

THE FRANKFURT DOCUMENTS

Secret Bank Loans to the South African Government

The Corporate Information Center recently obtained confidential internal documents known as the "Frankfurt Documents" originating from sources within a U.S.-based multinational banking firm, the European-American Banking Corporation. These materials reveal that a group of forty banks from the United States, Europe, and Canada have been jointly involved in direct loans totaling over \$210 million to the South African government and its agencies since late 1970.

Participants for two of the six loans, representing \$70 million of the total, include 11 American banks. It is likely that other American banks are involved in the additional loans. Representatives of the European-American Banking Corporation confirmed the veracity of the documents in a meeting in New York with Judge William Booth, president of the American Committee on Africa, Rev. Donald Morton, South African consultant to the Council for Christian Social Action, United Church of Christ, and Professor Sean Gervasi, economic research officer at Oxford University.

The fact that these transactions were carried out in complete secrecy has extreme political significance. The banks involved obviously were seeking to avoid public protest of subsidies to the racially oppressive South African government.

From 1966 to 1969, American churches, community organizations, the United Nations, and other groups conducted a successful "Bank Campaign" against 10 American banks that were providing a \$40 million revolving credit arrangement to the South African government (see Item I). While the banks then denied that public pressure caused them to cancel the credit, these latest revela-

tions of secret loans suggest the opposite.

With the documents' revelations, church agencies and other organizations concerned about South African issues have begun organizing protest of the loans. The following discussion provides an initial basis for action (see Item II) on the developing new bank campaign.

EABC's Role

According to the secret documents, the European-American Banking Corporation (EABC) of New York was the chief organizer of substantial credits, making six major transactions with the South African government. These loans are far larger than any previously given to the South African government.

EABC is jointly owned by six of the largest banks in Europe — the Deutsche Bank, West Germany; the Societe Generale, France; Midland Bank, U.K.; Amsterdam-Rotterdam Bank N.V. of the Netherlands; the Societe Generale de Banque S.A. of Belgium; and the Creditanstalt-Bankverein of Austria. EABC represents the link between these European financial interests and the U.S. money market. It also is one of the most powerful banking groups in the world.

With combined deposits and loans of nearly \$1.1 billion, it is one of the top 70 banking organizations in the U.S. EABC is also probably the most important source of finance for the importers of diamonds in New York. The bank thus has a unique connection with South Africa, where the bulk of the world's diamonds are marketed through South Africa's De Beers Corp.

By selling participation in the various credit arrangements to American and multinational banks, EABC tapped the U.S. money market, largely through the offshore subsidiaries of these banks. It then re-lent the money to the South African government. Three of the six credit transactions, each \$50 million and made from the bank's Nassau branch, were arranged with the Ministry of Finance in Pretoria. The three other loans were made with METKOR, ISCOR, and ESCOM, all South African government agencies. Sources within EABC have indicated that a further credit of approximately \$50 million has been negotiated with the Finance Ministry within the last few months. It appears that \$150 million has yet to be repaid to the bank.

The Ministry of Finance loan was organized on favorable terms in September 1970 with the stipulation that it be repaid in two years. This transaction occurred shortly after the end of the Bank Campaign. At that time the South African government publicly denied the necessity for its receiving favorable credit. Money drawn on the credit was held in the South African Reserve Bank, which suggests it was used for general balance-of-payment purposes.

In June 1971 the bank approved another \$50-million credit, this time stipulating repayment during the next three years. EABC's management fee increased 50 percent for this loan, from \$100,000 to \$150,000. For each of these two loans EABC contributed \$5 million from its Nassau branch. The names of the sub-participant banks in either loan are not yet known.

The most recent known credit to the South African Finance Ministry was approved in June 1972. Again, it was organized through a consortium of banks by the European-American Banking Cor-

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poration. This loan is due to be repaid by July 1975. EABC has contributed \$3.5 million, the other banks \$46.5 million. Again, the funds are probably being used for general balance-of-payment purposes.

The names of these bank participants in the most recent agreements were this time revealed in the secret documents. Included are four American banks that sought to have their participation remain "undisclosed" — Wells Fargo, Central National Bank of Chicago, Merchants National Bank and Trust Co. of Indianapolis, and City National Bank of Detroit. An EABC official confirmed that at least one of these banks admitted it wished to remain anonymous because of the political sensitivity of its loan.

The banks and their dollar participation are:

U.S.	\$(Mil)
Wells Fargo Bank (N.A.), Luxembourg branch	2.0
Central National Bank in Chicago	1.0
Merchants National Bank and Trust Co. of Indianapolis, Nassau branch	1.0
City National Bank of Detroit, London branch	.5
Republic National Bank of Dallas, London branch	3.0
First Israel Bank and Trust Co. of New York, Nassau branch	2.0
First National Bank of Louisville	2.0
Maryland National Bank, Nassau branch	2.0
United Virginia Bank, Nassau branch	2.0

European	\$(Mil)
Banque Europeenne de Credit a Moyen Terme S.A., Brussels	3.0
Midland and International Banks Ltd., London	3.0
Midland Bank Ltd., London	3.0
Societe Generale de Banque S.A., Brussels	3.0
Amsterdam-Rotterdam Bank N.V. Amsterdam	2.0
Compagnie Financiere de la Deutsche Bank A.G., Luxembourg	2.0
Creditanstalt-Bankverein, Vienna	2.0
Societe Generale, Paris	2.0

Canadian	\$(Mil)
Canadian Imperial Bank of Commerce, New York Agency	3.0
The Toronto Dominion Bank, Toronto	3.0
Bank of Montreal, Montreal	2.0
Japanese	
Japan International Bank Limited, London	2.0

ISCOR

In October 1970 EABC organized bank participation in a \$20-million credit for the South African Iron and Steel Corporation (ISCOR), which is wholly owned by the government. ISCOR was created by act of the white parliament. This strategic industry is white-dominated and firmly controlled by the government.

It presently supplies 75 percent of South Africa's steel requirements. As Barclays Bank's economic survey states, "ISCOR plays a vital and increasingly important role in the nation's economy."

Foreign companies have also supplied ISCOR with equipment necessary for operations. For example, General Electric recently provided \$25.7 million of automation control equipment and motors as well as \$3 million of computers.

The ISCOR loan is to be repaid by the end of 1976. Though its use is unspecified, this loan is probably for the importation of machinery and other equipment for industrial expansion. EABC contributed \$3 million from its Nassau branch. The other participating American bank, which sought to participate anonymously, is the Wachovia Bank and Trust Co., Winston-Salem, contributing \$2 million. The other banks participating are:

	\$(Mil)
Standard Bank Limited, London	4.0
Bank of Montreal, Montreal	3.0
Canadian Imperial Bank of Commerce	3.0
Toronto Dominion Bank, Toronto	3.0
Compagnie Financiere de la Deutsche Bank A.G., Luxembourg	1.0
World Banking Corporation	1.0

METKOR

In October 1970 EABC organized a two-year \$8.5-million credit for Metkor Investments Limited, a 79.8 percent owned subsidiary of ISCOR. In late 1971, Metkor requested and received an in-

crease to \$10 million and an extension of repayment to 1975. The loan's original purpose was the expansion of Wire Industries Steel Products and Engineering Co., in which Metkor holds an interest. Funds have also apparently been used for general financing. Participating in the loan's extension are four banks, including EABC, which contributed \$2.5 million from its Nassau branch. The other three are:

	\$(Mil)
Bank of Montreal, Montreal	2.5
Midland Bank Limited, London	2.5
Midland and International Banks Ltd., London	2.5

ESCOM

In late 1970 EABC contributed \$5 million toward a consortium loan of \$28 million for the Electricity Supply Commission of South Africa (ESCOM). This is a public agency of the government whose members are appointed by the government to supply the country's electrical needs. ESCOM, as the government agency in charge of power for South Africa, is one of the major industrial sectors of the South African economy, essential for keeping that economy strong and healthy.

In June 1972 this loan was increased to \$30 million and extended to mid-1977. The purpose is to help finance additions to the generating, transmitting, and distribution systems of ESCOM. Currently one of ESCOM's prime projects is the supplying of electricity from the Cahorra Bassa dam under construction in the Portuguese colony of Mozambique. There an intense struggle is taking place by the Portuguese army to defeat the Mozambique liberation movement, FRELIMO.

Other bank participants in the loan are:

	\$(Mil)
Midland Bank Limited, London	5.0
Samuel Montagu and Co. Ltd., London	5.0
Midland and International Banks Ltd., London	5.0
The Standard Bank, London	5.0
Societe Generale de Banque S.A., Brussels	2.0
Societe Generale, Paris	2.0
Amsterdam-Rotterdam Bank N.V., Amsterdam	1.0

Political Implications

The EABC and other banks' sponsorship of substantial credit arrangements represents a concerted effort to assist the government of South Africa to overcome serious economic and financial problems. The secrecy surrounding these transactions confirms what the banks involved would no doubt wish to deny, that these loans have the important political effect of providing concrete assistance to the white-supremacist government. One of the prime objectives of that government in order to preserve its racial policies in the face of international condemnation is the achievement of economic self-sufficiency. Self-sufficiency would free South Africa from crippling international economic pressures to isolate the white government and to challenge its ability to maintain the apartheid system.

Economic self-sufficiency requires rapid industrial and technological development. Since much of this technology has to be imported, South Africa has incurred huge trade deficits in recent years to finance greater economic security.

ITEM I

A Brief History of the Bank Campaign 1966-69

In 1966 ten American banks, including Chase Manhattan and First National City banks, were involved in a consortium loan of \$40 million to the South African government. The Committee of Conscience Against Apartheid, formed by the American Committee on Africa and the World Student Christian Federation and with A. Phillip Randolph as chairman, developed a multifaceted campaign to oppose the loans. The campaign emphasized individual and organizational letters of protest, delegations to meet with bank representatives, withdrawal of funds, attendance at shareholder meetings, picketing, leafleting and demonstrations.

Numerous Protestant, Catholic, and Jewish clergy leaders, including Rev. Dr. Henry P. Van Dusen, Rabbi Marc Tannenbaum, and Monsignor Thomas Carey, lent their support early in the campaign. Many church organizations wrote letters of protest and sent delegations to the banks.

Perhaps the most significant church action was the United Methodist Board of Missions' vote to remove a \$10-million investment portfolio from the First National City Bank because of its South African loan. The General Assembly of the United Presbyterian Church, the General Synod of the United Church of Christ, and the Executive Council of the Episcopal Church adopted resolutions supporting this policy for their respective bodies. A number of local and regional churches, including a region of the American Friends Service Committee, also withdrew funds. In total, some \$23 million of funds of campaign supporters were removed from banks involved.

Numerous protests occurred on college campuses. Nine Congressmen co-signed a letter of protest to the bank presidents. Various black community leaders aided the campaign, and the United Nations General Assembly adopted a resolution to terminate its own transactions with these banks.

It seems clear that the bank loans were terminated in November 1969 as a result of the public protest.

Since the bank campaign ended, the number of church actions aimed at halting Western aid to white-minority regimes in Southern Africa has increased dramatically. The World Council of Churches has publicly divested its investments in companies supporting such regimes. The National Council of Churches has called for the withdrawal of corporate investments there. Many Protestant churches have filed shareholder resolutions seeking to prevent American corporations from entering these areas and to disclose the full extent of their involvement in those countries.

Strategic Implications

ITEM II

Action Suggestions for Organizations and Individuals

The involvement of U.S. banks in these new loans implicates the U.S. in direct economic assistance to the South African government. Unlike the direct investments of 350 U.S. companies in South Africa which may be difficult to remove, these loans can be canceled easily.

It is ironic that many of these loans were made through offshore bank branches in the Bahamas, where many black citizens vocally oppose the racist policies of apartheid. The Nassau government's admission to the United Nations is pending. The UN has repeatedly called for an end to all economic aid to South Africa.

What You Can Do

LETTERS

Write a letter of protest to the bank in your area or to all of them (see list below). Such a letter can be an "open letter," publicized in a newspaper or periodical or a "letter to the editor." Urge your Congressmen, other legislators, your church, or other organizations to publicly support the protest.

MEETINGS AND WITHHOLDING FUNDS

Request a meeting with bank representatives to explain your concern. Should you not receive positive action from the bank, you may wish to withhold your funds until the bank cancels its loans to the South African government. Publicize this action.

SHAREHOLDER ACTION

If you own stock in the bank or know someone who does, you may attend the annual meeting to raise the issue. You may wish to buy a single share for this purpose.

DEMONSTRATE

Leaflet bank customers about their bank's involvement. Organize a picket line or other demonstration.

U.S. BANKS PARTICIPATING IN SECRET LOANS

CENTRAL NATIONAL BANK
Frank E. Bauder, Chairman
120 S. LaSalle St.
Chicago, Ill. 60603

CITY NATIONAL BANK OF DETROIT
John H. French, Jr., Chairman
Penobscot Bldg.
Detroit, Mich. 48226

EUROPEAN-AMERICAN BANKING CORP.
Jean Cattier, Chairman
10 Hanover Sq.
New York, N.Y. 10005

**FIRST ISRAEL BANK & TRUST CO.
OF NEW YORK**
Mendes H. Sachs, Chairman
579 Fifth Ave.
New York, N.Y. 10017

FIRST NAT'L BANK OF LOUISVILLE
Hugh M. Shwab, Jr., Chairman
216 S. 5th St.
Louisville, Ky. 40202

MARYLAND NATIONAL BANK
Robert D. H. Harvey, Chairman
10 Light St.
Baltimore, Md. 21203

MERCHANTS NAT'L BANK & TRUST CO.
R. E. Sweeney, Jr., Chairman
11 S. Meridian St.
Indianapolis, Ind. 46204

REPUBLIC NAT'L BANK OF DALLAS
James W. Aston, Chairman
Pacific & Bryan Sts.
Dallas, Tx. 75201

UNITED VIRGINIA BANKSHARES INC.
Edward F. Gee, Chairman
900 E. Main St.
Richmond, Va. 23219

WACHOVIA BANK & TRUST CO., INC.
Archie K. Davis, Chairman
3rd and Main Sts.
Winston Salem, N.C. 27101

WELLS FARGO BANK, N.A.
Ernest C. Arbuckle, Chairman
464 California St.
San Francisco, Calif. 94120

For further information on the bank loans or U.S. investment in Southern Africa, contact CIC or:

AMERICAN COMMITTEE ON AFRICA
164 Madison Ave.
New York, N.Y. 10016
(212) 532-3700

AFRICA INFORMATION SERVICE
112 West 120 St.
New York, N.Y. 10027
(212) 850-4070

Balance-of-payment loans to the South African Ministry of Finance, used to help offset trade deficits, are financing a privileged position for South Africa in international trade. This increases the country's political and economic strength. The other loans directly assist the government's "development" policies in strategic and critical sectors of the economy. These policies are designed to achieve "stability" and preserve the racial status quo.

Contributions to South Africa's economic strength are indirect contributions to its military and police systems, designed to perpetuate the domestic racial helotry. These policies are also aimed at retaining direct control over neighboring Namibia (South-West Africa) and aiding the Rhodesian regime, led by Ian Smith, in its defiance of majority rule and the United Nations. They maintain a network of poverty-stricken black client states — Lesotho, Swaziland, Botswana — in the region, and prop up Portuguese colonial rule in Angola and Mozambique. South Africa has continually indicated its intention to help its white-minority neighbors keep power.

No Confidence

A number of foreign banks withheld credits from Chile when the present government came to power in 1970. Such credit denial is a political act expressing "no confidence" in the Chilean government and seeking to weaken the Chilean economy.

The converse argument applies to South Africa. Loans to South Africa's government provide psychological and political support for its policies. The most meaningful international vote of confidence for apartheid is a vote with cash. These loans are a strong approving voice for apartheid's future.