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Milk Coop Is Scrutinized on '72 Funding

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WASHINGTON, Oct. 31—

Watergate investigators are looking into the possibility that the nation's largest milk marketing cooperative may have made illegal corporate contributions to both major parties in the last two Presidential elections.

Four Federal investigative units descended this week on the financial records of Associated Milk Producers, Inc., of San Antonio. They are from the Senate Watergate committee, the Watergate grand jury in Washington, the Antitrust Division of the Justice Department and the United States Attorney's Office in Little Rock, Ark.

David L. Parr, once one of the most powerful leaders of the milk lobby and formerly special counsel to Associated Milk Producers, was indicted by a Federal grand jury in Little Rock in September.

He and an associate, K. L. Howard, were charged with funneling corporate funds illegally to the 1968 Presidential campaign of then Vice President Hubert H. Humphrey.

New Evidence Found

An independent investigation by The New York Times has turned up evidence of other illegal contributions by the cooperative to the Humphrey campaign in addition to those covered by the indictments.

Senator Humphrey and his 1968 fund-raiser, Robert Short of Minneapolis, said today that they knew of no illegal contributions to the Humphrey Presidential campaign. Mr. Short added that he would have rejected any corporate contributions if he had known of them. There are indications that illegal contributions might have been made to President Nixon's 1972 campaign.

A large and apparently legal contribution from the milk lobby to Mr. Nixon's 1972 campaign has been widely publicized. The Nixon Administration has been accused by several of its critics of granting a large increase in milk price support in exchange for \$422,500 in campaign money from Associated's legal political arm, the Committee for Thorough Agricultural Political Education (TAPE) and the political arms of two other large milk cooperatives.

Why Associated might have chosen to make illegal contributions as well is not clear—since, in TAPE, it has had a legal political fund since 1969. It is illegal for a corporation to contribute directly to a Federal election campaign.

The possibility of illegal milk

lobby contributions to the Nixon 1972 campaign was raised last week in courtroom testimony of a former lawyer for Associated who was dismissed in September. The testimony is part of a deposition in a tangle of lawsuits against Associated by several farm-related organizations. The deposition, by Joseph A. Rose Jr. of San Antonio, the lawyer, began in Kansas City before Federal District Judge John W. Oliver and continued this week in San Antonio.

In public testimony before the deposition was ordered closed to the public, Mr. Rose alluded to a scheme to channel cooperative money directly to a political campaign. He also testified that he had been ordered to approve a monetary payment for an employe involved "to secure his silence."

He said he had been told by the secretary of TAPE, Roert Lilly, that certain money had been funneled directly to an unidentified political campaign.

He quoted Mr. Lilly as having told him, "It can't be recouped because it didn't go to something like the Committee to Re-elect the President; it went direct."

The attorney questioning Mr. Rose said, "By direct, you mean like \$100 bills in a brown bag, is that the way you understood it?"

Mr. Rose replied, "This is the conclusion I have drawn from discussion with Mr. Lilly and others, yts, sir."

Promise of Immunity

Mr. Lilly has been subpoenaed by the Senate Watergate committee. The committee voted yesterday to grant him immunity in return for his cooperation. A time has not been scheduled for his testimony. It was not available for comment.

Mr. Rose, in the same deposition, said he had been told by a long-time lawyer for Associated, Stuart Russell of Oklahoma City, that he, Mr. Russell, had passed milk money back to Mr. Lilly for political contributions. Mr. Rose said other leaders of the cooperative had told him that someone connected with the organization had "participated in conduit activities."

One issue in the lawsuits for which the deposition is being taken is the size of Associated's legal fees. Court records show that during the 10-month period ending April 30, 1972, the cooperative spent \$1,036,944 on legal fees. They show that \$305,166 of that went to Mr. Russell.

Mr. Rose testified that "certain monies," presumably Mr. Russell's legal fees, had been traced to Mr. Lilly. He said Mr. Russell had once told him, "Joe, some of my money has been traced to Lilly and we have to try to figure out what story to tell the Internal Revenue."

Testimony on Fee

Mr. Rose said he had been asked to approve a \$1,500 lawyer's fee to another law firm for Mr. Lilly "to secure his silence as to past acts which were described to me as crimes."

He said the request to approve the fee had come from Dr. George L. Mehren, general manager of Associated. Dr. Mehren was Assistant Secretary of Agriculture under the Democratic Administrations of the Nineteen-sixties before

joining Associated during a leadership upheaval in the cooperative in January, 1972.

Mr. Rose said he had refused to approve the legal fee for Mr. Lilly. He said he took his story to the Federal Bureau of Investigation after the president of Associated, John Butterbrodt, had told him that he, Mr. Rose, might be more implicated in the cooperative's difficulties than he knew.

Mr. Rose was dismissed by Associated Sept. 4. He testified at the deposition over the protest of Associated lawyers, who argued that he would violate lawyer-client privilege if he did so. Judge Oliver ordered him to testify, anyway.

Mr. Russell was interviewed by telephone in Oklahoma City earlier this week. He denied having been a conduit for any illegally used money.

He said Mr. Rose had misinterpreted a statement that he, Mr. Russell, had once made to him in which Mr. Russell had asked Mr. Rose to assume "for the sake of argument" that some money had been passed illegally. Mr. Rose mistakenly took that to mean that he, Mr. Russell, had committed such an act, he said.

Disputed Check

As for the disputed \$1,500 check, Mr. Russell said that had been a legitimate legal fee for work on a lawsuit against Associated.

Mr. Russell said he had stopped representing Associated several weeks ago "by mutual agreement."

Dr. Mehren has suggested that the Nixon Administration used its Justice Department to try to squeeze further contributors to the President's re-election campaign in 1972. The milk lobby's acknowledged, recorded contributions—\$422,500 from Associated and the two other cooperatives—were made in 1971 before he became general manager of Associated.

Dr. Mehren said recently in an interview in San Antonio that he found it suspicious that Herbert Kalmbach, Mr. Nixon's personal lawyer and campaign fund-raiser, called on Associat-

ed for a contribution only a few days before the Justice Department filed an antitrust suit against Associated Feb. 3, 1972.

The suit, which has not been tried, accuses Associated of a number of illegal acts in restraint of trade, including manipulation of Federal milk marketing orders to depress the price of milk sold by nonmembers of the cooperative.

Funneling Charges

The Federal grand jury in Little Rock charged Mr. Parr and Mr. Howard with funneling \$22,000 of corporate funds through conduits to the Humphrey campaign.

The grand jury said one \$20,000 contribution was passed from one of Associated's predecessor organizations, Milk Producers, Inc., of which Mr. Parr was then general manager and secretary, through the Arkansas Electric Cooperatives, Inc., to the Humphrey campaign. It said two \$1,000 contributions were similarly "laundered" and passed to the campaign through two employes of Milk Producers, Inc.

The Electric Cooperatives and their general manager, Harry Oswald, have pleaded guilty to a similar conspiracy charge involving other contributions to the Humphrey campaign and have been fined \$2,500 each and placed on probation for three years.

The Times's own investigation has turned up evidence that several thousand dollars more was contributed illegally by Milk Producers, Inc., to the Democratic campaign by laundering it through other employees and directors of the milk cooperative.

Matching the names of several employees, board members and cooperative lawyers against the names of contributors in the 1968 campaign, compiled by Citizens Research Foundation at Princeton, N. J., shows that more than 20 of them contributed a minimum of \$1,000 each to the Humphrey For President Committee during the last days of October and the first days of November, 1968.

Employe Donations Cited

Sources in the cooperative said a large number of employees and board members were given \$1,000 each at that time and told to donate the money to the Democratic campaign.

In some cases the money was called a "bonus." That has been a common device by which corporations have circumvented the law that prohibits them from contributing directly to Federal political campaigns.

In addition, there are suspicions that other devices were used to pass milk money to the Democrats. One source believes that more than \$200,000 was contributed illegally from the milk cooperative to the Humphrey campaign in 1968.

Under threat of a lawsuit by an angry member, Associated began its own in-house investigation a few weeks ago to see how much money might have been spent illegally on politics over the years. The cooperative's board hired Edward Wright of Little Rock, a former president of the American Bar Association, to conduct that investigation.

The Little Rock Federal grand jury is in recess and is not scheduled to reconvene until Nov. 26. Meanwhile, the five-year statute of limitations has run out on some of the suspected violations and will soon run out on others. An spokesman for the United States Attorney in Little Rock said the grand jury could be called into emergency session if necessary.

Mr. Parr and Mr. Howard are expected to be tried in December of January. Each faces up to five years in prison and \$10,000 in fines.

Another Indictment

This is the second indictment in second weeks against contributors to the 1968 Democratic campaign. Dwayne O. Andreas of Minneapolis, a soybean magnate who is a long-time friend of Senator Humphrey, and Mr. Andreas's company, the First Interoceanic Corporation, were charged Oct. 19 with contributing \$100,000 illegally to Mr. Humphrey's Presidential campaign.

In recent years, including the last years of Mr. Parr's influence in Associated, the cooperative strayed from its firm Democratic leanings and began to contribute to Republican candidates.

Its political fund-raising from dairymen became so successful that its slush fund grew to about \$3-million during the early nineteen seventies. The money was spent lavishly. Some \$512,000 was funneled to Congressional candidates last year, much of it through Congressional campaign committees that hid the identity of the candidates receiving it.

Associates, through its political arm, adopted a policy of contributing to both candidates in some disputed elections. The practice occasionally caused hard feelings.

Some Washington observers believe that the milk lobby's big political spending has backfired. They say that many Congressmen who have been friendly to dairymen now will vote against dairy legislation to avoid the suspicion that they have been "bought" by the milk lobby.