INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

A Sponsored Related Movement of the National Council of Churches
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TESTIMONY OF TIMOTHY H. SMITH, DIRECTOR, INTERFAITH CENTER ON CORPORATE RESPONSIBILITY, SEPTEMBER 23, 1976 BEFORE THE SUBCOMMITTEE ON AFRICAN AFFAIRS OF THE COMMITTEE ON FOREIGN RELATIONS, UNITED STATES SENATE.

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Testimony of Timothy H. Smith, Director, Interfaith Center on Corporate Responsibility, September 23, 1976 before the Subcommittee on African Affairs of the Committee on Foreign Relations, United States Senate.

Mr. Chairman, my name is Timothy Smith. I serve as Director of the Interfaith Center on Corporate Responsibility, a Church coalition composed of 14 Protestant denominations and over 120 Roman Catholic orders concerned about the social responsibilities of corporations. One of the major priorities in the life of this coalition has been the question of American investment in South Africa.

Church stockholders working through ICCR have used their leverage as stockholders to raise questions with dozens of companies doing business in Southern Africa. In response to resolutions requesting disclosure of relevent information about operations in South Africa over 20 companies have prepared reports for shareholders and the public.

In response to stockholder resolutions and other pressures requesting withdrawal from Namibia Texaco, Standard Oil of California, Continental Oil, and Getty Oil withdrew from that illegally occupied territory.

Other companies have been pressed to alter discriminatory employment patterns and starvation wage rates. ITT was urged to cease all sales to the South African police and military which it did in 1976.

Several other corporate giants have been asked to withdraw from South Africa entirely.

The investments of U.S. corporations has been a personal agenda for me for the last ten years. I travelled in South Africa in 1968 and 1970 doing research in the role of U.S. investment. I and two colleagues interviewed representatives of 35 corporations and have published various materials based on those interviews. Before my job with ICCR I worked with the United Church of Christ on Southern African Affairs.

In testifying today it would be presumptuous and mistaken to imply that I am speaking for all of the Roman Catholic orders or Protestant denominations that comprise ICCR. However, I do feel that I can accurately reflect the positions taken by many of these churches over the years. The vast majority of these orders or denominations are on record through resolutions, words and actions as opposing bank loans to South Africa. They have indicated this to U.S. banks via letters, personal visits and through their position as shareholders.

Opposition to bank loans to South Africa is international in scope. The World Council of Churches has urged banks to end these loans and has severed

connections with certain banks with which it did business over the issue. Dutch Churches have challenged the Amsterdam-Rotterdam Bank's policy on loans and a boycott of this bank has begun in Holland.

Last year British Churches made British history when, for the first time, a stockholder resolution was filed with Midland Bank requesting an end to future loans to South Africa. It was supported by the Methodist Church and the Church of England.

For the last ten years the issue of U.S. bank loans to South Africa has been a clear focus for many U.S. Church bodies. Documents provided for the record of this hearing include resolutions from the late 1960's from the Conventions, Synods and Assemblies of several major Portestant denominations. These resolutions clearly call for an end to U.S. financial support to the land of apartheid. The vigorous campaign of the 1960's for an end to bank loans to South Africa resulted in a victory when a $40 million floating credit by 10 U.S. banks was not renewed. Dozens of discussions were held with Bank officials and millions of dollars in accounts were withdrawn in protest in that campaign.

In the early 1970's ICCR published information called "The Frankfurt Documents" detailing a series of loans to the South African government agencies by Canadian, American, European and Japanese Banks. These loans were orchestrated by the European-American Banking Corporation (EABC) which is controlled by 6 major European Banks. Later EABC purchased Franklin National Bank when it ran into financial difficulties and thus entered into the American banking scene. Ten U.S. banks were involved in these loans and, after public concern grew, a number of them committed themselves not to make loans to South Africa.

One bank, Maryland National, did an extensive review regarding its loan policy toward South Africa. On March 27, 1974 the Bank released its new policy:

1. Maryland National Bank does not believe in or support "apartheid" which is the official policy in South Africa.

2. In order not to convey the impression that we support South Africa's policy of apartheid, the bank will neither make nor participate in loans to the government of South Africa.

3. In order that there be no confusion and that our position in this request be perfectly clear, we will divest ourselves of the South African Government loans presently on our books.

Other banks such as Merchants National Bank and Trust Company of Indianapolis, Wells Fargo Bank, Central National Bank (Chicago) have stated that they will not make future loans to South Africa.

First Pennsylvania Bank in Philadelphia stated that they would not make loans to South Africa nor to companies for expansion plans there.

The basic point in this recitation is that a number of banks have, for various reasons, decided that their policy will be one of not lending their depositers' money to South Africa. It is not a holy rule in banking circles, as some banks would imply, that banks must lend to South Africa if financial security is assured.

The Rationale Against Loans to South Africa

It seems clear that the provision of foreign capital to South African government agencies and private concerns result in support for white minority rule and the status quo in South Africa.

I do not mean to imply by this statement that this is the goal or purpose of those bank officials who arrange these loans. I take seriously the professions of the numerous bank representatives that we have met that they deplore apartheid and want change in South Africa. However, intentions are not what we are debating today. What we must examine is the net effect of such loans.

It is a truism to say that the white minority in South Africa fervently desires to maintain political and economic power in the Republic. Apartheid is the system they have devised to assume this position of supremacy. In addition, the South African Government has set up a number of parastatal corporations such as the Electricty Supply Commission (ESCOM), and the Iron & Steel Corporation (ISCOR) to keep important sectors of the economy under their control. In looking at the South African economy it is important to understand that it is an economy controlled and dominated by political as well as economic factors. To be correct we should talk of the political economy of this country. The Nationalists have gone to absurd lengths on occasion to insure that apartheid regulations are followed even when regulations are a detriment to the overall economy. We are safe in assuming that they are designing their overall economy to bolster their political position and not to weaken it. Obviously, any foreign loans must fit into the overall economic and political plan designed by the government.

U.S. Churches have added their voices to the chorus of opposition to white minority rule in South and Southern Africa. It is an inevitable step in logic for us to oppose any economic, diplomatic or military help that strengthens white South Africa and increases the repression of the black majority. Loans to government agencies and departments clearly fall into this category.

Business as usual with South Africa.

It is a tremendous moral boost for white South Africans to feel that the "white anti-communist, Christian West",as they categorize it, may condemn apartheid in the halls of the United Nations but are willing to do "business as usual" with them in critical economic areas. They know they can still count on U.S.,European and Canadian banks to provide capital and that public condemnation of apartheid will not inconvenience essential business relationships. Why then should the South African Government take seriously the protest and opposition.of America for example? What incentive is there for the white minority to want to share political and economic power with the black majority when they know that apartheid is profitable for them and likely to remain so?

South Africa can and does point with pride to its solid economic relationships with the United States, Britain and France, etc. as a sign that it is respected

and indispensable to the West.

Economic Support

We are all aware that the image of stability and economic milk and honey which was once the picture of South Africa has changed drastically. South Africa is in very difficult economic circumstances and has an acute balance of payments crisis. The price of gold has fallen considerably. Inflation is escalating. Many of these economic problems are the result of a shortsighted labor policy. One good account of this economic crisis is reported in the August 14, 1976 Economist. During its economic trials South Africa has increasingly turned to international banks for capital for its budget and huge development projects. In 1975 South Africa borrowed $518 million and in the first 6 months of 1976 borrowed $460 million making it one of the world's top 10 borrowers.

Such loans give relief to South Africa in the midst of its balance of payments crisis. Moreover, the fact that major U.S. Banks are ready to make sizeable loans is an indicator of investor confidence which bolsters South Africa's credit rating. To make such loans now is to flash a signal that U.S. banks have faith in South Africa's economic and social future. If the loans were not forthcoming South Africa would be forced to look elsewhere and the rate it would pay would rise. Moreover, the government backed by these loans does not have to apply unpopular economic controls at home, thus further consolidating its support politically.

Since South African economic propoganda has been so blatant it argues that South Africa offers an excellent investment climate, a cessation of bank loans would create a greater shock than one would expect.

Let us look at some other implications of an open door loan policy to South Africa to bolster the conclusion that loans to the government strengthens apartheid and majority rule.

The machinery of the apartheid system is very expensive to maintain. The intricate complex of racial laws or the passbook system all cost appreciable amounts. For instance, the recent example of authorities removing 40,000 Africans to be resettled in a "black area" is but one example of the human and financial costs of apartheid. To remove those people, or to arrest and try hundreds of thousands of passbook offenders the government needs funds. If foreign funding were not available to the parastatal agencies the government itself would have to finance them thus limiting the cash available for maintaining apartheid. Let us not deceive ourselves that a loan to ESCOM can be simply classified as a loan for electric power. It is a loan directly to an agency of the apartheid government that helps that government balance its overall budget.

Foreign loans insure the overall budget is in a strong position and the economy is viable. These factors relate directly to the strength of the military and police which are determined to preserve white power.. I do not feel that it is an

overstatement to say that U.S. bank loans subsidize South Africa's military capability and thus are a direct resourcing of machinery for oppression of the black majority.

The South African Government's budget cannot be neatly compartmentalized in the belief that some loans are questionable but others are socially appropriate.

However, until this time major U.S. leaders such as Citibank, Manufacturers Hanover Trust, Morgan Guaranty Trust, and Chase Manhattan Bank have made the task of the critics easier. These banks seem to have no operating social criteria which would negate one kind of loan to South Africa while allowing another. The basic criteria espoused by these banks is that South Africa will repay the loans in a timely fashion with interest. Whether such loans increase white power and black suffering is not at issue in these banks' international loan departments!

America's Vested Interest

Hundreds of millions of dollars of U.S. loans and $1.5 billion in investments create a major American vested interest in South Africa. In a sense the United States becomes mortgaged to South Africa. As in any major mortgage relationships, the Bank has considerable interest in the financial health and well-being of the person paying the mortgage. You become a de facto partner in the project. Certainly U.S. banking circles would not be happy if racial strife grew even more extensive in South Africa and economic chaos resulted. They have a vested interest in economic and social stability. Whether such stability is gained at the price of oppression does not seem important.

The basic relationship of economic friendship thus develops between the banks and South Africa's white power structure, not the black majority. As a result, we see so often in statements by banks sympathetic sentences which try to interpret white South Africa in a positive light. We are told for instance that "things are becoming better" for the black population because of the loans and investments of U.S. Corporations. A look at the facts plus an alert ear to the political spectrum of black leadership negates the claim that life is improving for blacks. Exactly the opposite is true.

Thus the "mortgaging bank" develops a vested interest which leads to influencing American public opinion favorably toward white South Africa.

Inevitably this vested interest affects U.S. foreign policy. The architects of U.S. policy toward South Africa look at a series of factors - high among them is the economic relationship between these two countries. With such a large economic vested interest our government would be loathe to seriously antagonize a commercial ally or to jepoardize U.S. business interests in the region. Our loans and investments became a magnet drawing U.S. policy toward a "don't rock the boat too severely" philosophy. Certainly, U.S. policy makers would find it unthinkable to openly support the movements for liberation and majority rule. As one result, the struggle in South Africa becomes quickly characterized as a contest between a white minority which protects U.S. economic and diplomatic interests and a black majority fighting for liberation which the U.S. deems "unfriendly" or "Communist supported". Thus business supported political positions wind up affecting

U.S. foreign policy.

Finally, we often see in U.S. military journals sympathetic to an alliance with South Africa, references to the need to increase the U.S. economic stake in South Africa so that we would have clear interests to protect in that region of the world. Prime among these interests to protect is the economic involvement. of U.S. Banks and Corporations. These commentators understand that U.S. policy and U.S. economic interests in South Africa are closely linked.

NAMIBIA

As we all know, Namibia is illegally occupied by South Africa. However, since South Africa treats Namibia as an integral part of the Republic, it also extends the power of its government departments, agencies and parastatals into Namibia. Of course, banks lending money to the South African Government do not put any limitations on the use of those loans, i.e. prohibiting their use for Namibian projects.

It can easily be argued that support for the South African Government is de facto backing for its control of Namibia.

These comments on Namibia are made in the context of a vigorous campaign by accomplished public relations experts to establish the credibility of Clements Kapuo of Namibia for the first Prime Minister of Namibia. He has chosen to cooperate with South Africa Government's efforts at a constitutional convention. Citibank representatives recently lunched with Kapuo to hear his position. We do not know of business officials meeting with representatives of the liberation movements.

Loans to Bantustans

The question of loans to Bantustans is extremely serious. Citibank is part of a $ 14 million loan to the Transkei, the first sham homeland to become independent. The decision to recognize the Transkei as an independent country is a highly controversial issue. A number of Congressional representatives have called President Ford not to establish diplomatic relations with the Transkei. Unfortunately, Citibank has already beat us to the punch. Through their participation in this loan to the Transkei, Citibank has given endorsement to the apartheid system by backing the Bantustan concept in theory and in practice. (SEE FOOTNOTE #1)

This loan occurs as 7 of the 9 Bantustan leaders have recently denounced the whole Bantustan system calling their so called independence a fraud.

Yet, Citibank is voting with its checkbook, showing support for the Transkei and implicitly endorsing the concept that 13% of the land is the legitimate "homeland" of the black majority.

The Banks' Position

The political neutrality argument - Many U.S. Banks have agrued that they are politically neutral and are simply involved in business transactions as they lend money to South Africa. The example of loans to the Transkei demonstrate

the shallowness of this position. Such a loan has direct political implications of major proportions.

Likewise, it is a simplistic smokescreen to pretend that loans to the South African Government are simply business and not politics. Certainly the apartheid government understands the political implications and the bridges of friendship that such loans build. While South Africa, for political reasons, is urgently trying to reach economic self-sufficiency and thus has established key agencies such as ISCOR and ESCOM, loans to these agencies or to government departments such as the Department of Finance are clearly political in nature.

When we recognize that ESCOM is planning to build two nuclear reactors, the political seriousness of these loans take on even greater weight. Recently, pressure in Congress insured that G.E. did not get the offer to participate in building new nuclear reactors for South Africa. This Congressional pressure arose from the concern that U.S. cooperation would help push South Africa into the nuclear club and provide her with the capability to make nuclear weapons. Yet, will U.S. policy allow loans to ESCOM to help build these very reactors? Will U.S. banks in the guise of being neutral supply the needed foreign capital to help make these extremely expensive reactors a reality and push South Africa into the nuclear age?

Another public position taken by the banks to interpret loans to South Africa is that these loans inevitably help the balck population. In fact these loans generally go to government sectors which mainly serve the needs of the white population. Such loans do not go to social development programs in the black communities. In fact, the cash flow creates more wealth and power in white hands thus exacerbating the growing income gap between blacks and whites.

More Mythmaking - by Chase Manhattan

We should not forget the role of Chase Manhattan through Standard Bank has helped play in "mythmaking" about South Africa. For instance, in the mid-sixties Standard Bank produced "the Standard Bank pocket guide to South Africa". Remarkably the guid's 32 pages nowhere mention apartheid or even a hint that the black majority is ruthlessly controlled by the white minority. Instead, the booklet states: "the Republic is a parlimentary democracy", states without interpretation that the Transkei is a homeland which is internally self-governing, with its own constitution. Africans are referred to as Bantu throughout and generally the guide is a typical tourist booklet urging people to visit "sunny South Africa". It could as easily have been written by the government as Standard Bank.

In October 1970 Standard Bank produced a thirty page illustrated booklet to encourage people to immigrate to South Africa thus "improving their living standard and increasing their share of the pleasures of life." The booklet therefore directly involves Standard Bank in South Africa's frontier search for white skilled laborers from overseas. Reading as if the black majority did not exist the Standard Bank makes statements such as "In South Africa most people own the houses

they live in, and house ownership is within the reach of every family now." Again apartheid is no where mentioned!

As if the Bank wished to act as a promoter for the South African Government, it proudly states "we shall also be glad to answer your specific enquiries on immigration matters" listing Bank offices from which to seek advice.

Standard Bank also produces a monthly review of economic activities,in areas in which they have branches, for investors. Doing business in South Africa inevitably requires justification and Standard Bank artfully produces such justifications not only for itself but fellow investors. In order to increase its business in South Africa it is to the Bank's benefit to encourage increased investment by foreign companies which the banks will support with credit loans, etc.

Another important role played by an international bank is assistance to South Africans seeking markets overseas. As a result South Africa's balance of payments receives a boost. A Chase ad in the early 60's (before merging with Standard) stated: "Differences in language or customs, however small or subtle, can be important to people in South Africa doing business abroad.

As a local Bank affiliated to one of the largest U.S. Banks, Chase Manhattan knows these differences and similarities and can do much to make your dealings with overseas countries more pleasant and more profitable. Chase Manhattan knows too, the differences in customs and trade practices within these countries."

Therefore U.S. Banks do not simply assist South Africa's economic health by providing foreign exchange or by assisting investors, it also helps South African firms do business internationally. Standard Bank also uncritically supports the Bantustans. In the February 1971 Standard Bank Review, the bank encourages white investors to consider investing in the Bantustans stating that opportunities have arisen because of "the increasing interest of the Bantu in trade and industry."

In the end Standard Bank's role strengthens the status quo economically and politically in South Africa. Whether it be by sweetening South Africa's image overseas, encouraging white immigrants, lending money or providing advice and assistance for South African manufacturers seeking markets overseas. (SEE FOOTNOTE 2)

Additional Banking Services

As indicated in the remarks about Chase Manhattan Bank, diversification has transformed banks in South Africa from institutions which simply facilitate payments and act as credit intermediaries into organizations providing a full range of services including medium term finance, factoring, insurance, investment advice, economic intelligence, trade promotion, financing of property transactions, travel services and credit cards. Far from being simply a service institution, a commercial bank in South Africa actively encourages further investment by giving potential investors advice and economic intelligence. It is important for the Bank's business growth that U.S. investment increases. Thus banks play a catalytic role increasing America's vested economic interest in South Africa day by day. To do otherwise would be contrary to a bank's business goals and purposes.

Chemical Bank is another example of the banking magnet to foreign investors. In South Africa, the involvement of U.S. banks takes several forms. Most of the largest banks have a correspondent relationship with some South African bank. Chemical Bank, for example, channels its business through Nedbank (formerly called the Netherlands Bank but now 100% South African-owned). In the New York Times on March 18, 1969, Chemical advertised the services it offers in South Africa, describing the assistance given to one "American capitalist" who wanted "to convince the South Africans to build their own blast furnaces for conver ting raw ore into pig iron":

> We put our 145-nation International Division at his disposal. We supplied letters of credit. We came up with vital information on local politics. And strategic economic and logistic advice. To say nothing of the money it took to close the deal.
>
> Today, the American capitalist is an international capitalist. He needs a bank with worldwide capability. His bank is Chemical Bank.

Another description of the important role banks played in stimulating the inflow of capital was made by A.Q. Davies, formerly a Standard Bank Chairman, when he said:

> With offices overseas and agents and correspondents throughout the world the commercial banks have assiduously pursued the role of financing and encouraging international trade and the friendly associations they have established with the outside world have played an important part in the attraction of overseas capital in all its forms.
>
> (Banking - An Active Force in the Economic Life of South Africa, SA Bankers' Journal, April 1962)

In the 25 years between 1946 and 1970, South Africa has had a favorable balance of trade only 6 times. For 9 of the remaining 19 years, the flow of capital has nearly balanced or completely offset the deficit, thus saving valuable gold reserves. The "attraction of overseas capital" which Davies describes is thus a vital part of maintaining economic stability and contributing to political stability in the country.

In fact the Financial Mail of October 1, 1971, stated, "The only thing that saved the country from bankruptcy (in 1971) was an incredibly high R385 M of capital from abroad that underpinned the total foreign reserves which at the end of June were down to R690 M (cf. with R 1,030 M the previous June)."

One must obviously assess the role of U.S. and other foreign banks in helping to provide this vital financial underpinning for the S.A. economy and correspondingly the health of white control, beside bank claims to be bringing

change by providing a few black workers decent wages.

One of Citibank's services to South African customers was announced in 1970. They explained that customers would enjoy "complete coverage of all the European Common Market countries" with readily available information on potential buisness for importers and exporters. First National City Bank had been an integral part of the $40 million consortium to the South African Government in the 1960's. As expected, business breeds business in South Africa. Therefore it is clearly in the interest of Citibank, as an American investor to play the game by the rules and to establish a record of being willing to be competitive and make competitive bids. Whether a specific loan worked to strengthen the white government was not a question asked by Bank officials. In fact, Citibank's Managing Director in Johannesburg argued to a United Church of Christ interviewer in 1968 that public refusal by the bank to continue its part in the $40 million consortium would seriously have jeopardized a business transaction he completed in Pretoria with the government that day. To take a serious stand against white supremacy in South Africa is to jeopardize one's economic future, a price few corporations would be willing to pay.

Export-Import Bank

Let me address a few remarks to the increasing exposure of the Export-Import Bank in South Africa. Export-Import Bank's exposure has skyrocketed during the last five years. In 1971 Mr. Don Bostwick (Executive Vice President of the Export-Import Bank) told the House Subcommittee on Africa: "Our business with the Republic of South Africa is limited generally to the guarantee or insurance of exporters' receivables in the short and medium term field. Our current exposure in this regard totals $21.6 million. We have no direct loans outstanding."

However, on May 25, 1976, Stephan Minikes (V.P. Research & Communications Ex-Im) told the House Subcommittee on International Resources: "On March 31, 1976 Ex-Im bank's exposure in South Africa amounted to $265.8 million, which was comprised of $77.1 million in insurance and $188.7 million in guarantees." Mr. Minikes also referred to an amount of $112.8 million which had been authorized in discount loans to U.S. commercial banks against their financing car sales to South Africa. The wording is somewhat obscure, so that it is not clear whether in fact the $112.8 is included in, or should be added to the $265.8 million to obtain a total figure for Ex-Im involvement with South Africa.

In either case, the figures appear to give considerable cause for concern, indicating at least a twelve fold increase in the availability of Ex-Im Bank facilities for U.S. corporations doing business in South Africa.

Many of the points raised against loans by private banks relate to Export-Import Bank exposure as well.

Certainly the backing of a U.S. government agency must provide white South Africa with considerable satisfaction and confidence. Indeed, one wonders whether the escalation of Ex-Im Bank exposure is not part of the U.S. policy toward South Africa articulated in NISSOM 39. Is this another example of the U.S. firing verbal condemnations of South Africa in public meanwhile moving in quiet ways to show our support? Is the Ex-Im Bank escalation in exposure a silent forerunner of a new Kissinger policy which guarantees U.S. friendship with South Africa if Rhodesia and Namibia are allowed to move to majority rule?

Certainly Ex-Im Bank's dramatic shift in insurance and guarantees to South Africa can be interpreted by Vorster as yet another sign that the United States values its commercial relationship to South Africa and will not jeopardize it through strong actions against apartheid. It is a symbol that the U.S. government stands behind South Africa.

Conclusion

Many U.S. Church bodies, Roman Catholic and Protestant, believe that bank loans constitute a clearly identifiable example of support for white minority rule and the apartheid status quo.

The examples of the ways in which this commercial alliance is forged are numerous and would take much longer than this short testimony to detail.

If our premise is correct then it is an obligation of Churches, the Congress, organizations in the black community, groups working on international affairs, and thousands of individuals to express their opposition to an open door loan policy to South Africa. Such support for apartheid should end immendiately.

Suggested Recommendations

1. In light of reports that South Africa has recently been turned down by the Shah of Iran for a $500 million loan and therefore is approaching various New York banks, including Citibank, to arrange this loan, there is an element of urgency about this Committee's work. In addition the extensive search for foreign capital assures that opportunities to lend money to South Africa are constantly on the desks of U.S. Banks.

Members of this Committee or this Committee itself should go on record as opposing future loans to South Africa and communicate this position to U.S. Banks. The State Department could be asked to develop a policy, similar to present U.S. policy on Namibia, discouraging any further loans to Namibia and South Africa including the Bantustans.

Finally, Congress should consider legislation that would discourage or prohibit future loans to South Africa.

These are not requests that we are simply putting before government. U.S. Churches will be directly approaching Banks in which they hold stock or are depositers to ask for policy change.

2. Subcommittee staff should investigate the ways in which U.S. loans help South Africa extend its control of Namibia.

3. Subcommittee staff should investigate the diplomatic implications of loans to the Bantustans.

4. At the very least, the Subcommittee should request that U.S. banks must disclose any loan to a South African government agency or department or to a U.S. company for expansion in South Africa, if that loan is larger than $100,000. We have a right to know when such loans are made especially since there are distinct foreign policy implications in a massive committment of U.S. capital to South Africa.

5. Congress should move immediately to cut back and gradually end Export-Import Bank's increasing exposure in South Africa. This is the time to end the use of taxpayer's money to economically assist South Africa.

Footnotes

1. During the discussion at the September 23 hearings, George J. Vojta, Executive Vice President of Citibank stated that Citibank had not participated in the loan to the Transkei. He explained that Citibank had declined participation because the situation in the Transkei was totally unclear financially and politically and that such a loan would be premature. He also stated that the fact that the U.S. might not recognize the Transkei had definite bearing on the decision.

In discussing Citibanks overall loan exposure in South Africa Mr. Vojta estimated that with Eurodollar loans and loans directly from the U.S., Citibank had lent South Africa in the neighborhood of $300 million. He also admitted that Citibank was presently discussing participation in another several hundred million dollar loan since the Shah of Iran had reportedly decided not to loan South Africa $500 million.

Senator Clark reported in his opening remarks about bank loans to South Africa:

"What is U.S. bank involvement in South Africa now? Short term claims against South Africa by banks operating in the United States amounted to $672 million in May, 1976. Long term claims amounted to $181 million. Loans to South Africa by branches of U.S. banks operating abroad amounted to $1.108 million in June, for a total U.S. claim on South Africa of nearly $2 billion.

Both short term and long term claims against South Africa have more than doubled since the end of 1974 and claims by foreign branches are up by $500 million since September, 1975.

In addition to loans, U.S. investors are participating in the South African bond market. Since the beginning of 1975, U.S. banks have managed bond offerings of close to $150 million."

2. During the time that Standard Bank was initiating these reports, immigration activities etc. Chase Manhattan held a 15% interest. Several years ago Chase divested itself of that interest. Most recently Chase has opened in office for itself in South Africa.

Citibank Aided South Africa In Loan Deal

By Nancy L. Ross
Washington Post Staff Writer

Citibank, the second largest bank in the world, confirmed yesterday it is negotiating a $300-million-plus loan to South Africa along with several other American banks.

The firm's executive vice president, George J. Vojtal, made the statement in testimony before the Senate Foreign Relations Africa Subcommittee which is holding a series of hearings on the conduct of American business in South Africa.

Rumors surfaced last month in London that the Vorster government, turned down by the shah of Iran in its bid to borrow $300 to 500 million, had approached U.S. banks. South Africa's current debt to foreign banks is $5.5 billion, or 16 per cent of its gross national product. This year the government must service a public debt of $977 million, much of it with short-term loans, so its efforts to acquire loans from foreign banks are expected to intensify.

Timothy H. Smith, representing church groups opposed to U. S. economic support of South Africa because of its apartheid policies, urged the Congress to enact legislation prohibiting such loans or at least requiring disclosure of loans exceeding $100,000.

Citibank is said to be the largest lender to South Africa. Vojta admitted to loans of more than $300 million (out of a total U.S. claim on South Africa of nearly $2 billion). Its 1976 loans include $200 million to ESCOM, the government-owned electric utility; $150 million to development of a titanium mine jointly owned by South Africa and Kennecott Copper; and $80 million to ISCOR, the government-owned iron and steel works.

Vojta denied Smith's allegation that Citibank was participating in a $14 million loan to Transkei, the first South African homeland for blacks to gain independence. "It's premature to judge what we might do," he said.

Citibank's executive vice president defended investment in South Africa as the most effective way of creating opportunities for non-whites. He described the firm's loan criteria as essentially apolitical and declined to answer subcommittee chairman Dick

AFRICA, From C8

Clark's (D-Iowa) challenge that Citibank's lack of ethical standards (in supporting a repressive regime), if applied in the 1930s, would have meant the bank would be making loans to Nazi Germany.

Smith noted that Maryland National Bank had declared in 1974 that it would not participate in loans to South Africa. A handful of others have joined Maryland, while First Pennsylvania, of Philadelphia has pledged to engage in a secondary boycott by not lending to U.S. firms planning to expand in South Africa.

The Export-Import Bank came under fire from Sen. Clark for its financial relations with Pretoria. Though Exim has been prevented from making any direct loans since 1964, its affiliate, the Private Export Funding Corp., has made direct loans of $95 million to South Africa. Exim guarantees Pefco's loans. It also has a veto power over them, and has a line of credit—this far unused—to Pefco.

Exim's senior vice president, Stephan M. Minikes, denied there was any inconsistency. In fiscal year 1975, Exim authorized $182 million to back U.S. exports to South Africa; in 1976, the total rose to $222 million, most of the increase due to more short-term insurance required by the growing unrest.

The underlying message at the hearing seem to be: What moral suasion has thus far not succeeded in doing, plain economics may do. Minikes testified that Exim had more loans outstanding to business in some black African countries, such as Zaire, than in predominantly white South Africa because the latter is becoming an increasingly bad economic risk. Sen. Clark expressed surprise, saying that was contrary to what most people here believe to be a strong South Africa surrounded by unstable black governments.