

'Illegality' Cited in Gulf Payments

McCloy Panel's Report Lists 'Gray' and 'Black' Funds for Officials Abroad

Gray and 'Black' Funds for Officials Abroad  
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WASHINGTON, Dec. 30—In a detailed picture of the Gulf Oil Corporation's massive payments to politicians and candidates here and abroad, an independent investigative committee today described the company's domestic contributions as "shot through with illegality."

"The activity was generally clandestine and in disregard of Federal, as well as a number of state statutes," the three-member panel said in a special report to the Securities and Exchange Commission and the United States Court for the District of Columbia.

The Special Review Committee disclosed not only the details of foreign payments previously disclosed but made public the existence of a "gray fund" for giving tips and presents to "relatively low-level governmental personnel" with whom Gulf had contact in South Korea and a "fondo nero," or black fund in Italy, out of which Gulf paid \$10,815 to newspapers, editors and journalists.

**10-Month Investigation**

The 298-page report, with six appendices, is the result of a 10-month inquiry headed by John J. McCloy, a senior partner of the New York law firm of Milbank, Tweed, Hadley & McCloy.

Bob R. Dorsey, chairman and chief executive of Gulf, in taking note of the "tragic chapter in the history of Gulf Oil,"

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# McCloy Panel Describes Payoffs by Gulf As Being 'Shot Through With Illegals'

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commended Mr. McCloy and his committee for a "thorough and impartial investigation."

Mr. McCloy said that the investigation should provide Gulf's board of directors "with information needed to take whatever action the directors deem necessary and proper." The board will begin its formal consideration of the report Jan. 12, he said.

As part of the settlement of a Government suit, Gulf agreed to arrange for the inquiry by the Special Review Committee. In addition to Mr. McCloy, who is not affiliated with Gulf, the committee consists of Nathan W. Pearson, financial adviser to the Paul Mellon interests and a director of Gulf since 1969, and Beverley Matthews, a partner in a Toronto law firm and a Gulf director since 1958.

**Plaintiff in Suit**

The Securities and Exchange Commission, which was the plaintiff in the suit against Gulf, regards the appointment of special review committees in case of corporate misconduct as a way of augmenting its own relatively small investigative resources. The resulting reports are filed with the S.E.C. and the appropriate court.

Today's report is unusual because of the scope of Gulf's activities—the report puts the total of Gulf's lawful and unlawful contributions at \$12.3 million—because of the range of countries involved and because of the stature of the 80-year-old Mr. McCloy, former president of the World Bank, former High Commissioner for West Germany and former board chairman of the Chase Manhattan Bank.

On the key issue of the responsibility of Gulf's officers, the special committee found that Royce H. Savage, former general counsel of the company, was "aware that he [Claude C. Wild Jr., a Gulf lobbyist] had a source of corporate funds available to him which he was probably using for political contributions and payments."

It also found that Herbert C. Manning, another lawyer who was secretary of the company, "failed to inquire as diligently and professionally as he should have into the source of funds



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E. D. Brockett, left, former Gulf chairman, and Bob R. Dorsey, chairman, were mentioned in the report.

he received" before making political contributions. Similarly, it concluded that William L. Henry, an executive vice president, and Fred C. Deering, former controller, failed to make adequate inquiries.

As for the company's chief executive, Dorsey, the report concluded that the evidence it had gathered "falls short of demonstrating that Dorsey was informed of Wild's unlawful political activities."

At the same time, the special committee said that Mr. Dorsey was "involved" enough in the activities so that he should not participate in any steps taken to implement the report.

The committee made several specific recommendations to Gulf's board. These include:

¶ Strengthening the company's internal audit department.

¶ Prohibiting the use of "off-the-books"—that is, unrecorded—funds "for any purpose, whether legal or not."

¶ Giving the chief legal officer of the company direct access to the chief executive and charging the lawyer "with responsibility of calling to the attention of management any operations of the company which . . . constitute illegal political activities."

The committee made the last recommendation, it explained, "in view of the unfortunate role played by a succession of Gulf's general counsel, up to the present incumbent of that office, in going along with, if

not actually planning, the program of illegal contributions."

The committee went on to say, however, that "rules and procedures" would not be sufficient. The critical element, it asserted, is "the tone and purpose given to the company by its top management."

"The illegal use of corporate funds for political purposes was originally instituted by the top Management of Gulf and in the last analysis it will be in the tone and attitude of top management that the eradication of the practice will be insured in the future."

According to the report, Gulf's political payments may well have stemmed from an announcement in 1958 that "in the future the corporation will take an increasingly active interest in politics."

In 1959, a company vice president wrote that "we have seen the development of a situation in which Gulf—and the industry—had been subjected to increasing attack while in the political climate of our times, it increasingly has been denied a fair hearing."

One of the things that the Gulf executives who set up a Bahamian arrangement that allowed the company to bring unaccounted-for cash back into this country wanted, the report said, "was to build an organization around the country that would give Gulf some 'muscle' in politics."

The report placed some of the blame for Gulf's gifts on political candidates.