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ENDING BANK LOANS TO SOUTH AFRICA

Statement by George M. Houser,
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Committee on Africa, before the
United Nations Special Committee
Against Apartheid.

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I am very glad to appear before the U.N. Special Committee Against Apartheid on this occasion on behalf of the American Committee on Africa to discuss again the critical question of bank loans to South Africa. This, of course, is not the first time the Special Committee has given attention to this problem -- nor will it be the last. Representatives of our organization, Prexy Nesbitt, for example, have appeared to give factual data to this Committee in the recent past. Also, those with whom we have worked closely, notably Beate Klein speaking on behalf of the Corporate Data Exchange, have provided carefully researched evidence of the extent of bank loans to South Africa from not only the U.S. but from 21 other countries as well. We appreciate the fact that the Special Committee continues its active concern to do all possible to end economic aid to end collaboration with South Africa in the form of bank loans.

The U.N. and the Special Committee have long had a record of opposing bank loans to South Africa. Most recently, a resolution of January 24, 1979, calling for an end to all new investments and all loans to South Africa, was adopted by the General Assembly by an overwhelming vote (99 to 10 with 20 abstentions). The Program of Action Against Apartheid, drafted by those working closely with the Special Committee and adopted November 9, 1976, urged action "to prohibit loans by banks and other financial institutions to the racist regime of South Africa or South African companies."

I will only note in passing that the American Committee on Africa also has a long record of opposing bank loans and of initiating campaigns in the U.S. to implement this objective. The first such organized effort took place in 1966 and lasted until 1969 when a \$40 million revolving loan fund by ten U.S. banks to South Africa was ended. Our emphasis in that campaign and in the current one initiated by the Campaign to Oppose Bank Loans to South Africa is to urge both individuals and organizations to withdraw accounts from banks making any loans to South Africa.

It is not necessary for me on this occasion to go into any detail on the facts of the loans which we oppose. Suffice it to say that of the more than \$8 billion in loans from all over the world to South Africa, as reported in the Corporate Data Exchange study, about one-fourth -- \$2.27 billion -- come from banks in the U.S. These loans have been of inestimable help to the South African regime, especially during periods of grave economic crisis there. Loans helped South Africa particularly after the Sharpeville massacre and after the Soweto uprising of June 1976.

Although we are all agreed that it will take more than international financial pressure to bring about basic change in South Africa, the fact is that international pressures can make themselves felt. That is why one of the important activities for those of us outside South Africa is to continue our efforts in every way to oppose investments and loans to South Africa.

It is not my purpose here to detail the actions which have occurred in the U.S. to oppose bank loans to South Africa. They have been reported on in the past and continuing reports will be sent to the Special Committee. Efforts by the American Committee on Africa and the Campaign to Oppose Bank Loans to South Africa have played a continuing and I think an important role in what has happened in the last two and a half years. Yet one of the heartening realities about a campaign is that it tends to generate actions for which no one organization can or should take credit. A campaign can gain tremendous support because circumstances sometimes give it a credibility and a momentum of its own. This has been true of the bank campaign not only in the U.S., but in Britain, in Canada, and in various parts of Western Europe.

In the U.S., student actions have put some universities on the defensive and the administrations have had to announce at least some changes in policy with the result that investments in banks making loans to South Africa have been curtailed or ended. Yale University, for example, divested itself of \$1.6 million in stock in Morgan Guarantee Trust Co. in April of this year specifically because of Morgan's South Africa lending policy. Columbia University divested itself of \$2.7 million in three banks this spring for similar reasons.

Church organizations have initiated actions through stockholder resolutions, through withdrawal of accounts from banks in some cases, and through educational efforts. These efforts will be reported on in more detail by Tim Smith of the Interfaith Center on Corporate Responsibility.

Some trade unions also have taken strong actions against South Africa bank loans. The United Auto Workers and the Retail, Wholesale and Department Store Workers have been among those who have announced that they would withdraw union funds from any banks making loans. UAW President Doug Fraser said in March of last year, "We in the UAW don't believe that the hard-earned dues money of our 1.5 million members should wind up being used directly or indirectly to aid a country that practices racist, repressive and undemocratic policies."

In a few cases whole communities have taken actions, most notably a few weeks ago in Berkeley, California, where the people voted to remove city funds from banks loaning to South Africa. In many other communities around the country, local campaigns have included demonstrations, distributing of petitions and leaflets, withdrawal of accounts, and other actions.

The black community and civil right organizations also have taken action. The NAACP, for example, has called for an end to loans and has encouraged withdrawal of accounts from banks involved in loan activity.

The largest banks in the U.S. have been put on the defensive by this campaign. Continental Illinois and Citibank, to mention two of the largest in terms of their involvement, announced a little over a year ago that they were no longer making loans to the South African government. Chemical Bank also made a similar statement at that time.

A few banks--among them First Pennsylvania Bank, the largest bank in the state of Pennsylvania--have adopted a policy against loans of any kind either to government or private bodies in South Africa. But no major bank involved in international transactions has as yet announced a policy of no loans to South Africa of any sort. This includes Chemical Bank.

I would now like to spend a few moments speaking specifically about Chemical Bank. The reason is obvious. Chemical Bank is in a unique position as far as the United Nations is concerned. It is the only bank that has a branch at U.N. headquarters. This alone applies pressure on Chemical because of the explicit policy the U.N. has toward bank loans to South Africa. Let us take a look at Chemical Bank.

Chemical Bank is sometime referred to as a "clean" bank because it does not have branches in South Africa like Citibank, for example. Its actual financial involvement--currently something over \$20 million--also is considerably less than that of major lenders. Further, Chemical Bank has openly stated that it will not make any new loans to the government of South Africa or its related agencies.

However, those who would take the position of defending Chemical Bank are doing a serious disservice to the overall bank campaign strategy. The fundamental goal of the campaign to oppose bank loans to South Africa is to end the foreign underwriting of the South African apartheid economy which is crucial to stability and a continuation of the status quo. Therefore, for us it is not just a question of degree, but rather of actual policy we are concerned with. To lift up Chemical Bank as "a better bank" on the issue of apartheid because it is less involved than Citibank is akin to saying that we would rather deal with a 10 megaton than a 20 megaton atomic bomb. To give Chemical Bank officials the impression that we approve of them on the basis of their present record in South Africa would be a grave error. Instead, continuing pressure must be put on Chemical Bank as well as all other financial institutions to end all financing of apartheid.

It is clear that Chemical Bank does not have a policy of ending all loans to South Africa. In December of 1977, Chemical Senior Vice-President John Wynne stated that Chemical Bank has "limited its lending to South Africa essentially to the financing of trade". When pressed for clarification on his statement, Wynne responded: "while the statement in our letter of December 21 would technically not prevent Chemical Bank from participating in major loans to the Government of South Africa, our policy is to decline such transactions."

In September of 1978, Mr. Wynne responded to an inquiry by the Investor Responsibility Research Center by saying: "We are please to state that, as a matter of firm Chemical Bank policy, we make no loans or other credit accomodations whatsoever to the Government of South Africa or any of its instrumentalities or political subdivisions and Chemical Bank has no intention of doing so until the question of apartheid is resolved."

If one is to do a bit of textual analysis here, the variables here are "having no intention 'and' until apartheid is resolved". While the intention is good, does this mean the occasion will arise when the intention would not apply? What does apartheid being resolved mean? Does it mean until majority rule has been achieved?

While it is true that Chemical Bank has made no new loans for about five years to the South African government and related agencies, there can be no guarantees from Chemical Bank that money currently on deposit will not be loaned to South Africa tomorrow.

However, our position on the financing of apartheid is that ending loans to the South African government and related agencies is a first step, but is not enough. All financing of any sort-trade related, crediting, interbank loans, any under-writing of the South African economy-must be ended for genuine change to take place. As long as the South African economy can continue to function along present lines, with stability and security, little more than minor reforms designed to prolong white minority rule can be achieved. This has been the course of events in South Africa ever since the United States began its policy of conciliation and "friendly influence for change" more than 25 years ago in the days of Eisenhower.

Through its present policy, Chemical Bank continues to share in the financing of the vitally important trade sector of the South African economy. It is difficult to determine the extent of Chemical Bank's trade-related financing since only trade financing conducted through the U.S. Export-Import Bank is publicly disclosed. (Congress voted to end all Ex-Im trade guarantees in 1978 on South Africa trade.) U.S. Export-Import financing represents less than 20% of total U.S. trade financing. We must rely upon the statements of the bank itself for statistics on the amount of trade financing conducted with South Africa.

Chemical Bank officials have stated that recently the amount of its trade financing with South Africa has declined somewhat from earlier estimates of \$23-25 million in any given month, almost entirely on a 180 day acceptance basis. The categories of trade-related financing include such items as electric organs, fluoride, textiles, wood, animal feed, automobile spare parts, watches, tractor parts, welding equipment and tomato paste.

Chemical Bank insists that it will not finance trade involving strategic or military items. However, even among the commodities that Chemical presently finances, automobile spare parts can easily find their way to military vehicles.

However, it is not a question, really, of the type commodity, but simply that the trading sector of South Africa is financed by foreign currency, including help from Chemical Bank.

Another area in which Chemical Bank continues to be involved with the financing of the apartheid economy is its correspondent banking relationships. Essentially correspondent banking relationships are arrangements between banks, generally of differing countries, for the purpose of providing banking services and credit facilities. These arrangements are usually necessary for the conduct of trade financing, but are also useful for interbank loans, corporate transactions and other services.

Chemical Bank has correspondent relationships with at least two South African banks: Credit Bank of South Africa and Volkskas Bank. Credit Bank of South Africa is a subsidiary of Bankorp, which in turn is owned by Sanlam, the second largest life insurance company in South Africa. So, in a direct way, Chemical Bank

deposits in Credit Bank of South Africa are fully available to a holding interest of a substantial South African corporation. Credit Bank has also been the fastest growing merchant bank in South Africa over the last two years (Financial Mail, 4/22/78). Volkskas Bank is a commercial South African bank with headquarters in Pretoria and 269 branches throughout South Africa. The two banks have a close relationship. The Chairman of the Board of Credit Bank, F.J. DuPlessis, is also on the Board of Directors of Volkskas Bank.

Apparently banks are very hesitant about disclosing much about correspondent relationships. The actual amounts of money which Chemical Bank has on deposit in South African banks has not been disclosed. However, in order to handle interbank loans, corporate transactions and trade-financing, it is generally a considerable sum counted in millions.

As a matter of principle in correspondent relationships, any money on deposit in a South African bank can be freely used for investment, loans, or other purposes. This simply means that there is nothing which could stop Credit Bank or Volkskas Bank from using Chemical deposits to make loans to the South African government or South African corporations. In this way, Chemical Bank can make loans indirectly to the South African government or related institutions simply through its correspondent banks.

When questioned about this possibility Chemical officials responded that "it is not possible to exercise control in this area. However, under the letter of credit facilities that we hold available for these institutions, we have the right to review the terms of credits and would certainly not support transactions involving strategic or military related goods."

To us, this indicates that Chemical Bank has placed an unknown amount of money at the disposal of South African banks which can use this money in any way they please. Chemical can exercise no control over this money and would only be able to recommend that the transactions not involve strategic or military related goods.

We believe this is a vitally important area, yet to be fully probed, and an additional reason to be concerned about the role Chemical Bank is playing in the financing of apartheid. Further, we believe that trade-financing necessitates such correspondent banking relationships and that if Chemical Bank were to give assurances of ending this trade financing, the need for correspondent banks would diminish.

In conclusion, as long as Chemical Bank continues to finance apartheid through trade-financing and correspondent deposits, and as long as Chemical Bank refuses to make a clear commitment to end all loans to South Africa, it must be the target of the bank campaign.

Let me finally point out the tactical value of having one bank fully able to negotiate international transactions, with an unambiguous policy regarding loans of any sort to South Africa. It would mean that there would be an alternative bank for organizations which are constantly involved with international financial undertakings. It would mean that various delegations here at the United Nations would have an alternative bank for their day to day banking operations. Literally millions of dollars could be withdrawn from banks which clearly are continuing their relationship with South Africa and could be deposited in a bank with a clear policy. This would be a development of major importance.

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Chemical Bank theoretically provides the best possibility for such a bank. It has announced policies that are moving at least in the right direction. The bank should be subject to real pressure from the United Nations. Is it not possible to use the position of the UN, in harmony with resolutions so clearly on record, to press Chemical to go the two steps further to become the alternative bank we seek and need? It certainly should be worth all the effort which can be made.

The United Nations has passed strong resolutions opposing apartheid but in the case of Chemical Bank, it has not lived up to them. If Chemical does not change its policy, the UN will be open to charges of hypocrisy, of having compromised in an area where no compromise should exist. An objective of this year of Action Against Apartheid should be to end collaboration in banking at the United Nations.

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