MULTINATIONAL monitor

Volume 5 Number 5 May 1984 $1.75

THE BECHTEL SCANDAL

Charges of bribery in Korea spark FBI probe

What did Caspar Weinberger know?

MULTINATIONAL monitor

THIS MONTH

Volume 5 Number 5 May 1984

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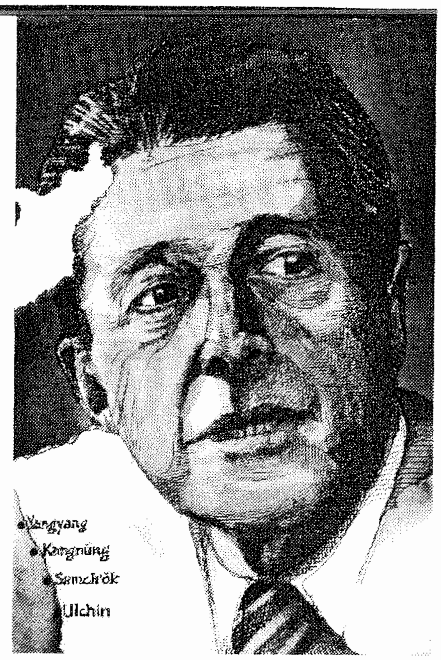

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PRINTED BY UNION LABOR

Multinational Monitor, (ISSN 0197-4637) is published monthly by Ralph Nader's Corporate Accountability Research Group, 1346 Connecticut Ave., N.W., Suite 411, Washington, D.C. 20036. Telephone: (202) 833-3932. Second-class postage paid at Washington, D.C. and additional offices. — — **POSTMASTER:** Send address changes to *MM* Subscriptions, address as above. — —

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MM is indexed in the Public Affairs Information Service (PAIS) and the Alternative Press Index. It is available on microfiche from Bell and Howell, Micro Photo Division, Old Mansfield Road, Wooster, OH 44691, and on microfilm from University Microfilms International, 300 North Zeeb Road, Ann Arbor, MI 48106. A list of back issues is available from the *MM* offices.

ANNUAL SUBSCRIPTION PRICES: Personal—$18; Non-profit institutions—$25; Business institutions—$35. *Foreign subscriptions:* Canada and Mexico, add $5 to cover first class mail; all other countries, add $8 for airmail. **SINGLE COPY PRICE:** $1.75. For distributors to bookstores, contact *MM office.*

The Bechtel Scandal

This month *Multinational Monitor* publishes an exclusive, ground-breaking report on allegations of bribery against the Bechtel Group, and on the role of the U.S. nuclear industry in South Korea. The result of a nine month investigation by *Multinational Monitor*, Nautilus Research, and *Mother Jones*, the article was released to the press on April 20 and was immediately picked up by the major news media.

The story is a powerful commentary on the degree to which the U.S. governement works in the interests of the giant corporations. It also raises disturbing questions about the close ties between the Reagan administration and the Bechtel Group, about the exercise of U.S. power in South Korea, and about the ability—or willingness—of the U.S. government to enforce laws that negatively affect corporations.

As detailed in our story, the U.S. government has supported multinational corporations in Korea in three general ways:

- Through the U.S. Export-Import Bank, the government has funded a multibillion dollar bailout of the nuclear industry by lending money to Korea to buy reactors from market-hungry U.S. vendors. In other words, the American taxpayer subsidizes an industry, rejected at home, through public funds that allow the companies to sell their reactors and engineering services overseas.
- By supporting military governments in South Korea through direct aid and a closely integrated military command, the U.S. provides American firms with a security shield that gives companies like Bechtel, Westinghouse, General Motors, Cargill, and AT&T the opportunity to exploit a virtually strike-free labor force and take advantage of lax environmental standards and a dependable, government-regulated market. For the nuclear companies, the repression of democratic rights by the South Korean government removes an important obstacle—public opposition.
- By linking U.S. government loans to its military commitment to South Korea, the government gives American firms powerful leverage to reinforce their market and investment positions. Often unstated, such pressures are acutely felt by the Koreans, and take on added dimensions when high officials of the U.S. government—such as Secretary of State George Shultz and Secretary of Defense Caspar Weinberger—come from a company with extensive business dealings in Korea.

Multinational Monitor and *Mother Jones* have made no specific allegations against Shultz and Weinberger concerning Bechtel's activities in South Korea. But, according to Daniel Charboneau, a former Bechtel official, both men were in a position to know about the alleged bribery. As men entrusted with the management of U.S. foreign and military policy, it is proper to ask of such officials the same question that Senator Howard Baker asked of President Nixon during the Watergate hearings: what did they know, and when did they know it? The American—and Korean—people have a right to be informed if they were involved, and to be reassured if they were not.

Answering these questions, exploring the U.S.-Korea relationship, and untangling the Bechtel mystery in Korea requires a full legal investigation. But so far, the role of the FBI and the Justice Department is not encouraging. The FBI took nearly two years to issue a subpeona to Daniel Charboneau after he gave the agency documents and testimony that implicated Bechtel in acts of bribery (last summer, when Charboneau contacted the FBI from Hawaii, the agency said they didn't have the funds to send someone to talk to him). And according to Bechtel's official statements on the bribery allegations, neither the FBI or Justice has been in touch with the company as of the end of April.

Why not? Is it bureaucratic inertia? Or is the Bechtel influence in the government so strong that officials are reluctant to pursue the case?

The other arena for investigation, of course, lies in the Congress, especially in the committees working to preserve the Foreign Corrupt Practices Act and those that oversee the U.S. Export-Import Bank. But prodding Congress to investigate the Bechtel affair will require citizen pressure—and in this process, the press can play an important role. The fact that the media in South Korea is under such tight control makes this obligation even stronger.

As we have learned from Watergate and Vietnam, an independent press is indispensable to protecting a democratic people from the arbitrary use of power.

The whistleblower

On the day our story was released to the press, the whistleblower, whose allegations are the primary basis for the FBI inquiry and our own story on Bechtel, announced that he wished to go public to protect himself and to ensure that a thorough investigation is conducted.

Daniel Charboneau, 52, joined Bechtel in 1974 and served as the assistant to Bechtel's regional representative in Korea from 1978 to 1980. A former Maryknoll priest and missionary to Korea from 1961 to 1970, Charboneau left Bechtel after the September 1980 meeting (described on p. 15) when he was asked by the company not to return to Korea. In the next few months, he says, Y.S. Cho and Bechtel harassed him, spreading rumors that he was taking bribes and ordering Bechtel employees in Korea not to socialize with him or his family.

Charboneau was subsequently fired from his job at 3M in Seoul, only days after receiving his subpoena from the Justice Department. Once an $80,000 a year executive, Charboneau currently teaches basic skills to American soldiers in Korea for $7.50 an hour.

U.S. AID in Haiti: throwing good money after bad

by David Kinley

TORBECK, HAITI—Peasant women and children gather along the steep walls of this concrete irrigation canal every morning to bathe in the mountain-fed current and gather the day's drinking water in hollow gourds and brightly colored vinyl washtubs. Adjacent to the canal, however, the cornfields have been parched by yet another season of slack rainfall in this remote rural community on Haiti's southern peninsula.

The life-giving waters have flowed untapped past wilting crops for over twenty years now because secondary canals are incomplete. Local farmers are frustrated, so frustrated they broke the main canal early last year to drench their fields.

"We're tired of being lied to by the district officials," shouts one farmer, dismayed that frequent funding cutoffs have delayed this irrigation project for so many years. Noting he hasn't seen a government check for nearly four months, a district agronomist explains that the irrigation project would be more popular if it had devoted more resources to working with the peasants and less to building its elaborate and now virtually empty headquarters in Torbeck.

The scene stands as a stoic, and all too typical reminder of the failings of U.S. "development assistance" in Haiti, the most impoverished nation in the western hemisphere and a country for which the Reagan administration is seeking greater foreign aid for the third consecutive year, over the objections of human rights advocates, grassroots development workers, and activists in the Haitian exile community in the U.S.

Back in the mid-1970s, the U.S. Agency for International Development (AID) allocated some $3.7 million to providing irrigation for over 20,000 acres of prime farmland in this watershed area surrounding Torbeck and in northern Haiti. But after nearly $1 million of project funds has been spent on "technical services" from a Port-au-Prince consulting firm,

AID officials now label their most ambitious development venture in Haiti "a fiasco."

the farmers around Torbeck have yet to see any substantive benefits, except for sporadic low-wage construction work on a few still incomplete secondary canals.

The irrigation scheme around Torbeck is, indeed, the lone surviving component of what was once the most ambitious AID development initiative in Haiti—the $22.6 million "Integrated Agriculture Development Project" designed to revamp the operations of the Ministry of Agriculture and assist the country's half-million small landholders to grow more food and increase their meager incomes, which average only about $150 annually. But more than six years later, shortages of Haitian matching funds and difficulties in moving the entrenched Haitian bureaucracy have led AID officials to slash planned efforts in soil conservation, agricultural research and extension, and management training. They now label the entire venture "a fiasco."

In this predominantly rural country where an estimated 80 percent of the five million people suffer from varying degrees of malnutrition, aiding the rural poor became the *raison d'etre* of the U.S. AID program in Haiti when it was reactivated in 1973, after a ten-year suspension initiated by President John Kennedy, who was repulsed by the ruthless rule of Francoise "Papa Doc" Duvalier. With the succession of son Jean Claude to the office of "President for Life," AID launched a panoply of new development projects from rural roads and peasant cooperatives to population control which, together with sizeable shipments of "Food for Peace," cost more than $250 million over the past decade.

But despite volumes of rhetoric about "meeting basic needs" in project planning documents, a comprehensive evaluation produced in 1982 by the U.S. Government Accounting Office stated, "The AID program has had a limited impact on Haiti's dire poverty....Project results are generally unsatisfactory." Indeed, a special report prepared for the U.S. AID Haiti mission in 1982 warned, "Haiti is a country facing a severe, protracted and apparently cumulative economic crisis. ...Per capita food and agricultural production has been declining for the last decade, if not longer."

Internal AID evaluations disclose that most development projects suffered from delusions about what could be accomplished working with the notoriously currupt, backward Haitian bureaucracy. Road projects designed to stimulate rural commerce, for instance, had to be drastically scaled-back due to organizational mismanagement, equipment misuse, and outright theft. Government administered farm credit programs took little initiative in granting loans to the neediest producers and instead lent to better-off "modernized" operators who, more often than not, failed to repay.

And projects aimed at stimulating production of coffee—Haiti's chief cash crop and foreign exchange earner—through formation of peasant cooperatives miscalculated farmer behavior. With coffee producers being taxed at a rate equivalent to an urban dweller earning

Mouvement Haitien de Liberation

Widespread corruption undermines U.S. AID's programs in Haiti. Here, a bag of AID-issued corn meal for distribution to Haiti's malnourished people and clearly stamped "not to be sold or exchanged" is sold in a Haitian marketplace.

$40-50,000 per year, it's little wonder that smallholders shifted to growing more food while coffee exports plunged throughout the past decade.

Responding to the deepening economic crisis in Haiti, the arrival of hundreds of illegal "boat people" on Florida shores, and the Reagan administration's rhetoric of "supply-side foreign assistance," U.S. aid agencies have initiated a drastic reformulation of development strategies for Haiti in the 1980s. Under the "Caribbean Basin Initiative" proposed by President Reagan in 1982 and enacted in August 1983, the focal point of U.S. foreign aid in Haiti has shifted to assisting development of the private sector.

Sporting a modish safari suit, the energetic AID Mission Director in Haiti, Harlan Hobgood, explains that almost half of AID project funds had been going to support the Haitian bureaucracy and build physical infrastructure and not directly reaching the people. Now, by channelling AID funds to groups such as CARE, Catholic Relief Services, and others, Hobgood proudly notes, "We get more out of our money."

Using some of the $10 million Haiti is receiving through the Caribbean Basin Initiative, AID is providing business loans to small and medium size enterprises and helping to organize these interests into a formidable business pressure group. Using terminology he attributed to Walter Mondale, Hobgood says that the new AID role can be that of a "civilizing mission... fostering an evolutionary change in the Haitian government." The current Haitian elite can maintain their present income levels, but distribution of income, he explains, needs to be broadened through taxation of the wealthy and greater opportunities for economic growth. "With economic pluralism will come political pluralism in Haiti," he claims.

The former U.S. ambassador to Haiti, Ernest Preeg, points out that the country stands to benefit substantially from trade provisions of the Caribbean Basin Initiative, which give Haiti 12 years of tariff-free access for most exports to the U.S. market. Citing the by now well-worn formula for growth in Third World countries, the ambassador says that U.S. aid agencies are encouraging an "export-oriented" development strategy in Haiti through a combination of "aid, trade and private investment."

This development strategy reinforces recent efforts by AID, the World Bank, and the IMF to shift Haiti's economy toward greater production for the U.S. market and increased dependence on the U.S. for grain and consumer products. With massive and continuing erosion of overcultivated farmland in many parts of the country and the resulting migration to urban areas, development strategists have turned toward labor-intensive manufacturing as the answer to Haiti's economic problems. Until recently, Haiti could boast of lower wages than Mexico, Jamaica, and Barbados, an advantage that attracted investments from U.S. sporting goods firms (see *MM*, August 1982), followed by electronics, toy, garment, and food processing firms.

But Haiti has been hard hit by the recession and new contracts have dried up as many multinationals have moved to even cheaper frontiers of sweatshop manufacturing like Indonesia and the Philippines. Though the World Bank and AID have established new lending facilities in an effort to support new ventures in manufacturing and agroindustry in places like Haiti, the funds are attracting few takers in an uncertain business climate.

Even with greater financial and technical aid and the new trade advantages, it remains doubtful that the Haitian government will achieve a sufficiently attractive investment climate to spur continuing growth in industry and agribusiness. Sitting in the plush offices of the Haitian American Chamber of Commerce was one very flustered New Jersey manufacturer who had been fretting for more than five weeks while his plastic cassette-tape components sat on the steamy docks of Port-au-Prince awaiting customs clearance.

Whether the Duvalier government itself can be convinced to give up its lucrative coffee tax revenues is also in doubt. U.S. AID has long insisted that heavy taxation has discouraged new investment and greater production of coffee, but has been negotiating for over four years for a food aid agreement which would give Haiti long term commitments of food aid in exchange for a coffee tax phase-out.

And whether American food aid is in fact being handled better by private aid groups than by the Haitian government has been questioned by studies conducted by U.S. AID's Audit Office showing that in the Catholic Relief programs alone "over 90 tons of commodities deteriorated, were stolen or disappeared during [Fiscal Year] 1982 without a satisfactory explanation."

What is most certain about Haiti is that development progress, if any, has been extremely slow, while the pressures on the population and environment rapidly mount. Already, about one million Haitians live outside their native land having emigrated, legally or otherwise, to other Caribbean islands or the U.S. Every morning hundreds of applicants line up in front of the U.S. consulate seeking a temporary visa to visit the U.S. and work for a few days, weeks, or months. And lurking just outside Haitian territorial waters U.S. Coast Guard cutters comb the open seas—at a cost of $1 million a month —picking up Haitian "boat people" bound for the promised land, Miami.

David Kinley is a freelance journalist based in San Francisco and co-author of two books: Development Debacle: The World Bank in the Philippines *and* Aid As Obstacle.

LABOR

Labor victory at nursing home chain

by Steve Askin

Two big unions won a significant victory in their drive to organize the health care industry when they signed a peace pact in March with the nation's largest nursing home chain, Beverly Enterprises. The agreement demonstrates the importance of outside economic pressure as an adjunct to union organizing.

In ending the bitter two-year war, Beverly's management promised to respect the right of workers to unionize and agreed to cooperate with the Service Employees International Union (SEIU) and the United Food and Commercial Workers (UFCW) in resolving their disagreements. And the unions agreed to halt a "corporate campaign" against Beverly which had caused significant political and economic problems for the $1 billion a year company.

The Beverly drive was probably the most sophisticated application of a new set of strategies devised by U.S. unions over the last ten years. To bring Beverly to the negotiating table, the unions made it the target of pressure from other labor groups, protest from consumer and church organizations, negative publicity, legal actions before government agencies, and challenges directed against its financial bankers.

The agreement marked the second time in recent months that a multi-union coalition successfully used a "corporate campaign" to convince a nationwide company to moderate its anti-union activities. In December, another union coalition suspended its campaign against Litton Industries after the conglomerate, with $4.7 billion in 1982 sales, agreed to set up a joint committee to resolve union-management disputes.

If obeyed, the Beverly agreement can set the stage for new organizing and bargaining gains at the company and provide a model strategy for organizing in the face of intense management resistance. The key to union success at Beverly was the organizer's realization that quality of care for patients is the issue around which

Stuart Pemble-Belkin/SEIU

Workers at a Beverly nursing home in Michigan celebrate their successful drive to gain union representation.

consumers and health care workers can be brought together.

The settlement followed a year of repeated triumphs for the unions. SEIU and UFCW won 28 of 41 representation elections at Beverly, or 68 percent, compared with a labor movement average success rate of 44 percent.

Health care employs more workers than any other U.S. industry, and has become the leading target for union organizing. SEIU and UFCW focused on Beverly because it is on the cutting edge of the financial revolution that is reshaping the health care industry. Founded in 1963 with three nursing homes, the rapidly growing company now controls 800, with about seven percent of the nation's nursing beds and 70,000 employees. Company officials say that Beverly may expand its operations overseas within the year. Beverly revenues have increased by more than 1200 percent since 1976.

"Beverly is important to SEIU not just because of its size, but because it represents what appears to be the future wave of health care in this country—corporate health care," SEIU President John Sweeney said last year. He argued that corporate medicine is dangerous because it "puts profits ahead of patients" and workers.

Union supporters also charged Beverly with making resistance to unions an integral part of its business strategy. At Beverly's Redland, California home, for example, nurse's aid Margaret Kingsley reported last year that management refused to bargain for three years after workers voted for union representation in 1978. She said supervisors pressured workers to sign an anti-union petition and constantly harassed pro-union employees. The company's top national officials were outspokenly anti-union. "We do not need any intervening third party to enhance the relationship between employees and management," Beverly Senior Vice President Robert Parker said.

In view of such resistance, the two unions organized around quality of care issues before attempting a large-scale fight for collective bargaining. First they launched a proxy battle in which unions and churches holding Beverly stock tried to place a prominent senior citizen advocate on the Beverly board. Next, they staged a sit-in demanding that Beverly release detailed information on health-related legal actions against the company.

The organizing campaign itself began with a flourish on February 23, 1983,

In a 1983 shareholder vote on patient care issues, the union found a most unlikely ally: Chase Manhattan Bank.

when 1000 union organizers, armed with questionnaires on patient care and working conditions, approached workers outside 475 Beverly homes in 26 states. The survey revealed that 74 percent of workers viewed patient care as only fair or poor, 68 percent thought patients' meals were substandard, and 88 percent said that understaffing made adequate health care impossible.

Finally, after a massive search of state nursing home inspection and finance records, they prepared a series of detailed reports on the company, which were used throughout the campaign to educate workers and publicly embarrass Beverly. A study of Beverly practices in California, Texas, Arkansas, and Florida—four states which together account for more than 40 percent of Beverly facilities—revealed that the company spends less than competitors on patient care and puts more money into administration.

The report also charged that Beverly homes are understaffed and employees are poorly trained. It suggested that some Beverly homes feed their patients inadequately and that they sometimes give out improper medication. In California, the only one of the four states to compile industry-wide statistics on nursing home violations, Beverly's deficiency rate was 39 percent above the state average.

Last year, in a second round of shareholder protests on patient care issues, the union won an unusually high 10 percent of proxy votes, including those cast by a most unlikely ally: Chase Manhattan Bank. Unionists said this response proved that sophisticated investors worry that adverse publicity on quality of care can endanger the financial success of a nursing home company.

Union literature denounced Beverly for "devastating employee and patient neglect." Company chairman Robert Van Tuyle responded by charging that unions "don't give a damn about the patients." He said that the organizing drive was failing because workers did not want a union, and suggested that the unions had simply mounted a desperate last ditch effort to create "a false portrait of Beverly in order to gather support from a public genuinely sympathetic to the plight of the nation's elderly."

The joint union-management statement in March announcing their agreement represents a striking change from these harsh exchanges. It pledges that unions and management will work together "to the benefit of health care in this country" on "programs for employees and patients." It announces formation of a "labor/management task force" to resolve disputes. The precise terms remain secret, but unionists say it should lead to speedy negotiation of first contracts at some newly organized Beverly homes. No contracts have yet been signed at the facilities unionized since the beginning of last year.

Beverly retained the right to speak against unionization, but agreed to provide a "non-coercive atmosphere" in organizing campaigns. For their part, the unions agreed to suspend all outside pressure on the company. Instead of going public with patient care complaints, the unions say they will henceforth work with management for improvements.

Though the settlement was a gain for union organizers, it was only one small step in the much larger campaign to unionize the firm. Beverly's workforce remains more than 90 percent non-union, and organizers admit that unionizing the entire firm—or a significant portion of it—will require many years of hard work. "Our intention is to expand our organizing," Shea said, "and they understand that we are going to be doing more organizing at Beverly than ever."

Steve Askin is Washington Bureau Chief of the National Catholic Reporter *and a freelance labor writer. Barbara Yuill assisted with research for this story.*

Nigeria: oil smuggling & other economic troubles

by Terisa Turner

PORT HARCOURT, NIGERIA— Nigeria's new military government is moving forward with efforts to enforce strict economic discipline, as it vowed to do when it seized power in a New Year's Eve coup and ended four years of civilian rule.

Determined to make an example of the previous regime, new head of state Major General Mohammadu Buhari has embarked on a campaign to expose corruption and fraud in the deposed Shagari administration, which he says was responsible for many of the country's economic ills. The move has generally received approval from Nigerians, whose disaffection with Shagari and his supporters is expressed in their frequent calls for quick punishment of the former politicans.

In the most dramatic disclosure so far, Nigeria's Minister of Petroleum and Energy Tam David-West announced the discovery of a syndicate involved in massive smuggling and illicit trade in oil and oil products. The illegal oil deals, he claimed in a February 28 press conference, cost Nigeria more than $17 billion over the past four years. Nearly 350 Nigerian and foreign businessmen have been arrested in connection with the theft. The state-run Nigerian National Petroleum Corporation has initiated an investigation into the extent and methods of the smuggling.

A possible result of the oil swindles may have been the sale of oil to South Africa in violation of the embargo against that country imposed by Nigeria as well as OPEC (of which Nigeria is a member). Tam David-West admitted that the massive theft made it impossible to confirm the destination of many of Nigeria's oil exports. He insisted, however, that the Buhari government had made no direct oil sales to South Africa and reaffirmed the administration's commitment to continuing the embargo.

Smuggled Nigerian crude oil and petroleum products have reduced official oil income figures at a time when a worldwide oil glut has drastically reduced the country's exports, contributing to pressure on the government to seek loans and make purchases on short term credit. And with significant quantities available on the international market at lower than OPEC-determined prices, the smuggled oil has also helped depress world oil prices.

Nigeria's oil industry, the most important sector of the economy, is dominated by multinational interests. Royal Dutch/Shell accounts for 54 percent of production, followed by Gulf with 15 percent, and Mobil, Agip, Elf, and Texaco, each

with 10 percent or less.

Nigeria relies on oil for 95 percent of its export earnings. With the fall in world demand, these earnings have dropped from $24.6 billion in 1980 to $11 billion in 1983. In recent years, Nigerian businessmen and politicians have stepped up their objections to OPEC prices and production quotas, arguing that Nigeria's need for cash is much greater than that of Arab countries. By late last year, member countries of OPEC became seriously alarmed at the anti-OPEC sentiments being expressed by many Nigerian leaders. During its 1983 session, the Nigerian House of Representatives voted to leave OPEC unless quotas were raised.

The Buhari coup sparked fears that Nigeria would start an oil price war that would upset a shaky world market. But Nigeria's new military administration has repeatedly affirmed its commitment to remain in OPEC and to respect pricing and production policies. However, Buhari has formally requested a substantial increase from Nigeria's current production quota and has received assurances from Saudi oil minister Yamani that he will support the request at the next OPEC meeting in July.

Larger incomes from oil production will affect Nigeria's ability to control its mounting debt problems, which had led deposed President Shagari to seek assistance from the IMF last fall. The occurrence of the coup just two days after Shagari announced a strict austerity plan led many to speculate that Nigeria would refuse to toe the IMF line.

But Buhari has stated that Nigeria will continue to negotiate with the IMF for a $2 billion loan and a strict austerity program. European and U.S. bankers continue to insist that their consent to reschedule the country's $14.7 billion debt rests on the success of these negotiations. Nevertheless, IMF demands for a 30 percent currency devaluation and for the removal of government subsidies on oil products—trouble spots in negotiations with the Shagari administration—continue to be sticking points under the new regime.

Though government policymakers and multinationals argue that an IMF plan is needed in order to attract foreign investment, critics charge that it will put an enormous strain on the country's economy. In 1980 Nigeria's foreign debt service amounted to only five percent of total foreign exchange earnings. By 1983, this had risen to 30 percent. If the IMF loan is agreed upon, debt service will swallow almost half of Nigeria's oil revenues for the rest of the decade.

Nigerian labor leaders have been particularly vocal in their opposition to the IMF plan. At a meeting of the Nigerian Labor Congress in late February, then president of the congress Alhaji Hassan Sunmonu argued that the consequences of the IMF program are "pauperization of the already impoverished masses of Nigerians, mass unemployment, mortgaging of national sovereignty, social unrest, and general instability." He urged that the government direct its efforts toward recouping the estimated $17 billion in stolen oil revenues rather than negotiate a $2 billion loan with the IMF.

But head of state Mohammadu Buhari, who delivered opening remarks at the gathering, upheld the need for IMF conditions and called for workers' compliance. He said that he expected the Labor Congress's "full cooperation to maintain industrial peace," and announced that the government intended to review labor laws, some of which he said were "obsolete in the present circumstances." "We will not tolerate frivolous industrial actions," he warned.

But the intentions of the new military regime to enforce a new order are being tested. The four months of military rule have been marked by food riots, a massive prison uprising, and a sustained armed rebellion by a Muslim sect which left 2,000 people dead. The 6,000-strong union of oilworkers has threatened to "bring the country to a halt in five days" if their demands for the removal of unpopular government oil administrators is not met. These rebellions raise questions about the military's ability to set Nigeria on a new economic course.

Terisa Turner is a Canadian energy economist currently at the University of Port Harcourt, Nigeria.

Defusing the apartheid bomb

by Jack Colhoun

A grassroots campaign is gaining momentum in its drive to cut off U.S. assistance to South Africa's nuclear program, which is widely believed to be producing nuclear weapons. Called "Stop the Apartheid Bomb," the campaign was launched a year ago by the Washington office on Africa (WOA), a Washington, D.C.-based lobby for black majority rule in southern Africa.

The organizing effort grew out of concern over mounting evidence that South Africa, with considerable technical and financial assistance from Western corporations and governments, has developed the capability of manufacturing nuclear weapons on a large scale and has actually exploded nuclear bombs in secret tests. Jean Sindab, WOA executive director, notes that "even though the Pretoria government has reached an advanced state in its ability to manufacture nuclear weapons, it is still dependent on the West for high technology, enriched uranium, and technical training."

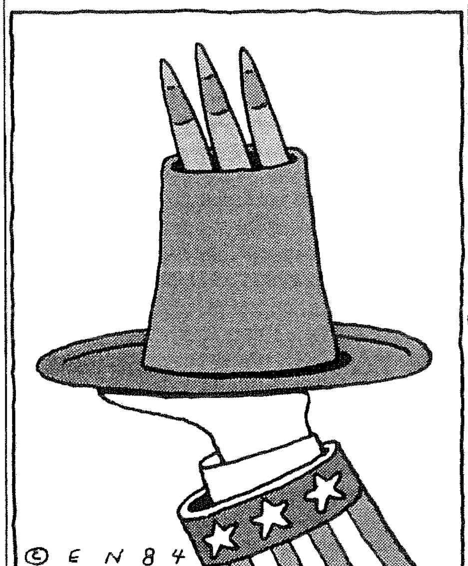
"It is for this reason that we call on the Reagan administration to cease all forms of nuclear assistance to South Africa and to use its leverage with our European allies to do likewise," she says.

WOA is supporting legislation sponsored by Representative Charles Rangel (D-New York), a member of the Congressional Black Caucus. The Rangel bill prohibits U.S. nuclear cooperation with South Africa. Last fall, an amendment to the Export Administration Act sponsored by Representative Howard Wolpe (D-Michigan) that closes loopholes regarding U.S. nuclear exports which affect South Africa passed the House of Representatives, partly through the lobbying efforts of the campaign. Congress is about to act on working out the differences between the bill and a similar but weaker version passed by the Senate.

The organizing effort comes at a time when the Reagan administration has circumvented the Nuclear Non-Proliferation Act passed by Congress in 1978, which bans foreign sales of enriched uranium, the raw ingredient of nuclear weapons, to countries which have refused to sign the Nuclear Non-Proliferation Treaty, South Africa among them. Reagan has allowed Pretoria to acquire the substance from Europe through U.S. brokering companies.

While South Africa denies that it is building a nuclear arsenal, the development and direction of its nuclear program has convinced many that the opposite is true—not least of all the Central Intelligence Agency. In the fall of 1979, the CIA briefed selected lawmakers on Capitol Hill that an intense double flash, characteristic of an atomic blast, was observed off the coast of South Africa on the night of September 23, 1979. Many scientists also concluded that the flash was a bomb test.

U.S. assistance to South Africa, which began with purchases of South African uranium in the 1950s, was justified as legitimate help for Pretoria's civilian nuclear energy program. The U.S.-based Allis Chalmers Corporation won the contract to construct South Africa's first nuclear research reactor, Safari I, under President Dwight Eisenhower's "Atoms for Peace" plan, a program that promoted the transfer of U.S. nuclear expertise and technology. Under the same program, the U.S. agreed to supply enriched weapons grade uranium to fuel the reactor.



As the result of U.S. and other outside technical assistance, Pretoria built a second research reactor, Safari II, in 1967. A pilot uranium enrichment plant capable of producing weapons grade uranium was completed in 1975 with U.S. and West German help. South Africa's first commercial nuclear power reactor at Koeburg, which started up in March 1984, is now generating electricity—and enough plutonium to manufacture one nuclear weapon every two weeks.

Pretoria has refused to allow the uranium enrichment plant to be inspected by the U.N. International Atomic Energy Agency to ensure that international safeguards are in place to prevent the diversion of nuclear materials to weapons production.

Numerous U.S. corporations have collaborated with South Africa's nuclear program through construction work or providing technology. Those involved in the enrichment plant include Boeing, Foxboro International, Honeywell, IBM, and ITT. Construction of the Koeburg power plant drew in Combustion Engineering, General Electric, and Westinghouse among others.

While South Africa obtains uranium from its own mines, Pretoria's main source of uranium is Namibia, which South Africa has occupied illegally since World War I. Experts predict that Namibia will become the world's fourth largest uranium supplier by the 1990s. Even if current negotiations for Namibian independence are successful—an event many observers believe is unlikely—South Africa will probably retain considerable control over the area's mineral resources.

"Uranium from Namibia is cheaper than that mined in other countries because of the racial discrimination in wages, the low taxation rate and the freedom from social, political, ecological, or any other legal restraints in Namibia," according to the findings of the 1980 hearings held by the United Nations Council on Namibia. "The illegal occupation of Namibia, is therefore, a boon to the sellers and buyers of Namibian uranium."

In a recent development, a British researcher who travelled to Namibia in March to investigate uranium mining for the U.N. has just been released from three weeks in a Namibian prison. The researcher, Alun Roberts, became known for his 1980 book *The Rossing File*, which exposed British imports of Namibian uranium that were not previously known. Roberts was arrested and held on minor charges after South African security officials became aware that he was probing further into corporate involvement in uranium mining.

In southern Africa, the connection between nuclear arms and the black majority's struggle for self-determination is stark. Jean Sindab stresses that "South Africa hopes to gain great political and military benefits by simply possessing nuclear weapons and developing an extensive nuclear industry." Sindab adds that the atomic bomb allows Pretoria to resist international pressure to get out of Namibia and to eliminate apartheid in South Africa.

Jack Colhoun is a co-chair of the National Committee Against Registration and the Draft. He writes frequently on U.S. foreign and military policy.

Boycott Coke

Put aside that Coke, Tab, or Sprite—another boycott against Coca-Cola products is off and running.

The second consumer boycott against Coca-Cola in four years was declared on April 6 by the International Union of Food and Allied Workers' Associations (IUF) in support of 460 Guatemalan Coke workers. The workers have been peacefully occupying the Coke bottling plant since February 17, when the franchise's owners claimed bankruptcy and closed the plant (see *MM*, April 1984). Workers and the IUF hope to force the Atlanta-based Coca-Cola corporation to reopen the Guatemala City plant and to respect a 1980 agreement to oversee management at the franchise and cooperate with the workers' union.

In addition to the international boycott, Coke workers in IUF-affiliated unions in Norway, Sweden, and Finland have announced that they plan to halt production indefinitely at their plants beginning May 7. Workers in Australian and Canadian Coke plants may follow suit. German and Norwegian unions have made financial contributions to the Guatemalan workers, while a delegation of U.S. trade unionists visited the plant inMarch to confer with the workers and to demonstrate support for their action. U.S. labor and religious groups also staged shareholder and picketing actions at Coca-Cola's annual shareholder meeting in Houston, Texas on April 18.

Such coordinated efforts are not new for the IUF. They organized similar pressure against Coca-Cola in 1980 to further the Guatemalan workers' prolonged struggle for union recognition. The campaign soon led the Coca-Cola parent company to install new owners at the plant and negotiate a contract with the union. "We hope this campaign will be even bigger," says Sally Cornwell, North American representative of the IUF. *—Bob Stix*

Stockmarket tips from ex-spies

In a world of coups, expropriations, and economic sabotoge, what's a smart investor to do? Well, a group of ex-spies believe they can offer investors a leg up on global political events through a monthly newsletter they call *Investment Intelligence*, according to a solicitation that recently came through our offices.

The newletter's promoters boast of employing "retired agents from the CIA...NSA...Britain's MI-5...and Israel's Mossad" and other intelligence agencies to monitor and analyze fast-breaking geopolitical events that, as they put it, "will cost you a lot, or make you plenty. One *or* the other." These "trained professionals" in information gathering, we are told, have "access to the intelligence black market...to a lifetime of professional contacts," and "know how to go behind the scenes."

Besides slipping readers hot tips which promise to land investors "bonanzas" or save them from disaster, the editors offer to pass along advice from the devious world of agents, such as: a "fresh perspective" on privacy and taxes ("When it comes to tax avoidance, many of the best-known strategies were first originated by the CIA," they claim); how to travel incognito (legally avoiding customs reporting requirements); how to legally get around Treasury reporting regulations for foreign accounts; and how to obtain a legal second passport, possibly with diplomatic immunity.

The newletter also promises to let you in on the dirt that inside people know about. Consider enticing tidbits like these which are supposed to come with every issue: "A certain left-wing, anti-American head of state, in Europe, has been on the CIA payroll for the past 19 years".

Long-distance typists

Office work may be the next American industry to follow blue collar manufacturing jobs overseas in search of lower wages. Union leaders and economic analysts have recognized that a major trend in the years ahead may be the export of "data processing" jobs — particularly repetitive computerized tasks like financial record-keeping. But figures on the extent of this trend have been hard to come by.

The Barbados Manufacturers Association has helped fill that gap with information on Barbados contained in their special eight page advertising section in a recent *Business Week*. Barbados scored a coup in its efforts to become a world data processing center when American Airlines moved most of its data processing operations to Barbados in 1983. Presently five U.S. companies have such operations in Barbados (see chart).

The advertisement also claims that foreign investors, especially in electronics, are "cozying up" to Barbados. And, the U.S. invasion of Grenada "hasn't hurt" either, according to the ad: "With Prime Minister Tom Adams one of the architects of intervention, and Barbados the launch site as well as communications center, the nation drew world attention."

OFFSHORE DATA PROCESSING IN BARBADOS

	Number of workers	Investment U.S. $ thousands
American Airlines	288	1,000
National Demographics	86	400
Kline & Co.	33	300
New American Library	26	146
The William Byrd Press	10	50

Drink Coke—or else

Coca-Cola takes its competition very seriously—so seriously that one of its distributors is bullying a local pizza joint for failing to agree that "Coke is it."

In February, the management of a Coca-Cola distribution plant in Rockville, Maryland issued a menacing-sounding memo to workers warning them against visiting Francesca's, a nearby pizza parlor popular with the plant's employees that serves Pepsi instead of Coke. "Any employee frequenting this outlet in the future will be strongly encouraged to seek employment with the company this dealer presently deals with," the memo stated.

After Francesca's suddenly found its clientele gone and complained to Coke, the company did some quick back-peddling. A second memo stated that workers are free to eat where they want—if they don't wear the Coca-Cola uniform. But Francesca's says workers have not returned to the pizza parlor and has filed suit against the company.

"These guys are intimidated," says Bernice Durbin, an owner of the restaurant. "It's unfair what [the Coke plant] is doing to us," she adds. "This is free enterprise. They can't tell us what to sell."

A Tale

Sometime late last year FBI agent Fred Cundy and federal attorney Joseph Covington quietly opened what may prove to be the most politically explosive case of the Reagan era. Their target is the Bechtel Group of Companies, the giant San Francisco-based construction conglomerate that pioneered nuclear power plant construction. They suspect Bechtel of violating the 1977 Foreign Corrupt Practices Act between 1978 and 1980 by bribing South Korean officials in order to obtain nuclear construction contracts.

Bechtel by itself is not a particularly surprising target. Company officials have been convicted of bribery before, and little attention has been paid to the fact. What makes this case potentially explosive is the fact that Secretary of Defense Caspar Weinberger and Secretary of State George Shultz were working as top executives for Bechtel at the time the alleged violations took place, and both were in positions to know about them. A whistleblower who was highly placed in Bechtel and familiar with the alleged corruption has told the FBI that he has reason to believe that Weinberger knew about it. We will return to Weinberger, Shultz and the FBI in a moment. First, some background.

When Bechtel made its big move into South Korea in 1977, the country was in the midst of one of the fastest economic expansions of the century. In 12 years the Korean GNP had quadrupled. Exports had increased from $119 million in 1964 to more than $10 billion. Sophisticated transportation and communications infrastructures had been built and a massive program of heavy industrialization was under way. To businesspeople and

Caspar Weinberger was Bechtel's general counsel, the company's top legal adviser and troubleshooter. Did he know what was going on in Korea – and at a meeting attended by his second-in-command?

George Shultz was executive sponsor for internal auditing at Bechtel when two separate audits of the Korea division were cancelled. Did he know about the cancellation and the reasons behind it?

# of Corruption

BY MARK DOWIE, PETER HAYES, TIM SHORROCK, & LYUBA ZARSKY

bankers from Tokyo to New York to Munich, it was clear that a "second Japan" was in the making.

With rapid industrialization came a demand for energy unprecedented among developing countries. Bechtel had been building electric power plants in Korea since 1954, when company chairman Stephen D. Bechtel, Sr., had convinced President Syngman Rhee to abandon Korea's hydro projects and build coal-fired plants instead. Korea was a good market for Bechtel, but the power plant construction business had been just like any other for American construction companies until the mid-1970s, when Korea's heavy industry began to overload the electric power grid. Power outages were frequent and energy use for street lights, advertising, and other "non-essentials" had to be strictly controlled by the government. With the price of oil on the rise and predictions of 15 to 20 percent annual economic growth through the 1990s, Korea's technocrats frantically sought more reliable and less expensive sources of electricity than oil- and coal-fired plants. Nuclear power, still being touted overseas as cheap, safe, and reliable, began to loom as the solution to Korea's energy crisis.

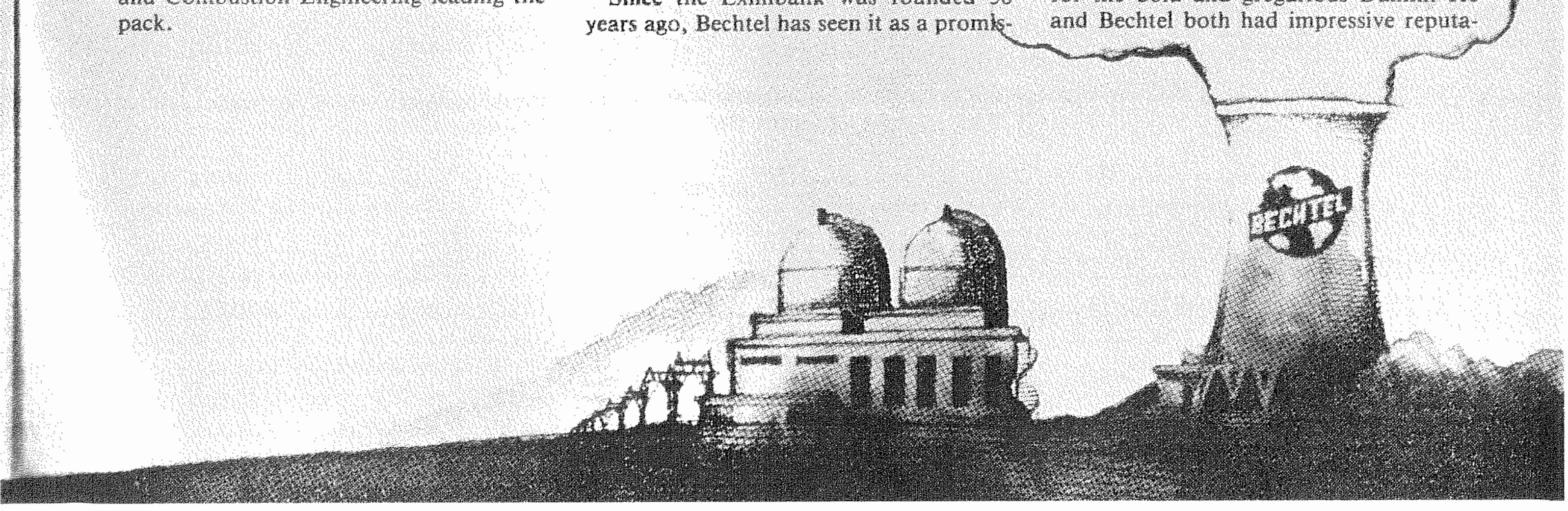
In 1977, the Seoul government announced plans to build 21 nuclear power plants by the end of the century. Overnight, South Korea became the salvation of the world's deeply depressed nuclear industry, which was then facing the beginning of its long slow slide into bankruptcy. American, Japanese, French, Swiss, Canadian, and German reactor makers and engineers descended on Korea—with Bechtel, Westinghouse, General Electric, and Combustion Engineering leading the pack.

American companies had the advantage of 30 years of close ties between South Korea and the U.S., as well as an embassy that acted more like a chamber of commerce than a diplomatic mission. But the massive sums required for nuclear power plants (the billion-dollar price tag for a single plant represents four percent of Korea's 1977 GNP) were beyond the reach of the Korean treasury. If Bechtel, Westinghouse, or anyone else was going to sell Korea a nuclear power plant, they were going to have to find someone outside of Korea to finance it. Enter the Export-Import Bank of the United States (Eximbank), a tax-supported federal agency that assists in financing the exports of American-based corporations.

When American nuclear companies first went to the bank in 1968, its officials told them they were "not prepared. . .to consider financing of the scale and magnitude required by such a project," and suggested they try the private sector. But a concerted lobbying campaign led by Westinghouse, the U.S. Agency for International Development, and the U.S. embassy in Seoul forced changes in the bank's attitude. In October 1968, the bank board voted to include nuclear power plants in its loan portfolio for Korea. Once the Korean government decided to build nuclear power plants, all the Korea Electric Company (KECO) needed to do was apply for a loan. (KECO was renamed Korea Electric Power Company or KEPCO in 1980, but is referred to as KECO in this article for consistency.) South Korea's requests for nuclear financing have since made it the largest recipient of Eximbank money of any country in the world.

Since the Eximbank was founded 50 years ago, Bechtel has seen it as a promising funding source for its gigantic construction projects. Before he retired, Stephen Bechtel, Sr., was on the bank's influential advisory committee. And the Bechtel Group, unholding its reputation as an attractive workplace for high government officials, this March created a new position—executive vice president for financing services—for John Moore, a former president of Eximbank. It was Moore who was dispatched to South Korea by President Carter in June 1980 to convey the bank's support for the newly installed military regime of General Chun Doo Hwan. During his visit—which came only a week after the Korean military had put down a rebellion in the southern city of Kwangju at the cost of some 2,000 lives—Moore promised an additional $600 million in Eximbank funds, mainly for the country's nuclear program. An ardent supporter of nuclear lending, Moore is very likely to become an asset to Bechtel in its quest for the billions required by Third World countries with nuclear aspirations.

In 1977, with Eximbank credit flowing and locations selected for 21 power plants, Jack Damm was ready to make his move. Damm, a widely renowned high-tech supersalesman, works out of Bechtel's Los Angeles office. He travels the world selling the company's nuclear wares. He is eager to a fault, and occasionally embarrasses his employer with his zeal, as he did in 1975 when he offered nuclear enrichment technology to Brazil at the same time the U.S. State Department was trying to persuade the West German government not to do so. Korea was an important test for the bold and gregarious Damm. He and Bechtel both had impressive reputa-



tions to live up to in the nuclear industry. Their reputations, as well as America's, were on the line.

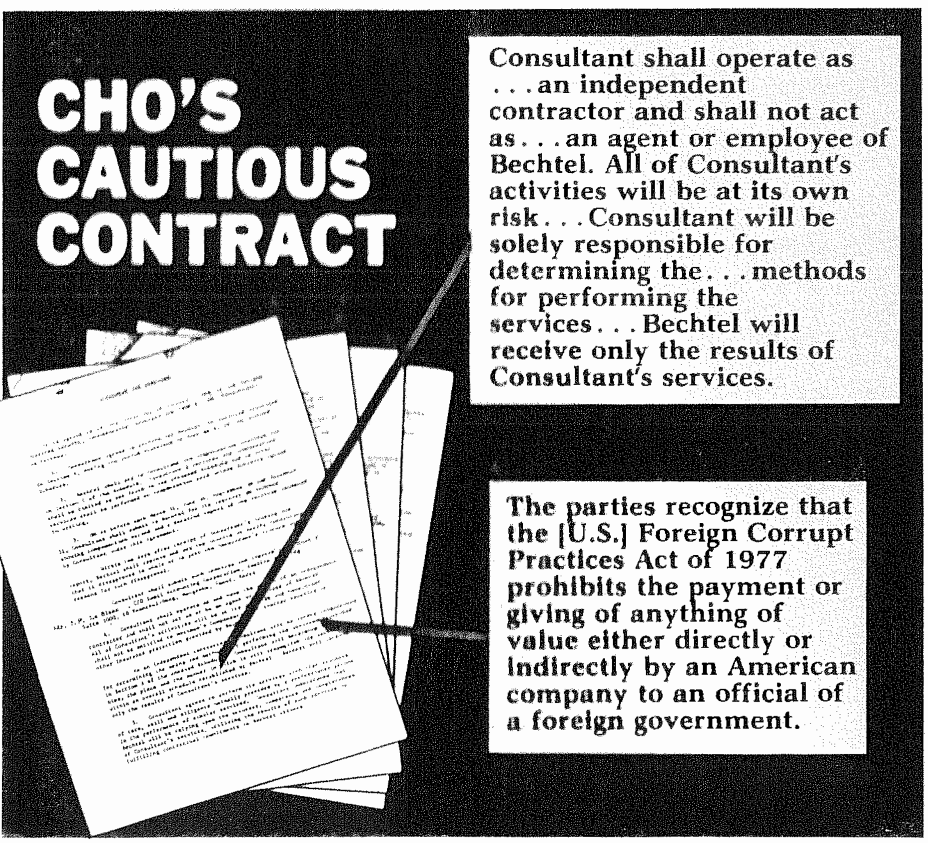
But Bechtel was striking out in Korea. The company was excluded from bidding on the first two nuclear units, which were turnkey contracts won by Westinghouse, with Gilbert Associates performing the engineering and construction work coveted by Bechtel. (A turnkey plant is designed and built at a fixed cost by a consortium of companies who then "turn the key" of a completed plant over to the utility.) Then Canada sold Korea one of its unique CANDU reactors, the plant for which was built by Atomic Energy of Canada. By early 1978, three units were under construction in Korea, and Bechtel, the largest construction company outside the Soviet Union, still didn't have an order. Damm was desperate. So was his boss Harry Reinsch, the feisty, hard-driving former ironworker who had risen to the presidency of Bechtel Power Corporation.

One thing that became obvious to Reinsch, Damm and other Bechtel officials as they watched the lucrative nuclear work elude them was that they lacked connections with influential people in the Korean government and in KECO, the government-controlled utility, people who could change the rules and allow Bechtel to bid on future nuclear plants. Damm found it nearly impossible to reach these people. When he did, they snubbed him.

One day in late 1977 Damm shared his woes with Harold Wilson, Bechtel's senior regional representative in Jakarta. Wilson knew Korea well and had an intriguing suggestion for Damm. When he had been employed by Dillingham Corporation in Hawaii, Wilson had worked with a flamboyant Korean American named Yoon Sik Cho. The 55-year-old Cho was reputed to have connections that reached all the way into the Blue House, the residence of President Park Chung Hee. Find Cho, said Wilson, and your troubles will end. Damm soon located Cho in Seoul and Harry Reinsch flew out from San Francisco to meet him. Damm and Reinsch were impressed and hired Cho as a consultant.

Wilson was right. Soon after Cho's employment things began to improve noticeably for Bechtel. With his assistance, a joint partnership was formed between Bechtel and Taihan Engineering Company. Taihan was at the time being courted by Bechtel's major American competitor, Ebasco. Both Ebasco and Bechtel had been told that KECO was unlikely to let contracts to companies that were not at least partly Korean.

Taihan was a particularly promising partner because its president, Moon Yong Hwae, was related by marriage to KECO's president. Cho promised Moon that if together they landed construction contracts for nuclear units 5 and 6, Bechtel would train Moon's engineers in nuclear science and transfer the technology that could eventually make Taihan "the Asian Bechtel"—an attractive offer for an engineering firm that was perhaps the seventh or eighth largest in Korea. Moon and his Taihan associates were excited about the opportunity. The joint venture was named AMTAI Company (for American Bechtel and Taihan Engineering).



Bechtel's second contract with Y.S. Cho—effective January 1, 1980 and drafted after company executives became nervous about their relationship with the consultant—was carefully worded to try to distance Cho from Bechtel and avoid future responsibility for his actions. But such contract language may not be sufficient legal protection for Bechtel if U.S. authorities find concrete evidence of bribery.

With a Korean name on the calling card and Yoon Sik Cho on the payroll, doors began to open for Bechtel. Contracts for units 5 and 6, both billion-dollar plums already financed by Eximbank, were now clearly in its sight. Reinsch could see that Cho, not Damm, was his ticket to success. He kept Damm on the payroll, but he also negotiated a $90,000 annual contract with Cho (along with a $60,000 expense account). Reinsch then ordered Bechtel's regional representative in Korea, Robert Lynn, to sign the contract and give Cho whatever he needed, "no questions asked." Lynn, who had been reluctant to hire Cho in the first place, signed the contract.

(We were able to reach Lynn, who has since retired, at his home in San Rafael, California. As soon as we mentioned Y.S. Cho, however, Lynn ended the conversation. "That's part of my life I'd just as soon put behind me," he said before hanging up.)

According to testimony given to the FBI by another former high-level Bechtel employee, what Cho needed was expensive American appliances and cash—lots of cash. In the weeks that followed the signing of Cho's contract in 1978, Bechtel employees, who were allowed to bring their own belongings into Korea duty-free, would arrive with brand-new golf clubs, TV sets, video recorders, and refrigerators. The FBI's informant, whom we interviewed in Seoul and Washington, has told the bureau that the appliances would be taken from the port of entry to Cho's house, and distributed from there as gifts to key Korean officials. The informant, who knows that he could possibly be charged as an accomplice, has not yet asked for immunity. He *has* asked that his name be withheld until there is a trial, at which he has said he will testify using his own name.

Periodically, according to the whistle-blowing official, Cho would ask for a large amount of cash. He would say it was an "advance." Anyone who questioned the purpose of the advance would be reminded that Harry Reinsch had left orders to give Cho whatever he wanted—"*no questions asked.*"

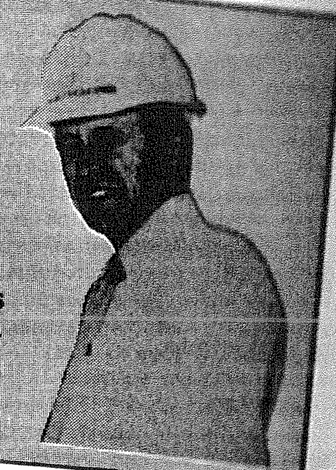
At that point in the proceedings, the informant has told the FBI, either he or another Bechtel staffer would take a check to the Seoul branch of the Bank of America, cash it and carry the proceeds to Cho, who would be waiting in the Bechtel office. Cho would stuff the cash in an envelope, hand the envelope to a driver and order it delivered to an official somewhere in Seoul. The informant told us that this happened perhaps once a week. Someone from Bechtel had to go to the bank he said, because "when the Koreans went down they always came back with small bills" and Cho wanted large ones. One of Cho's most strategic payoffs is described in an affidavit given to the U.S. Internal Revenue Service by Kang Ki Won, one of the drivers who delivered the cash. In this affidavit, Kang testifies that on several occasions he delivered large sums of money from Cho to Shin Ki Cho, a vice president of Korea Nuclear Engineering Company, a subsidiary of KECO. One envelope, he recalls, contained two million *won* (about $4,000).

In the course of our investigation we interviewed a retired American intelligence officer who had been stationed in Korea for most of his career. He refused to discuss classified matters, but agreed to talk generally about U.S.-Korean business and political relations. Although he was not familiar with Cho or Bechtel's activities in Korea, he did not seem surprised at our discoveries.

"There's a Korean word for the payoffs: *ttok-kap*," he said. "It means ricecake money. It goes on all the time." The construction industry, he added, was one of the worst offenders. Corruption was so rampant, in fact, that "the Korean Central Intelligence Agency formed a special division to police it."

Bribery of public officials is illegal in Korea and the law forbidding it is occasionally enforced. "No one wants to go jail," said the intelligence officer. "So they hire some peon who wants fast money to do this kind of work." Consultants like Cho, he explained, are called "cut-outs" because their contracts are written in such a way that if a legal problem arises, they can easily be "cut out" or abandoned. Cho's contract is illustrative. "All of Consultant's activities will be at its own risk," it reads. "As an independent contractor, Consultant will be solely responsible for determining the means and methods for performing (his) services."

"Bechtel's policies on ethical business conduct are clear and prohibit any illegal payments to anyone. These policies are vigorously enforced."
—Bechtel statement to press April 20, 1984



Stephen Bechtel, Jr.
Chairman of Bechtel Group

"I have never made illegal payments to anyone. I have never been asked by Bechtel to do anything which is in violation of U.S., Korean, or any other laws."
—Y.S. Cho to press April 24, 1984

Yoon Sik Cho
Consultant to Bechtel in Korea

"I blew the whistle because of a sense of social justice."
—Daniel Charboneau April 20, 1984

Daniel Charboneau
Former assistant to Bechtel's regional representative in Korea

"OUR PAL"

On May 1, 1978, Bechtel won its first Korean nuclear construction contract—for units 5 and 6. With work underway it was now time for Bechtel to focus on winning the engineering contracts for units 7 and 8, which, like 5 and 6, would also be jointly put up for bid. Executives at Taihan had learned that the Ministry of Energy Resources (MER) was planning to recommend granting this contract to Ebasco. Early in 1979, Cho met with Taihan executives to ask them to help Bechtel make its case to MER.

Taihan's President Moon was upset with this request because he felt that Bechtel had not lived up to its promise to include Taihan in earlier projects. (As far as he knew, Cho had been working for him, not for Bechtel. Taihan at the time was paying Cho about $70,000 a year. According to Moon, Cho had told him that he was not being paid by Bechtel but was merely doing a favor for his old friend Harold Wilson.)

Cho conveyed Moon's complaint to Bechtel and shortly thereafter, on May 17, 1979, a new memorandum of agreement was signed between Taihan and Bechtel. Moon seemed satisfied and the way was cleared for Bechtel to obtain work on units 7 and 8. According to two former Bechtel employees, Bechtel was granted a one-day delay in submitting final bids for these units, and apparently the company was able to read the bids of its competitor Ebasco 24 hours before submitting bids for these units. Employees then at Ebasco are certain that their original bid was lower than Bechtel's.

As time went on, Taihan executives discovered more about the duplicitous behavior of the man they believed to be *their* agent, Y.S. Cho. In frustration, President Moon and Taihan director Sohn Tae Yom sought out someone else in Bechtel who spoke Korean. In the Seoul office they found Daniel Charboneau, an employee who agreed to translate a white paper they wanted to give to Harry Reinsch. This paper, which was formally presented by Moon and Sohn to Reinsch on September 20, 1980, detailed the questionable activities of Cho. It revealed that he was lying to Taihan by claiming that he did not work for Bechtel. Moon and Sohn further informed Reinsch that they were paying Cho enormous retainers and that Cho was also borrowing from Taihan to purchase shares in AMTAI, their joint project. Moon and Sohn also stated that Cho had told them that Bechel chairman Stephen D. Bechtel, Jr., was not favorably impressed with Taihan's personnel or capabilities. For 30 million *won* (about $62,000), Cho had said, "the matter could be fixed." Taihan gave it to him "but we do not know to this day what happened to the money," reported Moon and Sohn. "Why," the Korean executives pleaded, "does a big company like Bechtel need a person like this?"

In the meantime, word reached Bechtel that Korean customs authorities were investigating Cho. According to the FBI's informant in Seoul, when Harry Reinsch learned that Cho was in trouble, he dispatched a Bechtel employee to help him, as quickly as possible, document the large outlays of cash that Bechtel had given him, "no questions asked," over the preceding three years. According to the informant, the employee brought over Korean receipts from California—"it was obvious that they were fake, they were forgeries"—including the $18,000 membership fee in a private Korean golf club.

Evidently the Korean authorities were not impressed, nor did customs officials believe Cho's explanation for the where-

The anti-bribery law . . .

If the current probe by the Justice Department into the Bechtel Group's activities in South Korea turns up decisive evidence of bribery, the company and some of its present and former officers might be prosecuted under the Foreign Corrupt Practices Act, the law which forbids American companies from bribing foreign officials to gain business contracts overseas. Press and congressional scrutiny of the case could also draw attention to the Reagan administration's lax enforcement of the anti-bribery law and the attempts by business and the administration to weaken it.

The corrupt practices act was passed unanimously by Congress in December 1977, after congressional hearings disclosed that major U.S. corporations had made millions of dollars in payoffs to foreign government officials. Some of the revelations had major political impact, as in the case of Lockheed Corporation, which paid more than $25 million to foreign officials between 1968 and 1975, including then Japanese Prime Minister Tanaka Kakuei, who was forced to resign from office and was eventually convicted of accepting the money. Other disclosures of secret payments by Lockheed named Prince Bernhard of the Netherlands and Italian defense officials. The pervasiveness of such practices became even clearer when over 450 companies admitted to the Securities and Exchange Commission (SEC) that they had made questionable payments.

Congress, embarrassed to discover that no law actually banned foreign bribery and eager to avoid further damage to U.S. prestige abroad, passed the prohibition against bribery several months after many of these disclosures came to light. The law is strong, outlawing payments to "any person" where corporate officials knew or "had reason to know" that some portion of the money or gift would flow to foreign officials. To prevent off-the-book "slush" funds and laundering of funds through foreign bank accounts—once common channels of bribe money—the law requires companies to keep detailed and accurate financial records and to devise a system of controls over internal accounting. Penalties for breaking the law include fines of up to $1 million for corporations, $10,000 for individuals, and jail terms of up to five years.

Few charges, however, have been brought under the law throughout its seven-year history. The Justice Department and the SEC, which share responsibility for enforcing the law, have prosecuted ony 13 anti-bribery cases involving six corporations since 1977. Meanwhile, the Justice Department has closed a total of 96 cases without prosecution. No one has gone to jail as a result of the corrupt practices act.

"It is clear that this administration is lenient and is not devoting many resources to enforcement," says Gene Kimmelman, an attorney who monitors foreign bribery issues for the public interest organization Congress Watch. Kimmelman notes that the present Justice Department legal staff for foreign bribery cases has been pared down to less than half its 1977 size. A congressional staff study recently conducted for Representative Tim Wirth (D-Colorado), who heads a subcommittee that oversees enforcement of the law, asserts that a review of Justice Department records "raises serious questions as to the adequacy of the Department's investigations in certain cases, the Department's interpretation of its charge under the statute, and the Department's enforcement policies with respect to the law." The study cites instances where the agency dismissed cases too hastily, ignored obvious lines of inquiry, or failed to pursue cases altogether. It also notes the Department's strong resistance to congressional scrutiny of its activities.

While going lightly on enforcement, the Reagan administration has joined the business community in attacking sections of the act as unfair to business. Corporations, primarily through probusiness zealots such as the National Association of Manufacturers, the Chamber of Commerce, and the Emergency Committee for American Trade, have waged a determined campaign to weaken the act's provisions.

The business community has a long list of complaints about the Foreign Corrupt Practices Act. They claim it has increased the burden of paperwork and that it has a "chilling effect" on companies, causing them to pass up legitimate business opportunities for fear of criminal punishment. They also claim that American firms are suffering a competitive disadvantage because business goes to other foreign companies that engage in bribery. And they argue that the law is a misguided attempt to impose American standards of ethics and moabouts of the refrigerators, golf clubs, and television sets that had passed through his house. With the assistance of Bechtel staffers, Cho managed to borrow these items back in order to show Korean officials that he had purchased them for himself.

As Cho mired himself in controversy, Bechtel's officers in Korea began to distance themselves from him. Assistant project manager Eugene Nelsen even went so far as to issue an order that Cho's name should never be used in the office: "He is to be referred to only as 'our pal.' "

Back in San Francisco, shortly after the meeting of September 20, 1980, with Sohn and Moon of Taihan Engineering, Harry Reinsch convened another meeting on the 23rd floor of Bechtel's headquarters building. Flown back from Seoul to attend were company employees who had knowledge of Cho's activities. Reinsch told them he did not want them to return to Korea. "We will send a nurse to pack up your wife and your children, and your household goods will be sent to you," he told Daniel Charboneau, who had translated the white paper for Sohn and Moon. When Charboneau balked and insisted on returning, according to the FBI's informant, who was at the meeting, Reinsch then said, "I have to check with my lawyer," presumably corporate counsel, and left the room.

Reinsch returned to the meeting ten minutes later, not with Weinberger but with John Weiser, Weinberger's second-in-command at the time who became general counsel after Weinberger joined the Reagan administration. Weiser overruled Reinsch and said that Charboneau could return to Korea and help his family move back to the U.S.

Weinberger, as general counsel, was Bechtel's top legal adviser and troubleshooter. He was also a vice president and a director ofthe Bechtel Group. "It was common knowledge among lawyers at Bechtel," said the FBI informant, "that anyone who didn't keep Weinberger informed would be on the street the next day." It was, however, not so common knowledge, according to a Bechtel consultant close to Weinberger, that "Cap only wanted to know what it was safe to know." So while Weinberger insisted on being completely informed by his staff about Bechtel's legal problems, it was all to be communicated to him in a way designed to not land him in trouble.

A central question raised by our investigation and the FBI's remains unanswered: on whose authority was Weiser acting—his own, Weinberger's or someone else's?

To Justice

Procedurally, when the FBI receives notice that a crime has been committed,

. . . unenforced and under attack

rality on other countries. While most corporations stop short of calling for a repeal of the law, many make no secret of the fact that they consider bribery a necessary cost of doing business in foreign countries.

Corporations often cite surveys conducted by the General Accounting Office and the State Department to back their assertions of lost trade due to the act. But the surveys measure business opinion of lost trade, leading critics to charge that they are unscientific and heavily biased. The survey by the State Department, for example, was compiled from responses to a cable to U.S. embassies that was prefaced by the administration's negative view of the act. U.S. Trade Representative William Brock has led the administration's effort to revamp the law, while both the Justice Department and the SEC have testified before Congress in favor of weakening the law. However, congressional staffers have told United Press International that administration and business lobbying "strangely subsided" in recent weeks, the time frame in which rumors of the Bechtel investigation began to surface in Washington.

Together, the administration and the business community lobbied successfully in the last Congress for Senate passage of an amended statute that satisfied their concerns, but the legislation hit a snag in a House subcommittee chaired by Tim Wirth, who has been leading the fight in Congress against attempts to change the law. An identical bill introduced in the present Congress has already cleared the Senate Banking Committee and may come up before the full Senate as early as May, though a House companion bill is again stalled in Wirth's subcommittee. Public disclosures of Bechtels' dealings in Korea are certain to affect the debate.

The proposed law creates broad exceptions to bribery as it is defined under existing law. For example, the present law permits what are commonly known as "grease" payments to clerical or low-level officials in order to expedite minor business dealings such as moving shipments through customs or obtaining needed permits. The proposed law, however, would allow what it calls "courtesy" payments or "tokens of esteem" of any monetary value to officals at any rank. The new law would also exempt from prosecution any payments considered legal in the country in which they are made and any "ordinary" business expense. In addition, violations of accounting standards would not carry criminal penalties under the proposed law, as they do under existing law.

Most significant for the Bechtel case at hand, the proposed law would drastically reduce corporate and individual liability for the actions of their foreign agents. When it became clear during the 1970s investigations that a large proportion of the illegal or improper payments flowed through agents, consultants, or other third parties, Congress adopted a broad standard that made a company guilty of violating the law if it had any "reason to know" that money was being used as bribe. Businesses hope to replace this standard with one that would find a company or its officers responsible only when they "direct or authorize" bribery by a third party. According to Kimmelman of Congress Watch, Bechtel might well be found guilty for Cho's actions under present law, but could probably avoid prosecution under the amended version.

Kimmelman asserts that this proposed standard "would give corporate officers an incentive to know as little as possible about their agents' past or present activities." As a former accountant with the SEC has noted, "Any executive worth his salary knows full well how to make sure he 'doesn't know' what his agent is doing."

Business and administration officials often present their proposed amendments as "clarifications" to a "vague and ambiguous" law that was passed hurriedly in the heat of the scandals of the moment. Kimmelman admits that passage of the law in 1977 was a "rush justice" effort, but he argues that the language of the statute is probably as clear as can be expected from any anti-bribery law. He points out that in the absence of lengthy court interpretation of the act, the Justice Department and the SEC have issued guidelines and adopted advisory procedures to dispel confusion about the law's terms.

But Kimmelman argues that in any case, the pending legislation is "no less ambiguous, and perhaps more so" than current law. "The suggestions presented are anything *but* clarifications," he says. "They call for loopholes so broad and ambiguous that they may gut the law completely."

—Kathleen Selvaggio

the bureau submits its findings to the appropriate personnel of the Justice Department. If Justice Department lawyers agree that the case is worth pursuing, they order a full investigation. U.S. attorney Joseph Covington thought the Bechtel case was worth pursuing, and in October of 1983 he subpoenaed the Bechtel whistle-blower to appear before a federal grand jury in Washington. He was, however, flown there in January of 1984 for meetings with FBI agent Fred Cundy. Toward the end of the second of two meetings, which lasted the better part of a day, Cundy telephoned Covington, who was in Houston working on another Foreign Corrupt Practices case.

"Yeah, there's something there all right," said Cundy. His informant didn't hear Covington's response, but shortly thereafter the case was transferred from Cundy to agent Tim Traylor. Transferred with the case were some of the following documents now in the FBI's Bechtel file:

- Bechtel's contract with Y.S. Cho.
- The U.S. Tax Court file on Cho, who has been charged by the IRS with failing to declare $34,000 paid to him by Taihan Engineering Company in 1979 and with declaring $146,000 of insufficiently documented expenses that same year.
- The affidavit of driver Kang Ki Won, given in Seoul to an agent of the IRS investigating Cho's 1979 tax return. The IRS turned the affidavit over to the FBI.
- The white paper from Moon and Sohn to Harry Reinsch.
- The dates, numbers, and amounts of questionable checks written between September 27, 1979, and August 20, 1980, on Bechtel accounts at the Bank of America. The FBI has been informed that complete records of these transactions, estimated at well over $50,000, may be found in the Los Angeles office of Bechtel Power Corporation. These records should be carefully examined by the bureau because, if any of the checks were written on *project* accounts rather than on ordinary Bechtel bank accounts, the amounts would ultimately be billed to the client, KECO. And since KECO's nuclear projects are financed by the U.S. Export-Import Bank, the ultimate victim of any fraud or malfeasance could be the U.S. taxpayer.

The Shultz Angle

Since the Bechtel file has been transferred, we have met twice with agents Traylor and Dan Sullivan, supervisor of the fraud division in the FBI's District of Columbia office. The two were quick to explain that they were bound by law not to discuss details of the case with us. They were clearly interested, though not terribly surprised, that we were looking into the possible involvement of Caspar Weinberger in the Korean bribery scandal. While Shultz's connection to the case seems more tenuous than Weinberger's, there is cause for further investigation.

As we explained to the FBI agents, some knowledge of Bechtel's corporate structure is necessary to understand why Shultz may be implicated. Bechtel is not really one company. It is many companies incorporated in different states of the U.S., and even in other countries, notably Panama. However, they are all controlled by one organization called the Bechtel Groups of Companies, which has its own separate board of directors chaired by Stephen D. Bechtel, Jr. Various members of the Bechtel Group board are also "executive sponsors" of operational functions in the other Bechtel corporations.

Before he accepted his job as Secretary of State, George Shultz, who was vice chairman of the Bechtel Group board, was also the executive sponsor of the "internal auditing" division of Bechtel. Sullivan asked why that was significant, although he probably already knew. As his informant had told him, two separate audits had been canceled by Bechtel at the insistence of Yoon Sik Cho, one in January of 1980 and the other in June of the same year. Those audits would have revealed the large undocumented cash "advances" being paid to Cho. What agent Sullivan had no way of knowing, however, was that while Shultz may not have actually ordered the cancellations of the audits, as executive sponsor of the function, according to a Bechtel consultant, he ought to have been informed that they were cancelled. In fairness to Shultz, though, it should be pointed out that he may not have been informed that the audits would have revealed the amount of cash funneled through Bechtel accounts to Cho.

As we go to press, the FBI and the Justice Department continue their investigation. The next step, should Covington feel there is enough evidence on which to build a case, is to take the matter before a federal grand jury and ask for indictments. We have no way of predicting whether or when that will happen. There is currently only one Foreign Corrupt Practices case, involving seven defendants, in federal court. By all indications, things move very slowly in that part of the federal judiciary. The Foreign Corrupt Practices Act is clearly not a high priority in the Reagan administration, and a violation of the act is felt by multinational executives, in moments of candor, to be only slightly more serious than a traffic ticket.

The act explicitly forbids any American corporation or its agents from making gifts of any value to foreign officials who are in a position to affect company

Continued on p. 22

How we got the story

Our story on Bechtel grew out of a three year investigation of South Korea's nuclear power program conducted by Peter Hayes and Lyuba Zarsky of Nautilus Research, and Tim Shorrock, editor of *Multinational Monitor*.

In 1981, after completing a major study of the role of Westinghouse and the U.S. Export-Import Bank in the controversial reactor sale to the Philippines (*500 Mile Island*, published by Pacific Research), Nautilus launched an investigation into the Korean nuclear program, then the world's largest. For months the research team combed files of the government, the Congressional Research Service, and companies involved in the program. A request under the Freedom of Information Act for cable traffic between the U.S. Embassy in Seoul and Washington concerning U.S. reactor sales to Korea produced hundreds of documents, some of them quoted in this issue.

In early 1981, Tim Shorrock, at the time a researcher with Nautilus, spent two months in South Korea interviewing Korean and American officials about the program. On the visit, he learned of a former Bechtel official who "had a story to tell." But it took over two years to finally interview the official—Daniel Charboneau—who contacted *Multinational Monitor* after we exposed serious problems with nuclear safety in Korea (see *MM*, February 1983). Last August, we conducted a six hour interview with Mr. Charboneau in Seoul.

Mr. Charboneau's startling tale of bribery had to be collaborated by other sources. To complete the research team, Nautilus and *Multinational Monitor* called in Mark Dowie, the investigative editor of *Mother Jones* and the author of an award winning expose of Bechtel.

Together, our research team interviewed several former and present employees of Bechtel in Korea, businessmen who were in Seoul during the late 1970s, and government officials knowledgeable about South Korea and the way of doing business in that country. The results of our work is published in this issue and will appear in the June issue of *Mother Jones*.

Because of the serious nature of the story, we decided to pre-release it to the press on Friday, April 20. The article received extensive news coverage by both the print and broadcast media, and gave way to further developments on the case, which we will report on in the future.

KOREA: A NUCLEAR BONANZA

By Peter Hayes, Tim Shorrock, & Lyuba Zarsky

Bechtel's activities in South Korea are part of a much larger story about the frantic competition for markets in the nuclear industry. Since the mid-1970's, the corporate giants involved in building nuclear power plants have been desperate for business, their expansionary plans crushed under the steamroller of escalating costs, falling electricity demand, citizen opposition, safety regulations, and technological failure.

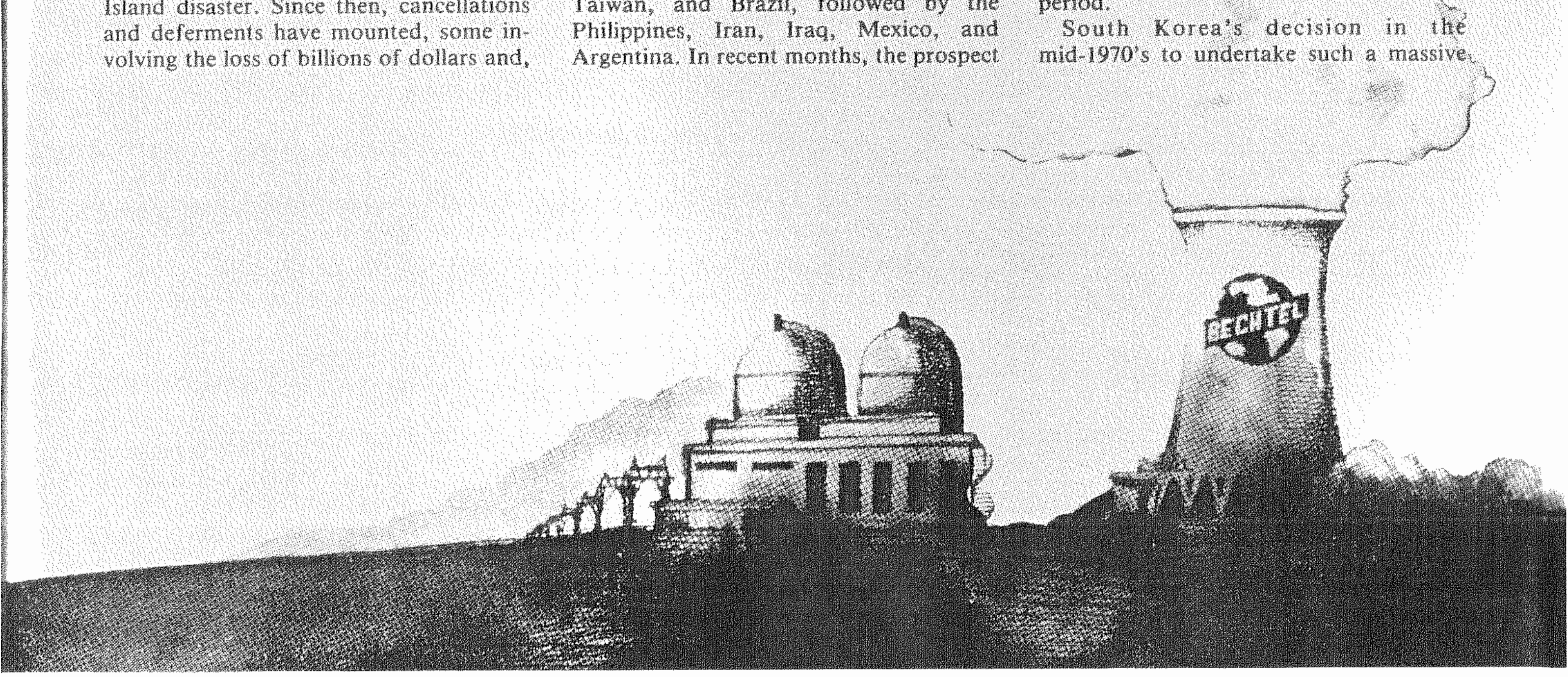
By 1978, cancellations of planned nuclear plants had outnumbered or equalled new orders in the U.S. for three consecutive years. Not a single nuclear power plant has been ordered in the U.S. since 1978, the year of the Three Mile Island disaster. Since then, cancellations and deferments have mounted, some involving the loss of billions of dollars and, in one case, a plant that was 99 percent complete.

Feeling the pinch at home and unable to crack the markets in Canada, Europe, and Japan, American nuclear companies—led by reactor manufacturers like Westinghouse and General Electric and architect-engineers like Bechtel and Ebasco—began an aggressive push for Third World markets. They were joined in the race by market-hungry firms like France's Framatome, West Germany's Kraftwerk Union, Canada's Atomic Energy of Canada Limited, and Japan's Toshiba. Competition became so stiff that one industry executive described it as "many hungry dogs fighting over a few bones."

The biggest "bones" are the budding nuclear power programs of South Korea, Taiwan, and Brazil, followed by the Philippines, Iran, Iraq, Mexico, and Argentina. In recent months, the prospect of a large new market in China has sent industry executives from around the world scurrying to Beijing, making lucrative offers in what Westinghouse President Thomas Murrin called "a global shootout."

With the most ambitious nuclear program in the world, South Korea is the "plum" of Third World markets. The country's 1977 announcement of plans to build 21 nuclear plants by the year 2000, representing a multi-billion dollar market, drew business-hungry nuclear companies from around the world. Nuclear industry executives "descended on Seoul like a swarm of locusts," said Daniel Charboneau, the former Bechtel official who blew the whistle on the company's questionable practices in Korea during this period.

South Korea's decision in the mid-1970's to undertake such a massive



program might have been induced in the first place by the American industry's desperate need for markets. Pressured by the State Department and enticed by the prospect of millions of dollars of Export-Import Bank loans, the debt-burdened nation moved hastily to find nuclear power economically attractive. "When the decision was made," said an official with the Korean Energy Research Institute in Seoul in 1981, "a comparison showed that nuclear had the lowest costs. But I'm not sure if that was a rationalization after the fact. The decision could be the result of industrial companies making an effort to find a market."

The "Big Fist"

The nuclear industry is one of several American industries which have gained a large market-share in South Korea—and which rely significantly on exports to Korea to boost or maintain profitability. Currently the sixth largest market for U.S. exports overall, South Korea is the fourth largest market for U.S. food products. U.S. food exports to Korea totalled over $1.5 billion in 1982, 47 percent of the country's food supply. All of the country's imported grain is purchased from the U.S.; U.S. exporters have grabbed 100 percent of Korea's cotton market and 60 percent of its raw hide and skin market. Korea is also an important market for American logs and lumber.

Besides absorbing U.S. exports, the vast South Korean market has also drawn direct American investment, most of it concentrated in petroleum, food, banking, general trade, and chemicals. Dow Chemical was the largest single American investor in South Korea until its sudden withdrawal in 1982 following a dispute with its joint partner and the Korean government. Other large-scale investors include General Motors, AT&T, Cargill, and Continental Grain.

Both exporters to and investors in South Korea have used the U.S. defense commitment to Korea as leverage to keep the market in American hands. When South Korea announced the purchase of 500,000 tons of rice from Japan in 1981, for example, a representative of the U.S. Rice Millers Association came to Seoul accompanied by a Louisiana congressman who represented a large rice-growing area. According to a Korean official who negotiated with the two men, the Americans "used the big-fist approach." "Their basic message," he recalls, "was 'we give you military aid, and you buy our rice.' " The approach infuriated the Korean government—but the Japanese purchases were cancelled.

The American role in the Korean economy is nowhere more evident than in the evolution of Korea's nuclear power program. The U.S. government has been the primary influence—and chief financier—of the program since its inception in the 1950's. American advisors convinced the Korean government in 1956 to establish an Atomic Energy Section in the Korean Department of Education. When Korea embarked on its high economic growth track in 1965, the U.S. Agency for International Development (AID) recommended that South Korea go nuclear "whenever Korea Electric Company's electricity system becomes large enough" to handle high-megawatt nuclear plants. On the basis of an AID-funded study, the Korean government drafted a plan in 1968 for two 500-megawatt reactors, and two U.S. engineering firms were hired to design the program.

The U.S. State Department became even more heavily involved once the program was underway. Upon hearing that Korea would soon order its first reactor, the American ambassador to Korea cabled Washington in 1968 that "from various standpoints, it appears in the U.S. long-term interest that U.S. participate [in] this project." U.S. participation, however, depended on the availability of funds to finance the expensive reactor purchases. Unable to interest private banks, the State Department turned to the public purse, in the form of the Export-Import Bank. After an intense lobbying campaign led by Westinghouse and AID, the Bank agreed to offer loans for nuclear power plants despite misgivings about the long-term viability of the Korean economy. What won the argument, apparently, was South Korea's strategic importance as an ally. The loan offer, says Les Jantz, former Westinghouse project director in Korea, "was part of our defense commitment to the country."

Negotiations for work on South Korea's first reactors were monitored closely by the U.S. government, primarily to ensure that the South Koreans purchased from an American company. In July 1969, Secretary of State William Rogers cabled the U.S. Embassy requesting officials to notify the Korean government that "Eximbank does not intend to allocate equivalent resources to other projects if nuclear power contract is awarded non-U.S. supplier." A few months later, Westinghouse was awarded the first of its six contracts.

"I want to thank you," wrote then Westinghouse President Robert Kirby to Eximbank president Henry Kearns, "for your interest and support. . . I am sure that your assurances to the Korean government. . . will enable us to firmly keep this order for U.S. industry."

By the mid-1970s, with the nuclear industry in a downturn, U.S. domestic economic pressures began to dominate Eximbank decision-making. In what can only be termed a gigantic industry bailout, Eximbank invested $4.7

The Golden Boy

As Korean exports began to flow into world markets in the early 1970's and corporate profits from Korean operations grew, South Korea gained the image of the "golden boy" of the Third World—especially to American businessmen and government officials weary from the American failure in Vietnam and tired of Third World calls for a "new international economic order." A new super-race had been found.

South Korea is "literally pulsating with unleashed human energy," wrote one *Forbes* reporter in 1978. "Work as Koreans know it is not a hardship," gushed Roy Rowan in *Fortune*. "It is a heaven-sent opportunity to help family and nation."

Long work hours? "It is a fact," wrote Rowan, that South Koreans are "the worst workaholics in the world, averaging 50.7 hours per week."

Pollution? No problem. A young auto worker described in *Forbes* shows up "at his post on the assembly line, ready to endure noise, dust, and fumes that would keep an OSHA inspector busy writing reports for a month."

Human rights? "As flagrant as this repression can be," said *Fortune*, "it doesn't impinge heavily on the average citizen's life, so long as he's willing to forego certain forbidden activities."

But what these business writers admired most was President Park's "steely determination" and his vows to achieve his economic goals "by whatever means necessary." To *Forbes*, these factors "made South Korea a model for other less-developed countries, who prefer to sit around blaming their problems on U.S. 'imperialism,' multinational company rapacity or on a lack of raw materials. It is also what makes South Korea's future so favorable."

Nevertheless, behind the shiny images of the "miracle" were some appalling facts: the highest industrial accident rate in the world; millions of slum dwellers crowded into the big cities; severe pollution; rampant corruption; and savage government repression of civil rights and labor activists. But with the country firmly under the protection of the U.S., these unpleasant realities were, for the most part, unseen by the American business community. For these businessmen South Korea was a new Shangri-la.

Unsafe at any megawatt

Korean nuclear power plants are being built at twice the speed of plants in the U.S. Caught between a $40 billion foreign debt and a huge military budget, the Korean government has saved hundreds of millions of dollars by pushing for quick turnarounds in plant construction.

But in its zeal to become a nuclear powered nation by the 1990s, South Korea appears to be making serious—and potentially devastating—compromises on nuclear safety.

Korean construction companies have long been known for their quick work. Korean contractors commonly employ workers on a 55 hour per week basis, often on multiple shifts. Hyundai, the country's largest corporation and a major subcontractor in the nuclear program, built South Korea's first shipyard in less than a year, a world record.

One consequence of the construction speed-up is one of the world's worst records of industrial safety and environmental conditions. A 1978 International Labor Organization report named South Korea as the country with the world's highest rate of industrial accidents, while an overview of the Korean nuclear program by Arthur D. Little, an American consulting company, said that pollution standards in the country are "virtually non-existent."

But the most devastating reports on the Korean nuclear safety record came from two studies written for the World Bank in 1980 and 1982 by Salomon Levy, a former nuclear engineer with General Electric. In his first report written after a one week visit to South Korea in June 1980, Levy charged that "too much is being planned to be accomplished on too many fronts," and urged that the government slow down the construction to develop a safer program. Among his findings: the Korean government lacked an adequate regulatory and quality assurance program; too few technicians were being trained, causing severe strain on manpower; trainees who failed exams were allowed to take the exams until they passed; many Korean operators could not understand English and consequently could not read the operation manuals; and the problem of waste storage was being ignored.

Levy's report was passed on to the U.S. Export-Import Bank, which asked the Korean government for an explanation. In reply, Korea Electric Company (KECO) told the Bank that they were implementing U.S. Nuclear Regulatory Commission regulatory codes and standards and were "therefore. . .pretty sure than an acceptable level of safety has been achieved."

But in a second report following another visit to Korea in 1982, Levy noted that "it was disappointing to discover that most of the recommendations were still not in place," and repeated many of his previous recommendations. He urged that "the government announce and insist that safety and quality are just as important as meeting schedule requirements." "The organization and the relevant documentation to control safety are still far from being in place in Korea," he concluded.

Parts of Levy's 1982 report were published by *Multinational Monitor* in January 1983, and received front page coverage in the heavily censored Korean press. But accompanying the story were denials by the government that a safety problem existed. A few days later, however, the Chun government instructed the Ministry of Energy and Resources and KECO to form a special safety committee.

But attempts to monitor safety conditions are limited by institutional and political constraints. Open dissent, especially on sensitive topics like nuclear power, is strictly prohibited in South Korea, while the press is under tight control and pressured not to publish articles critical of nuclear power. "This is a police state," one Korean engineer told us. "That makes whistle-blowing impossible."

The lack of free speech and the pressures to finish the plants within their scheduled times usually means that safety is given a low priority."The impression was gathered," wrote Levy in 1982, "that safety and quality personnel were pressured organizationally not to extend schedules." According to an American nuclear engineer with two years of experience in Korea, KECO "doesn't have the personnel to monitor safety" and the "quality people are never listend to." Even when problems are found, he says, "everyone is discouraged from making a report, and nothing is done."

Another factor noted by this engineer is the lack of an independent authority to oversee what the Bechtels, the Westinghouses, and Framatomes are up to. "Bechtel and Westinghouse are prime contractors," he says. "They have the responsibility of monitoring their own work."

One Bechtel engineer who worked on units 5 and 6 didn't try to hide his concerns when we talked to him recently. "I don't mind working over there," he says. "I just wouldn't want to be around when those plants began overheating."

Background photo: The Kori I nuclear power plant, built by Westinghouse, is one of three reactors in South Korea now producing electricity. Critics charge that Korea's nuclear program is riddled with safety problems.

Despite the problems, both American companies and the government have encouraged the Koreans on several occasions to downplay safety:

- In a 1976 report to the Korean government on reactor siting, Kaiser Engineering and Construction Company recommended against public licensing hearings. In the U.S., Kaiser told KECO, testimony at these hearings "usually represents unfounded fears and prejudices that, until resolved, cause construction and operating delays."
- During the bidding for reactors 7 and 8 in 1978, the U.S. Embassy in Seoul resisted filing environmental reviews on U.S. reactor exports ordered by President Carter. The review "is particularly unhelpful at this time," the embassy said in a cable to the State Department. "We have enough to contend with without a new cause for concern being introduced."

Since the first Korean plant, the Westinghouse-built Kori I, began operating in 1978, there have been sporadic—and mostly unconfirmed—reports of accidents and reactor malfunctions. Several Koreans and Americans who have worked in the industry told us stories of radiation contamination and even deaths of people working in the plants. At the time of the accident at Three Mile Island, the Kori I plant was closed because of a malfunctioning cooling system which resulted in contamination of the containment structure; last month, the *Korea Herald*, a major Seoul English language daily, reported "abnormally high" levels of radiation outside the plant.

With information so tightly controlled, critics afraid of speaking out, and construction proceeding at a rapid rate, the dangers of a major accident in Korea loom large. Most of the Korean reactors are located close to military and industrial complexes, or on agricultural land. Not only do these reactors replace fishing and farmland in a country increasingly dependent on food imports, but they expose large numbers of people to radiation risk unacceptable in the U.S. Population densities around 7 and 8, for example, would lead to Nuclear Regulatory Commission rejection of the sites in the U.S.

But the risks don't seem to bother American bankers. In the course of our investigation we asked a senior Eximbank official if the bank might be risking its money in financing nuclear construction in Korea. "Yes, there might be a nuclear accident" in Korea, he replied. "But," he added, "that country will continue to exist. And if it wants to maintain relations wtih the U.S., it will have to pay [the loans] off."

billion in loans and loan guarantees for nuclear exports to Asia between 1973 and 1982—almost half going to South Korea alone.

Enter Bechtel

One of the prime beneficiaries of these loans was the Bechtel Group and its Power Corporation subsidiary based in Los Angeles.

Bechtel had plunged into what promised to be a lucrative business in the early days of the nuclear age. The first nuclear plant to produce electricity was built by Bechtel for the Atomic Energy Commission at Arco, Idaho in 1951, along with a nuclear fuel reprocessing plant on the same site. With this government-supported head start, Bechtel leapt into the commercial nuclear power business, designing or building about 40 percent of the nuclear plants licensed or under construction in the U.S. by the end of the 1970s.

Bechtel first went to South Korea in 1954, in the aftermath of a three year civil war that caused mass destruction to the peninsula and left the country bitterly divided. Over 80 percent of the country's electric power before the division was in North Korea, which had been heavily industrialized under Japanese colonialism.

Eager to help his friend Syngman Rhee, the U.S.-backed ruler of South Korea, as well as to cash in on millions of dollars of U.S. aid, Stephen Bechtel Sr. convinced Rhee to give his company a contract to build four coal-fired power plants. Like most other American projects, these plants were paid for by U.S. AID, which financed the bulk of Korea's imports throughout the 1950s.

During the next decade, however, Bechtel received no major contracts for any of the 16 power projects launched under President Park Chung Hee. Instead, another U.S. firm, Gilbert Associates, firmly established itself in the Korean power sector, and later joined with Westinghouse to construct the first two nuclear reactors ordered by the Park government. When the full-scale nuclear program began in the mid-1970s, Bechtel was on the outside, looking in.

As a nuclear architect-engineering firm, Bechtel also felt the market slump of the mid-seventies. Architect-engineering firms are the repository of vast amounts of technical and management information required to construct a reactor; as work has slowed, their technical competence has slipped. This in turn has hurt the competitiveness of U.S. nuclear equipment vendors like Westinghouse and General Electric, who look abroad to sell reactors in conjunction with U.S. engineering firms.

It was to the Third World, especially to Taiwan and Korea, that Bechtel turned for nuclear business to sustain its ailing Power Division and to reactivate its engineering capabilities.

Bechtel adopted a threefold strategy to snare the elusive contracts with the Korea Electric Company (KECO) for nuclear units 5, 6, 7, and 8. First, says a former Bechtel official, they sold KECO on the idea that the utility "needed their own consultant, someone on their side." Bechtel managed to translate this idea into a contract to evalute the bids submitted to the utility for nuclear and generator equipment for plants 5 and 6. Bechtel then hired a "special" consultant, Y.S. Cho, who helped Bechtel to ingratiate itself with KECO by undertaking a contract to manage construction of a World Bank-financed coal-fired plant at Geojong. According to Charboneau, the contract lost money for the company, but helped put Bechtel on the inside track in its successful bid for the architect and engineering contracts for nuclear units 5 and 6.

Third, Cho and Bechel exploited the Korean preoccupation with technology

Aiding repression

A visit to South Korea by former Eximbank president John Moore immediately after the bloody Kwangju uprising put the "seal of approval" on the new Chun government. Moore is now a Bechtel vice president.

Eximbank money and loan guarantees were an important source of political support for the military government of Chun Doo Hwan after the former Army intelligence officer seized power during the spring of 1980.

Following the assassination of former head of state Park Chung Hee by the head of the Korean Central Intelligence Agency on October 26, 1979, South Korea was in ferment. Anxious to turn away from 18 years of political repression, hundreds of thousands of Korean citizens joined in a mass movement for democracy, trade union rights, and an end to military intervention in politics. The movement culminated in an open rebellion in the city of Kwangju after Chun seized the government on May 17, 1980, and arrested scores of dissidents, including former presidential candidate Kim Dae Jung, a Kwangju native.

Over two thousand people were killed in the struggle for Kwangju, which finally ended when U.S. General John Wickham, then commander-in-chief of American forces in Korea, allowed Korean troops under his command to be sent from the border with North Korea to Kwangju to put down the uprising.

Chun's military crackdown and the repression in Kwangju presented President Jimmy Carter, who had championed human rights during his administration, with a dilemma: either support the democratic forces—and risk alienating the new military governement—or support Chun and reassure the U.S. business and banking community that their extensive investments and loans in the country were safe.

Carter chose the latter course. A week after the rebellion in Kwangju, the president dispatched Eximbank president John Moore to Seoul. The visit, the first by a major American representative after the coup, signalled to international lenders that the U.S. stood behind Chun. On his trip, Moore promised $600 million in new credits to cover cost overruns on the nuclear reactors then under construction. In a cable to the State Department, U.S. Ambassador William Gleysteen reported that "Moore provided top Korean officials much appreciated assurances of continued Eximbank support for Korean development-...All of Exim's Korean clients appeared pleased by his warm assurance of continued financial support." Moore is now a vice president with Bechtel.

Carter's "stamp of approval" angered a number of American congressional representatives, including Don Edwards (D-California). Edwards gathered twenty-nine signatures on a letter to the President protesting Moore's visit and asking Carter to deny Eximbank loans to South Korea because of "repression of human rights."

But Moore's visit was defended by Assistant Secretary of State Richard Holbrooke in blunt business terms. In testimony to a congressional subcommittee, Holbrooke opposed cutting Eximbank loans to Korea "with the almost certain multiplier effect it would have on private lending institutions in New York and elsewhere." The cuts, he said, "would have an overall adverse effect on the economy of Korea."

transfer and self-sufficiency by entering a joint venture agreement with Taihan Electric Company, a Korean engineering firm with close ties to the president of KECO. According to a former company official, Bechtel felt safe about transferring its technology to Taihan because the Korean company—like other Korean firms—was relatively weak in the field. Bechtel "figured they would always be ahead in the state of the art," he says.

For Taihan, the joint venture was a bridge to a bright future as the "Bechtel of Asia," as promised by Bechtel's consultant Yoon Sik Cho (who had led Taihan to believe he was *their* agent). Three months after the agreement was signed, Bechtel received the engineering contracts for nuclear plants 7 and 8. Within a year, however, the two companies were fighting over profit shares in a joint coal project and Bechtel's failure to live up to Cho's promises. With major contracts signed, Bechtel had little use for Taihan and bought out its shares in the joint venture. This led Taihan executives to write a white paper to Bechtel (see Part I) and lodge charges of corruption and double dealing against Cho.

In response, Bechtel sacked Cho. But the gesture was essentially a slap on the wrist because a month later, Bechtel hired him once again. Bechtel took the uncharacteristic risk of rehiring someone whose reputation had been sullied, says a former official, because of the ruthless competition in Korea. While Bechtel's official policy, he says, was "death on any corruption," there was "a tremendous push for results with a whole industry and a whole division collapsing." As a result, Bechtel's agent Cho was able to operate at the "edge of legality" and to convince management that "financial statements weren't necessary, engineering drawings weren't necessary. Quality control? Well, can't we compromise?" Bechtel employees would go along with this, according to the source, "because of the fear that they would lose their jobs."

Wide World Photos

Secretary of Defense Caspar Weinberger greets American troops in Korea's demilitarized zones in March 1982. U.S. corporations sometimes take advantage of the massive U.S. military aid to Korea to advance their business interests.

No Place for Koreans

To gain and retain market dominance, Bechtel had to fend off not only other multinationals but also fiercely competitive Korean engineering companies. In September 1980, Bechtel joined several American nuclear firms in protesting KECO's designation of Daewoo Heavy Industries as the sole supplier to KECO of all nuclear design and construction services, as well as the manufacture of nuclear equipment in Korea. A formerly classified U.S. Embassy cable obtained by Nautilus Research shows that the American firms brought diplomatic pressure on the Korean government to scuttle this move, which would have cut out all American firms except the one affiliated with Daewoo (unnamed in the cable). By the end of 1980, KECO reversed its policy, declaring that nuclear manufacturing would be separated from nuclear design and construction engineering. Most important to Bechtel, KECO reaffirmed its policy of using foreign firms to design and engineer its reactors.

Further problems arose for Bechtel. In early 1981, KECO was angered by Bechtel's engineering cost overruns on the cost-plus contracts for units 7 and 8—Bechtel's bill was twice the original estimate. This overrun was the second such price shock by Bechtel in three years and the Koreans took over two months to approve the extra funds.

Because the overruns were so costly, the Koreans began to demand more favors from Bechtel. One area where they thought Bechtel could help was in gaining foreign markets for the Korean Heavy Industries Corporation (KHIC), a mammoth heavy industrial park on the southern coast of Korea that had been nationalized and taken over by KECO. Operating at less than 20 percent capacity, KHIC was a huge boondoggle with little chance of selling its heavy industrial products (including reactor parts) without outside help.

According to a former Bechtel official, Bechtel began to call in their long-term suppliers to meet with KHIC representatives in Los Angeles. The suppliers were told that "their future business in the nuclear field would be substantially improved if they were to give some subcontract work to KHIC," the source told us. But some of the subcontractors balked, especially when they learned that KHIC was not capable of high quality, nuclear-certified work. The attempt was a failure, and KHIC remained unused.

With Bechtel's reputation in Korea worsening, Korean engineering firms saw an opportunity to erode Bechtel's envied special position in KECO. In late 1982, Bechtel's high-level contacts led the government to announce that it was close to giving Bechtel a 49 percent interest in the government-owned Korean Nuclear Engineering Company (KNE). This company, in turn, was to be given all future engineering work on the Korean nuclear program, as well as outside contracts.

The announcement caused a furor and Korean engineering companies protested to the governement. As explained to us by a KECO official, the companies feared a monopoly of the Korean engineering industry by Bechtel. "The companies told us," said the official, that "you better not allow Bechtel to make the joint venture, because then local engineering companies would have no jobs." The protests were so strong that the government quietly shelved the plan in 1983. KNE has now been renamed the Korea Power Engineering Company and, without Bechtel ownership, will be the prime contractor in future nuclear engineering work.

It is clear, however, that Korean nuclear design engineering capability is very weak, and that KECO will be forced to continue to farm out architect/engineering contracts to foreign firms until the end of this decade. If new nuclear contracts are tendered, undoubtedly Bechtel will lead the race to corner the deals. But whether they will win the race may depend on how thoroughly the Justice Department investigates possible Bechtel illegal activity—and how willing the U.S. public and Congress are to continue the Eximbank bailout of the nuclear industry. □

Bechtel: A tale of corruption

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business. And Cho's contract with Bechtel explicitly forbids him from violating the act. But this case is somewhat complicated by the fact that the law does not specifically forbid a corporation from giving a consultant all the cash and appliances he wants—no questions asked.

"There is bribery and there is bribery," said a San Francisco-based Bechtel engineer who claimed no knowledge of Cho's activity, but was not surprised when we asked about it. "If we give cash advances to a consultant whose job it is to make contacts for us and who uses the cash to open doors, are *we* bribing or is *he* bribing?"

We raised this question with FBI agents Sullivan and Traylor. Sullivan, who claims considerable experience with white-collar criminal investigations, said that it involved an interpretation of the act that remained unclear, that needed to be tested in court. It seems certain to be tested if the Bechtel case ever comes to trial. The law explicitly states that if a corporation has "reason to know" that its employees or agents are involved in bribery, then the corporation is liable for their actions.

If it does come to trial, this case could create serious problems, not only for Justice but also for the State and Defense Departments. The U.S. maintains 40,000 troops and an estimated 250 atomic weapons in South Korea, and has joint operational authority over the 600,000-man Korean military. Since Caspar Weinberger became Secretary of Defense in 1981, South Korea's status as a U.S. ally has been upgraded from "significant" to "vital" to the U.S. national security. Under Weinberger—who has visited South Korea twice during his tenure at the Pentagon—the size of the annual "Team Spirit" military exercises staged by the U.S. and South Korea has continued to grow rapidly. Investigating Weinberger for a violation of the Foreign Corrupt Practices Act now would be certain to jeopardize this alliance. As FBI agent Sullivan explained to us, the intricacies of international relations often make enforcement of the Foreign Corrupt Practices Act a "delicate matter."

Neither our own investigation nor, we suspect, the FBI's has gathered enough specific evidence to legally implicate Weinberger or Shultz, although some action seems possible against Bechtel. "The FBI is bound by law," said Sullivan, "to follow *all* leads before closing a case." *Multinational Monitor* and *Mother Jones* will follow the same principle. The reason we go to press now is to assure that the file on this case is not ordered closed, as quietly as it was opened, until all the evidence is examined. The investigation has reached a point where subpoena power and public exposure are required to move it along. We hope that by releasing the story now we will prompt other media organizations and congressional committees to join the inquiry.

In the meantime, Bechtel continues its hard sell in Korea, where the government is expected to open bids on reactors 11 and 12 sometime soon. But this time around, the company goes into the bidding process with a somewhat tarnished reputation as a result of the huge cost overruns it incurred on units 5, 6, 7, and 8. Negotiations with the Korean government over a joint venture in nuclear engineering recently fell through after Korean engineering companies protested to the government that such a venture would deprive Korean engineers of jobs.

But with many of its own nuclear engineers on permanent layoff, Bechtel is still anxious for work in Korea. Harry Reinsch was back in Seoul in February, this time accompanied by former U.S. Ambassador to Korea Philip Habib, who has been on the Bechtel payroll since 1981. Yoon Sik Cho, who continues as a $90,000-a-year Bechtel consultant, is still there to assist him.

This report is the result of a joint investigation by Mother Jones, Multinational Monitor, *and Nautilus Research. Financial support was provided by the* Mother Jones *Investigative Fund and the Project for Investigative Reporting of Money in Politics.*

Resources

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Box 228
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(413) 549-1709

Korea Support Committee
P.O. Box 11425
Oakland, California 94611
(415) 550-8140
Speakers and resources on U.S.-Korea relations, Korean labor movement, U.S. military.

Korea Resource Center
1720 Oregon St. #10
Berkeley, California 94703
(415) 486-8759
Resources on economy and culture of Korea.

North American Coalition for Human Rights in Korea
110 Maryland Ave., N.E.
Washington, D.C. 20003
(202) 546-4304
Church based group monitors human rights, labor and church activity in Korea.

The Data Center
464 19th Street
Oakland, California 94612
(415) 835-4692
Maintains clipping service on Korean issues; publisher of corporate profile of Bechtel.

Congress Watch
215 Pennsylvania Ave., S.E.
Washington, D.C. 20003
(202) 546-4996
Monitors the Foreign Corrupt Practices Act.

For more information on the Bechtel story and U.S.-Korea political economy, contact:
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