INTRODUCTION

This is the first COBLSA newsletter in roughly 17 months. Prepared for the National COBLSA Meeting, it contains a variety of materials giving background on the current status of bank lending to South Africa; position statements adopted by church and other groups re bank lending to South Africa; and information on the South African economy. It also includes a Guide to Banking Terminology and a special section on Citibank, the largest lender to South Africa.

We hope that the Campaign Newsletter will become a real resource for updated information and analysis relevant to the needs of campaigning groups across the country.

SHORTS/SHORTS/SHORTS

South African Mining concerns have bought their way into UK North Sea oil development. Their involvement, revealed by the UK Anti-Apartheid Movement, is expected to result in protests by Holland, Sweden and Norway over the issue. The companies involved include Federale Mynbou, an Afrikaaner-run J'burg firm and Charter Consolidated, a UK associate of Anglo-American. Mps have asked that the licenses be withdrawn for those companies involved in the consortium with South African holdings. (March 1981)

The South African government has initiated an ad campaign in US trade journals and financial sections of newspapers playing up SA mineral wealth and the implications of its "falling into the wrong hands". The ads claim US investment creates hundreds of jobs for black South Africans and pushes the South African interest in a new gold-based international monetary system. (February 1981)

UK firms in many cases depend on their South African holdings to provide them with major profits during a time of recession in Britain. South African operations contributed 2/3 of Mitchell Cott's 1980 profits. (Times, UK, March 6, 1981)

10% of Barclay Bank's group profits came from South African Operations in 1980. 4/30/81.

Officer of the Association of Chambers of Commerce (SA) told potential American investors in a lowkey visit to the U.S. that "Post-election South Africa can exact a heavy price from sanctions-happy African neighbors" and would retaliate against any sanctions campaign. Raymond Parsons met with business groups, including bankers, stockbrokers and MNCs in NYC while on a recent visit. He would not name the groups he met with "for obvious reasons". May 5, 1981 - Star.
CITIBANK AND SOUTH AFRICA

(Abstract from a paper prepared by Tim Smith (ICCR) and William Howard (NCC-USA) for the International Seminar on Bank Loans to South Africa, Zurich, April 5-7, 1981. Gail Morlan of ACOA prepared the sections analyzing specifics of the loan.)

In October 1980, Citibank participated in a $250 million seven-year syndicated loan to the South African government. This Eurocredit was co-managed by Barclay's (UK), Union Banque de Suisse and Citibank. In November 1980, Fr. Daniel Driscoll of the Maryknoll Fathers testified before the U.N. Special Political Committee and outlined church concerns over the loan and the role Citibank has played in South Africa:

"Some analysis of the vital role of Citibank is illustrative of the important role of international banks. Citibank has been one of the major lenders to South Africa. Between 1972-1978, Citibank participated in 27 loans totalling $1.6 billion, carrying exposure of over $400 million. Citibank has also played an important role in loaning to South Africa at times of political instability and social unrest. Both in 1960, after the Sharpeville massacre and in 1976 after the Soweto uprising, Citibank made loans to South Africa, thus helping to restore confidence in the stability of the South African regime.

Citibank Local Operations and Loans: South African law requires that banks operating there place 15% of public assets in government bonds. Citibank South Africa complied, but in response to inquiries, its officials report that they have not purchased defense bonds. However it is important to note that Citibank is required under South African law to provide capital to the Government through the purchase of bonds. Examples of Citibank loans to South Africa include a 1974 $100 million loan to ISCOR (South African Iron and Steel Corp.), a $50 million loan to ISCOR in 1975, as well as $30 million to ESCOM (South African Electricity) and $10 million to the Industrial Development Corporation, all South African Government agencies. In 1976, $200 million was loaned to ESCOM, $80 million to ISCOR, $20 million to the South African Broadcasting Corporation, and $110 million directly to the South African Government. $30 million was also loaned to a South African mining company, Johannesburg Consolidated Investment.

This new $250 million loan shows that Citibank has reneged on an earlier pledge not to lend to the government. This loan, which is the first in 3 1/2 years to be made directly to the South African government by a U.S. bank, undercuts Citibank's claim that its role is fundamentally non-political."

Citibank failed to entice other US banks to participate in this new loan and thus took a full $50 million share of the $250 million loan. Later they indicated one other US bank bought part of their share. In response to church inquiries, the following banks indicated they had not participated in the loan.

- Chase Manhattan - the bank's lending policy forbids loans to the So. African gov't;
- Chemical New York Corporation - the bank does not lend to the South African government or its agencies as a matter of policy;
- Manufacturer's Hanover Corporation - the bank has said that it will not participate in this loan;
- First National Bank of Boston - the bank announced at its 1979 annual shareholders meeting that it will not loan to the SA government or its instrumentalities or agencies;
- Morgan Guaranty - Although the bank has no policy against lending to the SA government it refused participation in this loan because it considers the uses of the loan to be too broad;
- Bank of America declined to participate in this loan.

The $250 million loan is ostensibly for black projects in housing, education & health. The new argument used by banks to justify lending to So. Africa is that such loans are for services for black people. Yet Owen Horwood, Minister of Finance for So.
Africa, stated clearly that financing services for blacks was not primary to the South African government when it negotiated this new loan. When the loan was sought in September 1980, Horwood said: "We do have a lot of liquidity. Strictly speaking, we did not have to raise a loan of this kind. Any self-respecting country likes, from time to time, to have its name appear on the world capital markets. This is a test of creditworthiness." (Wall Street Journal, Sept. 26, 1980) The loan, by funding seemingly unobjectionable social service projects, helps So. Africa build a positive public relations image internationally. Once again, however, it is the blacks of South Africa who pay for this 'friendly alliance'.

In 1980 Citibank circulated a prospectus to encourage other US banks to participate in this new loan. The prospectus lists 7 projects to be funded. A careful look at each one and the amounts allocated to each demonstrates that each is part and parcel of the apartheid system and that black So. Africans will bear the burden of repaying the loans. For example, where money is earmarked for housing, blacks have to buy or rent the houses, and the income from sales and rentals totals the amount borrowed. South Africa can thus claim it is improving the conditions of blacks while it is the blacks themselves who repay the loans. An analysis of some of the individual projects in the prospectus follows.

**Education**

Among the education projects is one for a new schools construction program at Secunda, the township housing workers at SASOL. The SASOL plant converts coal into oil and is of major strategic importance to So. Africa, lessening oil-lacking South Africa's dependence on imported oil and its vulnerability to a threatened international oil embargo. Supplying services to Secunda directly facilitates the Apartheid government's drive for self-sufficiency.

**Housing**

The prospectus fails to explain why new housing developments, "identified as a particular component of the Government's plans to increase the standard of living in South Africa", are necessary, what conditions brought them about and the purposes they serve.

**Mitchell Plain:** A 5-year old development for Coloured people located at the remote end of a windswept area known as the Cape Flats, 17 km. from Cape Town, it houses those of central Cape Town's District 6 who have been forcefully relocated by the government after the district was proclaimed white under the Group Areas Act in 1966. Eventually facilities for 250,000 people will be built. The loan will provide R100 m. to build houses which residents must buy for between R9000 and R16,000 each. A total of 11,500 houses are planned. If they sell at an average of R12,000, the profit from the sale will total R138 m. Thus it will be the Coloured people of Cape Town, not the South African government, who will pay back the loan. [Thus this part of the loan helps subsidize and facilitate South Africa's forceable relocation plan targeted at segregating residential areas even more.]

Mitchell's Plain is a showpiece development. Compared to affluent white standards, it is barely lower middle class; compared to other facilities for blacks, it is high living. The government is using this and other projects to sow disunity between blacks, dividing them into Coloureds and Africans re the rights and access to services they have. The argument goes that if the Coloureds are comfortable enough, they will not care what happens to the African majority. Although this plan is unlikely to succeed, it is incredible that foreign banks should be willing to finance it. The coloured community was, of course, not consulted in the creation of this housing scheme.

**New Crossroads:** This community's origins lay deeply rooted in the apartheid system of South Africa. Workers and their families, unable to make a living in the barren rural reservations of the Transkei and Ciskei, came to Cape Town seeking jobs and created the squatter town of Crossroads. In 1978 the government decided Crossroads had to be destroyed. When people refused to leave voluntarily, their houses were knocked down
by bulldozers.

Citibank describes the 25,000 working people living in the shanty town of Crossroads as laborers and unskilled workers. It omits the fact that they are migratory workers and that their families (women and children) come to join husbands and fathers who came earlier and had often been living in "bachelor quarters" without their families.

2700 houses are planned for the new community, to rent for R17 to R45 per month. If one estimates an average rent of R30, then the yearly rental income per house is R360 and for the entire project is R872,000. R25 million is designated in the loan prospectus for New Crossroads. If the loan is for 30 years, the income from rents at today's rates would be R26,160,000. Again the loan will be repaid by the people of New Crossroads, not the South African government.

Further, only 2700 houses are being built for a community of 25,000. Thus the government is "improving the standard of living" of blacks by forcing them to live in terribly overcrowded conditions, almost ten to a house. Or, wives and children may once again be "endorsed out" to the bantustans and the banks will have financed one more project which destroys the family life of black South Africans. Citibank's prospectus, in short, indicates all too clearly that what the bank portrays as a 'humanitarian' loan assisting in black education, housing & health is, in fact, a government-dominated series of projects which help to serve the goals of apartheid in South Africa. This loan does little but subsidize/modify residential segregation. More importantly, such loans make foreign capital subsidize the few cosmetic service projects aimed at blacks in South Africa, freeing up white South African capital to concentrate on subsidizing the armaments industry and other strategic defense projects aimed at preserving white rule. Such loans thus 'pay' for white racism in South Africa (which has no shortage of capital at present) and enable the white-dominated government and private sector to spend its capital on ways to preserve that racism directly.

PRESENT LIST OF ACTIONS ON CITIBANK

The following Roman Catholic orders and Protestant denominations have announced a pledge to buy no CITIBANK Certificates of Deposit, notes or bonds because of CITIBANK'S South Africa policies. All of these Church investors have as part of their portfolios bank securities.

PROTESTANT AND ORTHODOX AGENCIES

American Lutheran Church
United Presbyterian Church Foundation
American Friends Service Committee
United Church Board for World Ministries
National Council of Churches
World Council of Churches (Geneva)
United Christian Missions Society of the Christian Church (Disciples of Christ)
Church Women United
Reformed Church in American
Unitarian Universalist Association
Episcopal Church Publishing Company
United Methodist Board of Global Ministries
American Baptist Churches, National Ministries

ROMAN CATHOLIC ORDERS AND DIOCESE

Roman Catholic Archdiocese of Milwaukee
Sisters of Notre Dame de Namur, Connecticut Province
National Catholic Rural Life Conference
Sisters of Loretto
Congregation of Sisters of St. Joseph, Buffalo, N.Y.
Adrian Dominican Sisters, Michigan
Servants of the Immaculate Heart of Mary, Monroe, Michigan
Dominican Fathers and Brothers, Province of St. Albert, Illinois
Sisters of Mercy, N.Y. Province
Order of St. Augustine, Pa.
Sisters of Charity, Nazareth, Kentucky
Sisters of St. Francis, Wisconsin
The Marianist Society, N.Y. Province
The American Lutheran Church divested of approximately $2 million of CITIBANK securities in protest against their South African policy.

The Sisters of Mercy of New York were approached in March 1980 by CITIBANK, who offered them a variety of services and accounts for their religious order. Representatives of the Sisters met with CITIBANK and found that the services offered were of a high quality and would meet the Order's needs. After consultation with the Order's financial manager, the Provincial Administrator and the corporate responsibility staff, the Order decided not to accept the services of CITIBANK until such time as the CITIBANK'S South African policy changes.


The Adrian Dominican Sisters based in Adrian Michigan decided at their General Council meeting in early 1981 to divest 6,000 shares of common stock because of CITIBANK'S new loan to South Africa. This is the first time that this order has divested itself of securities for any reason.

In February 1981 the Sisters of St. Joseph of Rochester, New York sold 1,000 shares of Citicorp stock because they believed Citibank's loans to South Africa violated their investment policy.

Similarly in March 1981 the Sisters of the Immaculate Heart of Mary, of Monroe Michigan divested 1,100 shares of Citibank.

The Unitarian Universalist Association sold 8,728 Citibank shares of common stock in 1980. The value of this sale was $292,119.

The National Conference of Public Employee Retirement Systems, at their 40th convention in 1981, passed the following resolution:

WHEREAS, the American working man and working woman have the ability to bargain collectively for hours, wages and other conditions of employment, and

WHEREAS, it can be said that having a pension plan is truly a condition of employment, and

WHEREAS, a pension plan is a means of providing the American working man and working woman a future economic security and a future of freedom from want, and

WHEREAS, having economic security and freedom from want is having a standard of living that is in keeping with the principle of respecting human dignity, and

WHEREAS, in America today their are corporations, banks and insurance companies that do not believe in respecting the human dignity of the American working man and working woman, be it

RESOLVED, that no monies of public employees' retirement systems be invested in part or in whole, by fund managers, money managers, or others in any anti-labor company; and be it finally

RESOLVED, that no monies of public employees' retirement systems be invested in part or in whole, by fund managers, money managers, or others in any country, government or regime which does not respect human dignity.
FREE BANKING ZONES AUTHORIZED AS LURE TO FOREIGN BUSINESS

FEDERAL RESERVE LIFTS CURBS

Rate Ceilings and Other Rules Will Be Removed Dec. 3 — Gains Seen for New York City

By CLYDE H. FARNWORTH
Special to The New York Times

WASHINGTON, June 9 — The Federal Reserve Board today authorized banks to set up facilities in the United States to compete for much of the international banking business that now goes to London, Singapore, Nassau and other foreign banking centers.

The decision, long sought by leading banks in New York City, is likely to elevate the city's status as a world banking center.

The board voted unanimously to allow banks in the United States to conduct international activities free from federally imposed reserve requirements and ceilings on interest rates — restraints that have led American banks to conduct much of their international business from branches in foreign centers rather than directly from the United States.

More Jobs and Business Forecast

Those who supported the concept of the free banking zones argued that they would create more jobs and business in the United States.

"I am delighted," said James O. Bolst, vice chairman of the Morgan Guaranty Trust Company, "it will be good for the economic development of those cities in which they are located and it's a positive development for banking generally.

At present, the Federal Reserve requires domestic banks to post limits on the amount of deposits held by foreign banks, and these so-called reserves may not be used for lending.

Requirements Increase Costs

Such reserve requirements, which increase a bank's cost of doing business, do not apply to deposits in foreign offices. In addition, domestic banks must pay premiums for insurance coverage from the Federal Deposit Insurance Corporation. Such premiums are not required on deposits in foreign offices.

Both the reserve requirements and the insurance premiums increase the cost of doing banking business from the United States. Because profit margins in the international financial markets usually are fractions of 1 percent of any transaction, these additional costs are critical.

Under the Federal Reserve's new ruling, the international banking zones will be exempt from the reserve requirements and the deposit insurance premiums, thus making the United States competitive with the foreign markets. The new arrangement is to become effective on Dec. 3.

In anticipation of the Federal Reserve's action, New York, Connecticut, Florida, Georgia and Maryland have passed legislation exempting income from the international facilities from state and local taxes and similar legislation is pending in California, Hawaii, Massachusetts and Illinois.

New York was the first state to pass the necessary state tax legislation. When the bill passed the Legislature in 1978, it was estimated that 5,000 to 6,000 new jobs would be created in New York City.

The Federal Reserve Board had agreed in principle last November to permit establishment of the international banking facilities and had set Oct. 1 as the effective date.

The decision today to move the date to Dec. 3 was intended to give other states time to make changes in laws or regulations to help them lure the foreign deposits.

But because of the established financial position of New York, many non-New York banks are expected to set up offices in the city to conduct international operations.

Comments From 100 Institutions

The Federal Reserve Board acted today following comments from nearly 100 institutions on its original proposal for structuring the international facilities.

While most bankers in New York were enthusiastic about the concept of the zones and leapt in favor of them, many bankers outside New York were less enthusiastic. Any such liberalization of regulation is good for the country, but we'd rather see broad-based banking deregulation rather than deregulation of this sort in bits and pieces," said Paul L. Smith, vice chairman of the Security Pacific National Bank in Los Angeles. Mr. Smith said Security Pacific had not decided whether it would establish an international banking facility.

Some bankers, especially in Chicago, had objected to the proposal because the major New York banks had stated that they would require letters of guarantee from out-of-state banks before they would clear the billions of dollars expected to be channeled through the zones.

"We didn't resist the idea, but we felt it should be tied in carefully and closely with the nation's whole money clearing system," said John H. Perkins, president of the Continental Illinois National Bank and Trust Company. Mr. Perkins added that not all the details of the Federal Reserve Board's decisions released today and that he did not know if the final ruling had dealt with his bank's concerns.

The importance of today's move is underscored by the growth of the international banking business over the last two decades to a point where it represents, according to latest estimates of Morgan Guaranty Trust, some $700 billion of annual transactions.

Many American banks have set up offices in London, Singapore, Nassau, in the Bahamas, and other centers to participate in the international activity, which is otherwise known as the Eurodollar market. Eventually, some of these offices might be closed as a result of today's decision to go along with international banking.

Under today's decision, the international banking facilities will be permitted to accept deposits only from corporations, banks and individuals based in the United States and to make loans used solely for foreign purposes.

Foreign-based subsidiaries of American or other multinational corporations can use the facilities, but only after specifically acknowledging, according to the board's decision, that they were not supporting domestic American transactions and thereby benefiting from the exemptions from interest rate ceilings and reserve requirements.

Wording Being Worked Out

The precise wording of a statement that would have to be signed by the corporate customer was still being worked out by the Federal Reserve's staff.

All transactions involving the facilities must be in minimum denominations of $20,000 and two days' notice will have to be given before withdrawals can be made. The accounts are for foreign tax and corporate customers. But transactions between banks and between the new facilities themselves will be exempt from the two-day notice requirement.

Because the international transactions are to be segregated by the banks — with the money coming from abroad merely being turned around to be used abroad — Federal Reserve officials said they did not expect the introduction of the facilities to have any effect on domestic money supply patterns.

The principal concern expressed in the comments of banks not based in New York was that, when competing in New York, they could lose competitive advantage because of limited capital and lack of direct access to the New York Clearing House interbanking payments system.

A computerized linkup between the out-of-state banks and the New York Clearing House is being worked out and Federal Reserve officials said this should relieve the problem of access.