made...; as circumstances prove that the presence of these troops on our soil is no longer necessary, they will be repatriated to the last man."

On the other hand, a de facto interruption of the meetings with emissaries from the Polisario Front is not seen in Nouakchott as implying any renunciation of such contacts; EL MOUDJAHID (11 December) believes to be able to state that those contacts have been resumed.

In his cable of condolences, on 27 December, to Mr Rabah Bitat, Colonel Ould Saleck expressed the hope that "the Algerian people will contribute in a determining manner to the strengthening of the brotherly entente with the other countries of our Arabian Maghreb." The Mauritanian minister of foreign affairs, Cheikna Ould Mohammed Laghdaf led the delegation which attended the funeral of the president.

Since the beginning of 1979, signs of the Mauritanian change have multiplied. On 1 January, in his message to the nation, the head of the Mauritanian state declared that "if a global agreement remains impracticable, all the measures necessary to definitively end the war" will be taken.

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On 2 January, the minister of information announced that Mauritania intends "to reestablish friendly and brotherly relations with Algeria." He denied that the sending of a Mauritanian delegation to the funeral of President Boumedienne had been coordinated with Morocco.

On 4 January, thanking the head of the Mauritanian state for his various expressions of sympathy, Mr Rabah Bitat stated that they represented a sign of the sincerity of the "dynamics of peace" which were inaugurated on 10 July, and assured him that "as soon as this problem has been settled correctly, he will find in Algeria a country open to the vast promises of a daring policy of brotherhood, cooperation and neighborliness."

After having let it be understood that Mauritania would be in favor of a referendum in that part of the Western Sahara which is under its control, and having declared that in case of an obstruction "Mauritania is determined to settle the question of the Sahara at its level," Colonel Mustafa Ould Mohammed Saleck assured JEUNE AFRIQUE (13 January) that "the totality of Moroccan troops will leave Mauritania before the end of March." However, the Polisario Front, which is pursuing a global solution, has reacted negatively to the Mauritanian suggestion of a partial referendum.

As for Morocco, it has declared itself in favor of a solution within the framework of the OAU, which both Algeria and the Polisario Front look upon with distrust, because they feel that the current president of the OAU, General Nimeiry, leans toward the Moroccan theses and could direct the up to now rather formal activities of the Special Committee, set up by that organization to look into the problem, in that direction.

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ALGERIA

COOPERATION WITH FRANCE DISCUSSED

Contract With TECHNIP-ENI

Paris MARCHES TROPICAUX ET MEDITERRANEENS in French 26 Jan 79 p 181

[Text] On 19 January, Algeria entrusted a Franco-Italian consortium, composed of TECHNIP [expansion unknown] and of SNAM-PROGETTI-FRANCE [expansion unknown], a subsidiary of the Italian group ENI [National Hydrocarbons Agency], with the equipping of the installation for the liquification of natural gas in the third Arzew plant, with an annual capacity of 15.75 billion cubic meters.

The new liquification complex at Arzew, known as "GNL 3," will include nine liquification lines, each of which will have a capacity of 1.75 billion cubic meters per year. As of the end of 1982 it will also produce 580,000 tons of propane and 450,000 tons of butane per year. In 1972 the French TECHNIP company had built the liquification plant at Skikda.

It is the first time in 2 years that such an important contract, valued at a billion dollars, was signed by a national Algerian company and a French company.

The contracts, signed in Algiers between SONATRACH [National Company for the Transport and Marketing of Hydrocarbons] and the Franco-Italian consortium TECHNIP-ENI, bear upon the equipping and financing of the nine liquification chains of the Arzew plant, the general construction of which had been entrusted several months ago to the American Foster Wheeler Corporation.

The first contract, amounting to 356 million French francs, deals with the engineering and the furnishing of the nine exchangers of the Arzew plant, the third and most important of its kind to be built in this industrial sector.

The second contract deals with the financing of the liquification installations of the plant and with other French goods and services. It involves 2.5 billion francs in the form of buyer's credit and 400 million dollars in the form of free credit. These two credits will be granted by two banking consortia, the first one headed by the Bank of Paris and of the

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Netherlands for the buyer's credit, the second by the National Bank of Paris.

The signing of these contracts, which brought an end to a close competition between a French process and an American one, occurred a few weeks after the American authorities confirmed the cancellation of two important contracts to buy Algerian liquified natural gas by the American companies Tenneco and El Paso.

Cooperation With French Company

Paris MARCHES TROPICAUX ET MEDITERRANEENS in French 26 Jan 79 p 181

[Text] The EDF [French Electric Company] announced that "Gaz de France" and SONATRACH recently signed important technical cooperation contracts in Arzew, related to the liquification complexes of Skikda and Arzew. These contracts are to be seen within the context of the protocol, which was signed by both companies on 25 April 1978, to promote a long term cooperation which is to concretize their common and respective interests in the area of liquified natural gas.

The agreement makes special provision for putting 100 engineers, staff and technicians at the disposal of Algeria to ensure the maintenance of the natural gas liquification plants in Skikda and Arzew.

Space Cooperation With France

Paris MARCHES TROPICAUX ET MEDITERRANEENS in French 26 Jan 79 p 181

[Text] The beginning of space cooperation between Algeria and France was the main theme of the activities during the two study days "on the field of application and perspectives of the French space program," which opened on 16 January in Algiers.

This meeting was organized jointly by the Algerian Ministry of Posts and Telecommunications and the French National Center for Space Studies, with the cooperation of the French embassy in Algiers.

During this meeting, the organizers made a proposal to inform possible Algerian users (ministers, national companies, research centers) of the usefulness of space methods in various areas and to indicate the possibilities of French space technology for solving problems of all kinds (telecommunications, but also meteorological information and agricultural and geological surveys) which Algeria is faced with.

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ALGERIA

REPORT ON URANIUM ACTIVITIES IN THE HOGGAR

Paris MARCHES TROPICAUX ET MEDITERRANEENS in French 2 Feb 79 p 245

[Article: "Uranium From the Hoggar: 'Tractionel' and 'Union Minière' Associated in Studying its Exploitation"]

[Text] In its "Informations 1978," the Belgian company Tractionel reports on the activities of SONAREM [National Mining Corporation and Exploitation Company of Algeria] and on the research it has entrusted to the Tractionel-Union minière association. We are recapitulating here the essential data involved.

SONAREM carried out a very thorough search campaign in the region of the Hoggar, where traces of uranium had been discovered, and its geologists thus established the existence of mineral zones in Timgaouine and Abankor, 250 km South-West of Tamanrasset and 2,000 km South of Algiers.

These mineral zones are connected to the whole of the uranium mineralization of the African shield, which outcrops in the center of the Sahara. They are currently the object of either intensive exploration or exploitations, such as for example:

- the mines of SOMAIR [Air Region Mining Company] in Arlit and of COMINAK [Akouta Mining Company] in Akokan, in the Air region (Niger);
- the exploration in the Djaddo and the Irhazer mountains (Niger), the Tibesti mountains (Chad) and the Hoggar (Algeria).

As the existence of the mineral zones of Timgaouine and Abankor had thus been established, SONAREM entrusted the study of their exploitation to the temporary Tractionel-Union minière association. The Union minière has been associated with this project, primarily taking into account its experience in the area of processing through lixiviation.

The objective of the study was to define and select the main variants for the exploitation of the deposits and for uranium production (U 308).

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This implied the identification of the means to be applied to make the most efficient and the most rational use of the natural, human and financial resources. However, this type of study does not imply, at this stage, an exhaustive analysis of all the components of the project.

It covered the following technical aspects: geology and computation of the reserves; mining; processing of the ore; general industrial services; safety with regard to radiation.

Moreover, certain elements have been added to these traditional elements of mining, the importance of which is increased by the very difficult local conditions. In effect, it is a matter of building an industrial complex in the very heart of the Sahara. Consequently, the problems of water supply (search for potential sources, lay out of pipes), of transportation (construction and exploitation, in terms of materials as well as personnel) and of housing for the workers had to be carefully examined.

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ALGERIA

CONTACTS ABROAD CONCERNING HOUSING CONSTRUCTION

Paris MARCHES TROPICAUX ET MEDITERRANEENS in French 2 Feb 79 p 245

[Article: "Construction: Talks With France, the USSR and Hungary"]

[Text] On 21 January, Algeria opened talks simultaneously with France, the USSR and Hungary concerning the implementation of its program of housing construction.

A French government delegation, led by Mr Bloch, director of economic affairs in the Ministry of Environment and Living Conditions, went to Algiers to get to know the needs of Algeria in terms of housing. The delegation, together with the relevant authorities, was to set up a program of cooperation between the French and the Algerian companies, specifically the legal framework and the financing conditions for the projects which are to be achieved jointly.

After having met with those in charge of the BAD [Algerian Development Bank] and of the CPA [Crédit populaire d'Algérie; People's Credit Bank of Algeria], the French delegation met with the Algerian minister of housing and construction, Mr Abdelmajid Aouchiche. It was also expected that talks would be held with the leaders of the Algerian construction companies.

On the other hand, the Algerian-Soviet talks on cooperation between the two countries in matters of city planning and housing were started in Algiers. These talks deal with Soviet participation in the construction of several thousand dwellings in Algeria and the acquisition by the latter of heavy prefabrication units. Finally, together with Algerian officials, a Hungarian delegation is currently in the process of putting the finishing touches on the establishment of a mixed Algerian-Hungarian group for the construction of 2500 dwellings in Annaba, in the extreme Eastern part of the country.

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EGYPT

EGYPTIAN DISSATISFACTION WITH QUALITY OF LIFE DISCUSSED

Paris AL-WATAN AL-'ARABI in Arabic 18 Jan 79 pp 30-23

[Article: "The Open Economy Policy Makes Life Difficult for the Common Man"]

[Text] Egypt's ordinary citizens are beginning to awaken from the illusion created by the government's press and information media. The illusion that raised expectations of dollars, gold, silver, plentiful food and honey raining down from the sky rested on the condition that Egypt tow the American line in its internal, foreign and economic policies with the Arab world. People are rudely awakening to the fact that the dream, which has lasted more than a year now, has only led to exorbitant jumps in consumer prices and given rise to a flourishing black market.

Observers who closely monitor the food situation and the political scene unanimously believe that silence is no longer possible in the face of repeated frustration, systematic hunger and a stream of governmental policies and measures that are creating an ever widening gap between the wealthy and the poor majority of Egyptians.

This is the cry emanating from the masses of the poor and the hungry in Egypt's hinterland. They are marching in the streets in great numbers, obscuring the sun. The crowds are frightening and give the feeling that one is witnessing the resurrection of the dead and the day of judgment.

Crowds are everywhere--in front of consumer cooperatives, on bus and streetcar platforms, and in government ministries and offices. The crowds are inside and outside the buildings. Their problems defy enumeration. All the while the government's bureaucracy extends its arms in every direction like an octopus, adding to the confusion of the crowds who aimlessly roam the corridors of government buildings. They submit their applications and complaints to employees who have no answers and who themselves are drowning in the sea of daily misery. The common man is up to his neck in social and economic problems. Even the task of obtaining basic food commodities has become a nightmare. There are critical shortages

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of bread, tea, sugar, staples and clothing. Prices are rising in a frightening, hysterical manner. Unemployment is spreading. Small shops are closing. Egypt's educated and professional people are leaving the country seeking work, any work, anywhere under the sun. They can no longer survive in a land in which freedom has vanished, intellectual suppression has become the order of the day, democracy has been suffocated and propaganda and distortion are touted as the truth. They leave because they are denied an opportunity to participate in the decision-making process, even on matters of such national import as the Zionist occupation. They are denied an opportunity to help solve their country's problems and raise the masses' standard of living, the same masses which, for lack of space inside, ride on the roofs of buses and hang from the windows. Everything in Egypt's main street shouts out; silence is no longer possible.

People have become fed up with life. The majority of Egyptians are tired of living on the edge of poverty. They are tired of waiting everywhere. Life in Cairo has become a grinding mill. It grinds bodies with little flesh, sometimes skeletons. Their cries are filling the air and getting louder. They are drowning out the street noises. They remind us that silence is no longer possible.

As the tortured Cairene crowds wait on the sidewalks for buses to take them to work they begin to complain, in whispers at first and in small groups, but soon the complaints envelope the entire crowd. The same story is repeated throughout Egypt.

What are the complaints of Egyptian citizens, the laborers, the peasants, the educated class, the soldiers and the professionals? These are the people who make up the poor working class and who inhabit the crowded neighborhoods of Cairo: Husayn, al-Sayiddah Zaynab, Bulaq, Shabra, al-Dorb al-Ahmar and others. These are the people who often leave the countryside for the big city, Cairo, looking for work. They come to live with their relatives in overcrowded Cairo. Those who cannot find a place to live settle for tents, public parks or set up tin huts along the thoroughfares. They often forcibly seize the materials for building their huts while the police watch as an expression of defiance and protest against daily deprivation and hunger. These are our countrymen. Precisely what are their problems, and what do they say? Who is responsible for this desolation that has become characteristic of life in our capital city?

As one walks down the street one is engulfed in a sea of bodies and noise from the horns of public and private cars. One collides with others as one vainly tries to make out the street signs. One is totally absorbed in the crowds and their sighs. In the midst of this jostling one experiences firsthand the suffering of a whole people searching for its daily sustenance. Weary heads hang on twisted bodies everywhere. Anger swells

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within you as you stumble over sewerlines that have broken and turned into cesspools. You watch in bewilderment as streetcar cables come loose from the powerline above and the streetcar comes to a dead stop. You curse while you wait for help to arrive. Everyone curses: the believers and nonbelievers. Transportation officials also curse, and cursing becomes a unifying litany. Those who do not curse are suspected of being responsible for the problem, for silence is no longer possible.

Prices rise hysterically. The prices of meat, vegetables and most staples are skyrocketing. How did things deteriorate to this point? Even the most level-headed people are outraged by the unprecedented rise in food prices. The effect of the retreat by the government from raising prices last year, following the events of 18 and 19 January, disappeared in 1978. Statistics show that prices rose by 59.5 percent between May 1977 and March 1978. The rise is unprecedented and surpasses increases in wages and income. The increase has brought the situation back to the 18 and 19 January 1977 level and perhaps worse. People wonder how the government can permit this to happen, especially in the face of evidence that the lack of equilibrium between wages and prices is a sure sign that the standard of living is dropping. Some are wondering whether the government is not attempting to better the economic situation by deliberately lowering the standard of living.

Government statistics show that prices rose by 11.6 percent in 1976. This, figure varied from one commodity to another and from city to city. In Cairo, the average increase was 13 percent, while in the Canal zone it was closer to 9 percent. The price of beverages went up 41 percent, while vegetables and dairy products went up 18 and 16 percent, respectively. Meat and fish prices rose by 10 percent. The cost of medical, cultural and social services went up 26 percent in 1 year. The price of furniture increased by 15 percent and transportation by 6.5 percent.

Statistics from the same source indicate that the prices of meat, eggs and fish increased more than three times between 1967 and 1976, and that they are now double the 1973 figures.

Why do prices rise, and what is the connection between the price spiral and the so-called open economy policy? Are the increases inescapable and represent the higher cost of imported goods, as the press would have us believe, or are they the result of a deliberate, domestic economic policy? Also, why did prices increase gradually in the past while they rise in jumps now?

Dr Fu'ad Marsi, professor of economics and former minister of supply, said in an interview published on 29 March in AL-AHALI that "until October 1973, there was no price spiral similar to today's." "There was," according to him, "a supply problem, specifically a scarcity of certain items, that gave rise to a black market. Inflated prices were tied to a few items, and the phenomenon was only temporary."

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After the October war price increases began in earnest when the government itself raised the prices of tea, sugar, oil, rice and other food items. Included in the price hike were gasoline, kerosene, natural and bottled gas. The primary reason behind the price spiral, however, is the open economy policy, which removed all price restrictions and gave free play to the principle of supply and demand. This economic principle, however, is not evenhanded and is subject to manipulation by the more powerful entrepreneurs, namely importers and businessmen. The prices of items in great demand were raised to a point where only the wealthy could afford to buy them. Many of these items were not permitted into the country earlier or allowed to enter in limited quantities. These were mostly high-profit items and this fact attracted a larger number of people into the import business. Thus, what started as an open economy has deteriorated into an uninhibited, consumer-oriented, profiteering economy.

Left-leaning economists such as Dr Marsi are therefore critical of the government for not taking measures to safeguard against an inflationary price spiral at the time import restrictions were lifted. They believe that something should have been done to protect Egypt against the rampaging price spiral being experienced throughout the world. Another view expressed by this group of economists is that the lifting of import restrictions should have excluded luxury items, which are affordable only to a small class. They thus blame the government's policy for having exacerbated the country's trade deficit. Another negative outcome of the open economy policy, according to this group, is that it has caused the diversion of huge sums of money to real estate, creating massive increases in the prices of land and buildings. The upshot of the government's policy is that it gave rise to a profit-seeking class of people who cooperate with foreign, capital-rich interests to the exclusion of domestic industry and development. This class is concerned solely with imports--luxury items--and sells to the highest bidder. While the masses struggle painfully to secure the basic necessities of food, clothing, shelter and standing room on the buses, luxury cars fill the streets and high-rise buildings go up everywhere. Meanwhile, brokerage fees and sales commissions continue to rise. According to Cairo newspapers, 2 billion pounds in fees and commissions went to senior government officials. Smuggling has become widespread, and the black market pumps huge tax-exempt profits into the pockets of a few.

Back to the common man in Cairo. What does he say and think? Perhaps the best answer to this oft-repeated question is best found in an impromptu conversation that we overheard among a group of men and women in the al-Sayyidah Zaynab neighborhood. We have recorded the conversation literally and pass it on to the reader at this point. The conversation provides direct evidence of the frustration of the masses and bears the character of the rumblings that precede explosions.

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Lady to her neighbor: No one fears anything anymore!

Man: Fear whom? I tell you the whole world is ready to go to hell. They don't give a damn. They prefer to go to jail. Jail is better. They have food, a place to sleep and their needs are taken care of.

Lady: And those prices?

Man: The dirty sons of bitches. Don't mention prices. How could they be any higher?

Lady: Look at eggs. How many eggs does a human being need? Tell me, how many eggs does a person need when he eats eggs?

Man: Families need at least 5 or 6 eggs daily. Families eat like sons of (expletive omitted).

Lady: My family has only one egg. I only have two egg-laying hens.

Man: Because you have two hens it doesn't mean you don't need eggs for your children. How can you buy them when an egg sells for 3 piasters? Then how could you afford to buy enough eggs for everyone in your family? You don't have the [government's] treasury under your control.

Lady: I once had 7 hens.

Man: We used to say the revolution would bring us justice.

Lady: One of my hens died.

Man: They told us each worker would have a television set, a refrigerator and a car. Just to think of the worker having his own car!

Lady (licking her lips): Why, is this true outside Egypt?

Man: But, what happened?

Lady: What happened is that their promises evaporated in thin air.

Man: If they would only lower the cost of living. We don't need cars or any of those other things.

Lady: Mister, do you know the street sweeper who works for the city?

Man: The sons of (.....) should give him a suit of clothing. He works barefoot for them.

Lady: His clothes are all patched up. He's going to step on a piece of glass one of these days. He looks so ragged. It is unbecoming for one who works for the city. But look at something else. Look at the hospital.

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When you enter the hospital, you find it filthy. Nurses wear patched uniforms. I swear on the Koran that when I entered the hospital the nurse came and collected five piasters from each patient. "Why?" we asked her. "To buy a broom," she answered. Can you believe it?

Man: Which hospital was it lady?

Lady: Al-Munirah Hospital, the one that used to be named King Fu'ad I hospital. I swear by the Prophet that the nurse came and collected three piasters a few days later. "Why?" we asked. We protested that she had collected 5 piasters a few days earlier. "We have to buy a mop," she said.

Now, tell me, should the patient buy these items? I asked. "Yes," she said. "What can we do? Nobody buys us anything. If we don't collect from the patients, we can never buy these things."

No commentary is needed. These are the voices of people whose views do not appear in al-Sadat's press. These are the voices which will soon drown out the radio broadcasts that call for patience and make more promises. These are voices of a deep hurt ready to erupt.

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KUWAIT

CANADIAN FIRM PLANS DRUG MANUFACTURING, MARKETING IN COUNTRY

London THE MIDDLE EAST in English Feb 79 p 94

[Article by Marilyn Mirabelli]

[Text]

Middle East investors have gained a firm foothold in Canada, with the acquisition of interests in the generic drug industry.

Gulf International Group of Kuwait, a conglomerate controlled by the Kuwaiti royal family with interests in real estate, textiles, fishing fleets, mining and poultry farming, first acquired Sands Pharmaceuticals of Toronto for an undisclosed sum a little over a year ago.

The company has remained Canadian, operating on a joint venture basis in the Middle East with 28-year-old Shaikh Hamad Sabah al-Ahmad al-Sabah, nephew of the Kuwaiti Emir, as its chief shareholder. Now plans are under study for developing drug manufacturing facilities in Kuwait.

Generic drugs are basic chemical compounds not covered by patent or current patent applications. Basic penicillin is now a generic drug because the original patent has expired and any drug manufacturer can produce the chemical penicillin. Multi-national drug companies affix a brand name

to their penicillin, adding marketing costs to the price of the drug. Generic drug manufacturers produce the same chemical but sell it differently. Generic drugs are cheaper and are commonly called "no-frills drugs" or "copy cat drugs".

Shaikh Hamad is concerned about the quality and cost of drugs sold in the Middle East by multinational pharmaceutical companies. According to Grant Lewington, the Canadian President of Sands, drugs in the Middle East are prohibitively expensive. "The major drug companies are charging too much," he said, "and our Kuwaiti owners want to put a stop to this."

Sands will begin marketing its line of generic drugs in Kuwait and in Sudan, where they have been registered, but the company intends eventually to run a worldwide operation with emphasis on the Middle East, Lewington said.

"At first we'll make the drugs in Toronto and build packaging facilities in Kuwait. In the interim we'll train Kuwaiti technicians here. Then we'll start transferring single compo-

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ment manufacturing, which is fairly easy, over there. Then gradually we'll get more complex. Our plan is to phase in total production in Kuwait."

The plant in Kuwait will have export capabilities but all research and development will continue to take place in Canada.

Sand's technical director is Rehmat Shaikh, who was a 10% shareholder in the company before the Gulf International purchase. Shaikh, an immigrant from Pakistan, started Sands with his brother-in-law, Kummy Shaikh, in 1971 and it was the two men's initials - S and S - which gave rise to the name "Sands".

Sands recorded sales worth \$C1.5mn (about \$1.26mn) in 1977. Now Lewington is projecting sales of \$C15mn by August 1979. "We intend to be doing \$C100mn worth of business 10 years from now," he added, stressing that this is a very reasonable figure.

Plans have already been drawn up for the plant which is to be erected in Kuwait this year. The plant, designed by Stone and Webster of Toronto will be built to Canadian specifications for drug manufacture as set out in the Canada Food and Drugs Act.

According to Lewington it is precisely these terms and conditions of manufacture that attracted the Gulf International Group to invest in Canadian pharmaceuticals in the first place since Canada has one of the toughest drug regulatory bodies in the world.

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MOROCCO

MAGAZINE REPORTS MOROCCAN ATTITUDES ON ALGERIA, POLISARIO

Paris JEUNE AFRIQUE in French 28 Feb 79 pp 25-26 LD

[Report by Abdelaziz Dahmani and Mohamed Selhami: "Small Steps to Peace?"]

[Text] Sahara...capital Paris. Overlooking for a while his reservations about the role played by France, Morocco's King Hassan II came to discuss the Saharan affair with French President Valery Giscard d'Estaing.

It was a private visit by the king...but this did not prevent the French president and his royal guest from meeting four times, including two long tete-a-tete conversations from Thursday 15 through Monday 19 February. This last audience was not planned, and it did not fail to arouse wild hopes which soon faded: "Contact has been established with Algiers," a member of the Moroccan delegation asserted, his face beaming. What a contrast with the king's severe countenance!

Ingratitude

For this visit to France Hassan II was accompanied by all the important Moroccan personalities connected with the Saharan affair: Foreign Minister M'hamed Boucetta, Ridha Guedira, private secretary in charge of the case at the royal palace, Major Colonel Ahmed Dlimi, Secretary of State for the Interior Driss Basri and some top army officers, including Colonels Bernissi, Bennani, Elkabaj, Doukali.... Another officer, "on a visit to Paris for health reasons," Major Colonel Loubaris who commands the African Intervention Force in Zaire, joined in the talks.

The statements one of these officers made to JEUNE AFRIQUE, partially confirmed by a minister, illustrate the Moroccan leaders' state of mind. "Morocco has always come forward when it has been a question of helping a pro-Western moderate country to assert its personality or its independence. We did our duty when it was a case of defending Zaire's territorial integrity, receiving the shah of Iran in place of the United States and receiving Anwar al-Sadat on his return from Washington after the Camp David agreements. Yet we had reservations about the situations in Zaire and Iran and the separate agreement between Israel and Egypt, but we kept our promises

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out of solidarity because we believe we belong to a club and not a clan. But in return we are rewarded with a certain ingratitude. Western arms are meted out to us parcimoniously and are tied to awkward agreements, whereas on the other side no pains are spared with the quality and quantity of supplies. This discrimination is combined with a number of deliberate trips...." The tone used by this officer confirmed the impression that the army is speaking up and that it is consulted more and more frequently now that the final scene is drawing near. The recent operation against Tan-Tan accelerated this movement somewhat. "It was a painful but... salutary...moment for us," another officer told us. "We took this operation (by the Polisario) against Tan-Tan like a slap in the face. It made us aware of the imminence of a great danger. Whatever the cost we must check this decline, which Algeria has not failed to exploit against us on the political and diplomatic fronts. Right now we are once again prepared to face all challenges, even if we must fight alone." We were assured that these remarks all reflect fairly well what the king told the French president.

However, it looks as if the scales are more heavily weighted toward peace between Algeria and Morocco than toward war. Why? The new Algerian President Chadli Bendjedid inspires the Moroccans with confidence: "He is a wise man who respects good-neighborliness. All the time he was military commander of the Oran area there were no incidents in this region. It was not until he was summoned to Algiers that bombs were planted to provoke us at Oujda (Morocco) and in return there were attempted explosions at Marnia, near Oran...."

These same Moroccan leaders interpret as a good sign the fact that, long before he appointed his first government, Chadli Bendjedid insisted on receiving King Khalid's special envoy Minister of State Ibrahim Mas'ud and Ivory Coast President Houphet-Boigny's emissary Dr Berrah, who, according to the Moroccans, were peace envoys. Moreover the Ivory Coast is preparing to receive Hassan II....

In recent days the Moroccan king has hinted clearly on several occasions that he would like to start direct talks with the new Algerian president, after the missed rendezvous with Houari Boumediene...despite 8 months of painstaking preparations. This abortive rendezvous has moreover provoked a strange controversy.

Algerian Foreign Minister Abdelaziz Bouteflika has in fact declared, in reply to a message from his Moroccan colleague M'hamed Boucetta: "This meeting did not take place not because of President Houari Boumediene's state of health but rather because of disagreements not only over the Western Sahara issue but also over the Middle East and the Palestinian problem."

"That is untrue!" Ridha Guedira, discreet negotiator behind this interview which almost took place in Brussels, retorted. "Preparations for this

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summit predated Anwar al-Sadat's stopover in Rabat after Camp David. That did not stop our secret consultations with Algiers. To try to portray us in conflict with the Palestinian people's just cause is a piece of pure propaganda."

Abdelaziz Bouteflika also expressed his "disappointment" that "Morocco is not sizing up the situation correctly" in "continuing to confer on the Saharan affair--a decolonization problem--the character of a bilateral quarrel," whereas "Algeria affirms most solemnly that it has no quarrel with Morocco and that it deeply longs to have better relations with it...." One notes a slight improvement compared with the fiery exchanges before the FLN congress in January.

And what about the Polisario in all this? A large Saharan delegation was in Paris at the same time as King Hassan II, at the PCF's invitation. It included Polisario Deputy Secretary General Bachir Mustafa Sayed, Politburo member Omar Mansour and Saharan Democratic Arab Republic Advisory Minister Mohamed Sidati. We asked the Moroccans and the Saharans the same question: "Did you meet?" Their faces showed neither assent nor denial.

Failing proof to the contrary, the solutions which could have been envisaged during this royal visit are nothing new. The monarch and the French president reportedly tackled separately two vital points: recognition of the Polisario and protection of territorial integrity.

The Moroccan position is well known: "Yes to the Polisario if it will settle elsewhere...." There is growing talks of a kind of "federalism" for certain Mauritanian regions, similar to that which President Valery Giscard d'Estaing proposes...for Chad.

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SULTANATE OF OMAN

DHOFAR OIL FINDS BRING NEW DEVELOPMENT

London THE MIDDLE EAST in English Feb 79 pp 78-80

[Text] The economic climate is changing in Oman. Fresh oil finds in the south are raising hopes for future income, while, at the same time, the private sector is coming to terms with the consequences of planning. These are the conclusions drawn by our Dubai correspondent, Ann Fyfe, who visited Oman to check up on the \$800mm development of the Dhofar oilfields and infrastructure.

Oman's biggest single investment in history, the \$400mm development of the Dhofar oilfields, was originally planned to compensate for the declining output of the existing fields in the north and centre of the country.

But in the autumn of last year the Omani oil company Petroleum Development Oman (PDO) announced that new discoveries in the south mean that output estimates for the region had been doubled to 60,000 barrels a day (b/d). And at the turn of the year PDO told *The Middle East* that even the higher figure is no longer considered final and that the oil search is to be intensified in 1979.

Ministry of Finance sources now say, as a result, that the southern oil finds will go beyond compensating for shrinking revenue and will, in fact, permit a real increase in income estimates when the next five-year plan is drawn up.

It has long been known that oil, although heavy, exists in Dhofar, but it was not until last year that discoveries were made at Amal and Marmul. These were made possible by a combination of changing oil economics (since the 1973-74 oil price rises) and a PDO-Government agreement reached in the spring of 1978 which allowed for faster depreciation of the country's oil reserves.

Initial finds in Dhofar, revealing crude with a density of 15-20° API, were not particularly attractive, but nevertheless, potential output was estimated at 30,000 b/d. Then, in August, wells drilled north and south of Marmul at Rahab and Qaharir revealed lighter, 30° API accumulations and indicated that the Marmul structure could yield considerably more than originally thought.

Since then further finds have stimulated even more enthusiasm, which is why prospecting is to be stepped up. At the moment, according to the most optimistic projections, the decline in oil output - with pro-

duction standing at 310,000 b/d in mid-December 1978, down from an average of 319,000 b/d in the first half of the year and 340,160 b/d in 1977 - should be reversed, bringing production up to around 400,000 b/d in the mid-1980s.

October 1980 is the target date for bringing on stream the first of the new fields, but outwells drilled near the existing central field at Lekhwair will also boost production in the interim, as will oil saved by the completion of the gas pipeline from Yibal. At the moment oil is fuelling Ghubra power station.

Initially the pipeline is intended for non-associated gas, but eventually this too may be saved for more advanced projects as a result of a scheme to substitute petroleum gas.

For the time being various consortia continue to drill in different parts of the Sultanate and two have announced finds. One group comprises the French-Japanese-West German holders of a concession at Butabul, near the Saudi border, where one well has shown very

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good 45° API oil. Another group, drilling off the Musandam Peninsula, found oil in the Henjam well, which was subsequently found to be in Iranian waters. But it is felt that the structure probably extends to the Omani side of the divide.

Moving the southern crude out of the fields has posed a number of topographical headaches and altogether three options were studied. One involved piping the oil a mere 40km to the coastal village of Shuaiyima on Kuria Muria Bay, but this had the disadvantage that the area is subject to monsoon conditions for part of the year. The second option envisaged a 200km pipeline along ridges and down escarpments to Raysut, the port of the Dhofari capital, Salalah. The third required construction of a mammoth 400km pipeline from Dhofar to the existing fields in central Oman.

Initially, the Salalah option was chosen and a contract negotiated but it had to be dropped in favour of the 400km pipeline northward. This was considered a better investment as it would enable small amounts of oil in odd locations to be picked up on the way.

This pipeline is now the major element in the cost of developing the southern fields, which is now put at \$400mn instead of the earlier estimate of nearer \$300mn. The Abu Dhabi Fund for Arab Economic Development has signed an agreement to lend Oman Dh663mn (about \$172mn - the Fund's biggest loan so far) as a contribution towards the 60% of that \$400mn which the Omani Government must find as the 60% shareholder in PDO. The remainder will come from Government revenue, Finance Ministry officials say, without further borrowing.

Nevertheless, the overall investment does not end there, as Saudi interests agreed at the end of November 1978 to

provide \$400mn to finance the construction of an 800km road from Nizwa in northern Oman to Thamarit in Dhofar. If this project is included it makes the oilfield development the biggest single joint investment in Oman's history.

Yet despite the heavy expenditure, little economic spin-off is expected, since the oil investment itself is intended to boost oil revenues and the acknowledged motive behind the road scheme is the political desire to link the northern and southern parts of the Sultanate.

The only possible byproduct at this stage seems to be that Raysut may one day be considered worth developing on the same lines as Sharjah's Khor Fakkan. Raysut would allow ships to avoid the congested, and possibly by then contested, Strait of Hormuz and to offload goods for distribution by road all over the peninsula.

Apart from this the economic benefits of the north-south road are rather mixed. Even with the road the land journey from Dhofar to Muscat will take a day and a half, which will not significantly stimulate the carriage of agricultural produce from one end of the country to the other. On the other hand, if tourism in Oman ever develops to any degree the road could bring tourism-related business to the interior and the south. The Ministry of Commerce is studying procedures to enable tourists to obtain visas but tourist visas seem to be still a long way off. Oman's first package tour, arranged by a UAE travel agent was cancelled by the Government at the last moment at the end of 1978.

All these factors will have to be taken into account in the next five-year plan, which is now being given some thought as 1980 draws near. Top priority in the current plan, running from 1976-80, was diversification of sources of revenue. But overall, the

Development Council says, progress has been slow because of the newness of the planning concept in general and because of the private sector's lack of familiarity with commercial operations beyond import agencies and property.

The propulsion of the private sector into the gap left by the inevitable decline in Government infrastructural spending - a primary aim of the current plan - has therefore proved difficult. Industries set up to diversify the country's sources of income have also run into problems.

Sohar's copper mining industry, for example, was once claimant to the title of Oman's biggest investment. It cost \$100mn and was made possible by a Saudi grant. But sources at the Development Council now point out that the project needed a world copper price of 80 cents a pound to break even, whereas in recent weeks copper has been fetching less than 60 cents a pound.

Moreover the Sohar project, although certain to go ahead, is still only at the stage of a second, more precisely costed feasibility study. What were once described as the main benefits to the economy are now described officially as the side effects and emphasis is falling instead on the redevelopment of the depressed Sohar region.

Overall the Development Council thinks implementation rates under the plan over the past three years have been a little over 30% - a figure which is approximately the same as that achieved in the neighbouring UAE. Inevitably the concept of planning will take time to stick. When, for example, large-scale infrastructural spending by the state began to decline as planned projects were completed, merchants found themselves with large stocks on their hands and few orders.

This caused vociferous complaints in 1977, but now the

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merchants seem to have grown accustomed to the idea and have had to adapt to lower profit margins forced on them by the fierce competition arising from the loss of customers.

Likewise, the Development Council, set up like the Finance Council in 1976, is beginning to make an impact. Over the past year it has received numerous requests for financing from private industrial ventures, not all of them well planned in terms of cash-flow projection and market research. It is to help to overcome problems like these and to avoid duplication that the Development Bank was created, and fortunately the bank's administrative and legal framework is now largely complete, although its first loan has yet to be arranged.

Thanks to the fact that projections of declining revenue are now being replaced by estimates of increasing oil income the Development Council can look forward to the next plan with greater confidence.

Basically the council expects to put much greater emphasis on agriculture and fisheries, two established sectors which could

be modernised and made more profitable without massive capital outlay.

Other possible sources of revenue, such as income tax or foreign-exchange controls, remain out of the question. Officials in many Gulf countries, including Oman, look aghast at the mention of either device and Finance Ministry officials in Oman affirm that, although foreign-owned companies are subject to a corporation tax on annual profits in excess of OR 5,000, there are no plans to raise revenue in the foreseeable future either by personal or extended commercial taxation or foreign-exchange controls.

Filling any budget deficit which may arise in the next plan will therefore continue to be a matter for negotiation with richer Arab friends, the Finance Ministry says, dismissing recent reports of an impending approach to the Euromarkets as premature and inaccurate. But anyway the deficit is already shrinking. It was OR50mn in 1978, down from OR56mn the previous year.

It is fair to say then that a

radical turnaround has taken place in the economic atmosphere in Oman. The merchants have more or less learned to live without Government handouts and the Government is able to plan for more, not less, cash over the next five years as a direct result of the oil finds. The transformation of merchants into industrialists is a more serious and longer-term question. But as for the bankers in Muscat, whatever they may say, they are all still there and are still competing to lend. □

END

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