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Pentagon Appointee Faces Suit

By H. L. Schwartz III

DALLAS, Dec. 17 (AP)—William P. Clements Jr., picked by President Nixon to be No. 2 man at the Pentagon, is a defendant in a civil suit charging conspiracy to hide millions in alleged profits from an Argentine oil deal.

The dispute includes an income tax fight and allegations that funds from a Clements company were used for bribery.

Repeated efforts to reach Clements for comment on the affair were unsuccessful.

Nomination of the 55-year-old Dallas oilman to be deputy secretary of defense was announced last Tuesday.

Basically, the complicated and virtually unnoticed civil suit involves charges by an Argentine businessman that Clements, several business associates and Southeastern Drilling Co. of Dallas cheated him on commissions for this help in obtaining one of the largest oil drilling contracts in history.

See CLEMENTS, A8, Col. 1

CLEMENTS, From A1

One of the more sensitive aspects of the suit is an allegation that high officials of the Argentine government were bribed in 1958 and 1959 in connection with the contract.

Rejected by Jury

A jury rejected the contention that Southeastern funds were used for bribery. But a federal appeals judge subsequently said there was evi-

dence to support the contention.

The four-year contract to drill 1,000 wells helped propel Southeastern, which Clements founded in 1947, from a relatively small wildcat outfit to a worldwide operation that last year grossed \$130 million.

Clements and members of his family invested \$310 of personal funds in the Argentine operation, court records

show. The contract was so successful that within five years this investment was worth at least \$4.2 million to them.

Another key aspect of the case is that Southeastern, now known as Sedco, Inc., has acknowledged it destroyed many of its Argentine records in 1964 shortly after drilling was completed and the subsidiaries handling the operation dissolved.

The accounting firm of Haskins & Sells has audited Dallas records of the Argentine operation, but says it cannot vouch for accuracy without the Argentine records.

Whether Southeastern may have violated the Argentine commercial code by destroying records may be an issue when the conspiracy and fraud phase of the six-year-old case comes to trial this spring. The case already has been through one trial and two appeals.

Records Kept 10 Years

Legal sources say that under Argentine law a businessman is required to keep all records for 10 years after completion of a particular transaction.

Plaintiffs say also that without the full records it may be impossible to determine true profits.

Documents and transcripts in various federal courts in Dallas, Washington and New Orleans and at the Securities and Exchange Commission contain repeated references to disputes between the Internal Revenue Service and Sedco and between the IRS and Clements and several of his associates in the Argentine operation.

For example, a lawyer opposing Clements and Sedco made this unchallenged remark during a pretrial conference in U.S. District Court at Dallas Feb. 5, 1968:

"If I understand correctly, the contention of the IRS at

this time . . . was that the entire Southeastern of Panama and Southeastern Drilling Co. of Argentina, S.A. (both sister companies to Sedco) was a sham setup and in effect amounted to United States source income and they will seek something like \$9 million from them."

No formal claim for additional personal or corporate income taxes could be found in federal District Court in Dallas or U.S. Tax Court in Washington.

Tax Footnote

But, in a Dec. 22, 1970, registration statement on file at the SEC, Sedco included a brief footnote saying it had paid the government \$3.27 million one year earlier as settlement for additional income taxes for 1961 through 1965.

It said the additional taxes related primarily to "transactions with foreign subsidiaries."

The status of any IRS dispute with Clements and his associates over personal income taxes arising from their profit on the Argentine transaction could not be learned.

IRS officials in Dallas said they are forbidden by law to comment.

Stanley Krysa, a Justice Department tax lawyer in Washington whose name appears frequently on the court dockets in the civil suit, said he is unaware of any IRS claim, corporate or personal, against Sedco or any officers or directors now or in the past.

He said the government's only interest in the case is collecting money due from two American middlemen who helped set up the Argentine deal and, according to U.S. Tax Court testimony, later left the United States to avoid paying taxes on hundreds of thousands of dollars in commissions.

Clements, a Dallas native, is chairman of the board of

Sedco and owns more than \$100 million in its stock. The day his nomination was announced, Clements said in a statement he had no plans to sell his stock, but would confer about it with members of the Senate Armed Services Committee, which must pass on the nomination.

Neither Sedco nor any of its four domestic subsidiaries is listed in Pentagon books as holding any significant defense contracts. The company's annual reports show more than 80 per cent of its business is overseas.

It is partners with another company in a contract for construction of part of the controversial trans-Alaska oil pipeline.

Clements is a long-time supporter of the President, who appointed him in 1969 to a blue-ribbon committee to study Pentagon reorganization.

During the recent election campaign, Clements was a co-chairman of the Texas Committee to Re-elect the President.

Clements' only publicly reported contribution to Mr. Nixon's re-election was a last-minute donation of \$5,772 to Democrats for Mr. Nixon.

SEC records show two other Sedco executives each made stock gifts worth about \$5,500 to Mr. Nixon's campaign.

Five telephone calls were placed to Clements' Dallas office and to the Pentagon, where he has been spending much of his time, in an effort to obtain comment. None of the calls was returned.

Clements' lawyers in the civil suit were told of the interest of The Associated Press last Monday.

Background of Suit

Here is the background of the civil suit, according to court records:

In 1958, Clements agreed to pay a 20 per cent commission

on net profits to two men—Charles F. O'Neill, a Washington lawyer, and William N. Dillin, a Corpus Christi, Tex., oil operator—if they could obtain for Southeastern a contract to drill oil wells in Argentina.

Dillin and O'Neill told Clements they would split 50-50 with Antonio A. Diaz, a wealthy and influential Argentine businessman.

O'Neill and Dillin were the American middlemen. Diaz's task was to open doors for Southeastern into high Argentine government councils and help mount a publicity campaign that would soften a nationalistic fervor against foreign oil companies.

The contract with the Argentine government was awarded to Southeastern in February 1959 although, according to testimony in a tax court action against Dillin, its bid was not the lowest of six submitted.

The initial payments out of net profits were due Oct. 1, 1963, after Southeastern completed its drilling. Testimony and court records show that by then Dillin and O'Neill had left the country to avoid taxes. Although they and Diaz eventually got paid more than \$2 million, they all expected more.

The three made repeated requests to Southeastern for full records of the Argentine deal. By this time, the government of Arturo Frondizi had been ousted, partly over the issue of foreign oil contracts.

Payments Stopped

The new government stopped payment on existing foreign contracts, according to court records, except to Southeastern which it continued to pay quietly because the original contract had been approved by the government bank. It was the only contract with such approval.

In a letter June 1, 1964 to a

Washington lawyer representing Dillin and O'Neill, Southeastern general counsel Tom B. Rhodes said Southeastern was worried about where any "accounting inquiry would go" and about the possibility information might "fall into improper hands."

In 1968, in answer to a series of legal interrogatories, Southeastern said for the first time all Argentine records except the general ledger and general journal were destroyed on orders of Rhodes in 1964.

Diaz sued Southeastern, Clements and three other Southeastern shareholders or executives in December 1966, charging them with conspiracy and fraud.

He said the Argentine deal actually netted more than \$25 million in profits instead of the \$18 million reported.

Diaz contends also there has been no proper accounting of millions of dollars which he says Southeastern charged off to expenses and deducted from profits.

The first trial in February 1968 revolved around the preliminary issue of whether Dillin and O'Neill had sold parts of their interest, and assigned another portion to Diaz allegedly to pay bribes.

Code Names Used

Correspondence among the three contains code names for high Argentine officials, including that of Arturo Sabato, then director of the government oil ministry.

This correspondence, in which oil wells are referred to as "frozen fish" and Sabato is called "Mr. Carter," is in the voluminous court file at Dallas, clipped together with a hand-written notation saying: "Did not go to jury."

Diaz broke even in the jury trial, winning a claim that one assignment of money to him

was valid, while the jury said the other wasn't.

The validity of the assignments was tied to the bribery issue which was sensitive because, as the transcript of the 1968 trial shows, Diaz was fearful of identifying men behind the code names who were still in the Argentine government.

Diaz denied any bribes were paid. He said code names were used to protect participants in behind-the-scenes negotiations and was normal corporate security.

Diaz asked to have newsmen barred while he gave the names. But Judge Leo Brewster noted none was present anyway.

Judge James P. Coleman of the Fifth Circuit Court of Appeals in New Orleans noted later that the issue was also sensitive because proof of bribery would have rendered assignments to Diaz void under Argentine law.

In the trial, the lower court judge barred some evidence as hearsay although nearly a third of the testimony was directed to the contention of bribery.

Judge Coleman upheld this ruling and the finding of the jury which, in answers to a series of questions, said it did not believe Diaz, O'Neill and Dillin intended to use certain funds for bribery.

But, said Coleman, "there was evidence to support the contention, had it been accepted by the jury."

In his written opinion, Coleman quotes extensively from testimony about a visit by Arturo Sabato to Southeastern's Dallas offices in 1963.

He includes comments in the transcript made by one of the attorneys out of the jury's hearing that Sabato visited Southeastern "for the purpose of determining if any money had been left here for him."