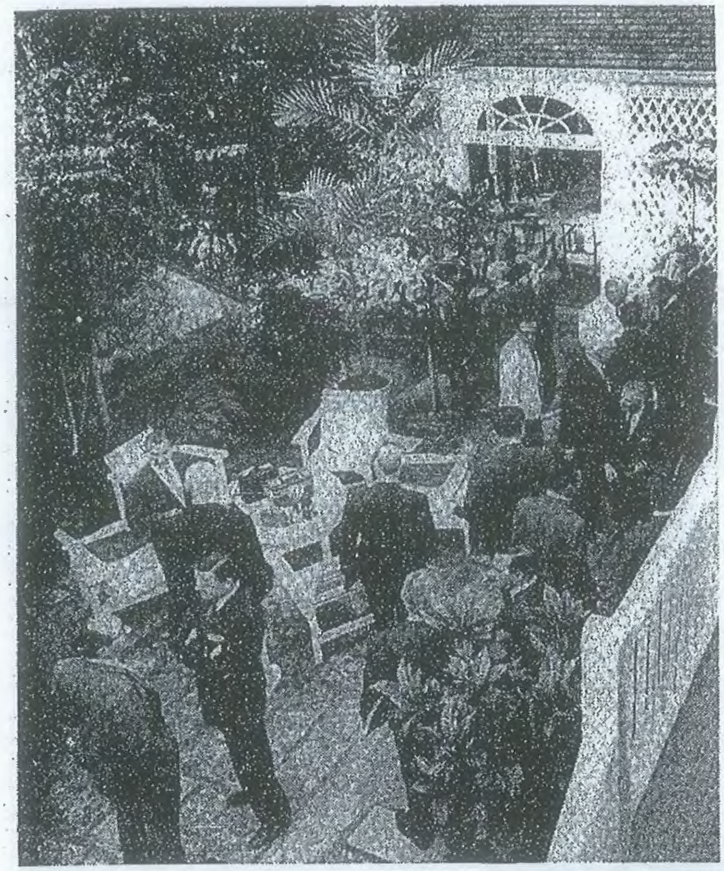

BANKERS of Deltec Banking Group in an informal moment during 1966 annual meeting in the Bahamas.

Deltec Shoestring Laces Continents

By H. ERICH HEINEMANN

Two weeks ago, at the East Hill Club in Nassau, which was once Lord Beaverbrook's winter home, an extraordinary multinational meeting was convened.

It was the annual meeting of Deltec Panamerica, S.A., a little-known, but highly influential conglomerate of companies that specialize in financing private enterprise in Latin America.

Incorporated in Panama, based in the Bahamas and active not only in North and South America but in Europe as well, Deltec is a living monument to the vision of its founder and chief executive, Clarence Dauphinot Jr.

Mr. Dauphinot started the company in Brazil in 1946 on a financial shoestring; this year, it is shooting for a volume of business in excess of $200-million.

From a small group of friends who tramped dusty provincial capitals in Brazil selling bottle openers, frying pans, glassware and shovels in order to get started, Deltec has grown in size and prestige to the stage where its stockholders include major banks and financial houses from all over the world.

Name Was Accidental

The very name Deltec, in fact, was accidental in its origin. A Brazilian lawyer was left to his own devices to pick a name for the proposed new company. The lawyer had been dealing with Clarence Dauphinot, and two friends, Earl Elrick, and Angus C. Littlejohn, whom he considered to be "tecnicos," or technicians.

It was a simple thing, then, to fuse the first letters of the three last names, and tack "tec" on to the end.

But clearly times have changed for Deltec.

Indeed, the guest list for last month's meeting at the East Hill Club reads like a Who's Who of international finance, liberally sprinkled with high-ranking diplomats, former Latin American finance ministers, and one United States Senator, Claiborne Pell, Democrat of Rhode Island.

One of the largest groups at East Hill, in fact, was composed of officials of major American banks that are prospective shareholders of Deltec—including among others, the First National Bank of Chicago, the Manufacturers National Bank of Detroit, the Philadelphia National Bank and the State Street Bank and Trust in Boston.

New Capital Raised

Deltec is in process of raising some $10-million in new capital, and in effect there is a waiting list of banks wanting to purchase shares once some technical, legal problems involving Deltec's New York subsidiary, Frederic H. Hatch, Inc., are resolved.

The guiding principle behind Mr. Dauphinot's drive to build Deltec has been a belief that without the mechanism of a smoothly functioning capital market, the economies of Latin America will never be able to truly prosper.

In other words, unless there is a mechanism for the slowly emerging middle class in Latin America to invest its savings in Latin America, then balanced, inflation-free economic growth will be slow to come.

Clarence Dauphinot, center, president and director, Deltec Panamerica S. A., with Deltec directors W. J. M. Longmore, left, executive director, Bank of London and South America, and Marc Hannotin, director general of Banque de l'Indochine (Paris).

Last year, on commission from the Inter-American Development Bank, Deltec completed major studies of the capital markets in Argentina, Brazil, Peru and Venezuela, aimed at suggesting legal and regulatory changes "which will encourage the spontaneous and internal formation of capital."

But while the general principle is simple to state, its implementation has been a slow and tortuous process that has led Deltec into many diverse fields.

In some countries, Brazil and Venezuela, as an example, its subsidiaries or affiliates are members of local stock exchanges. Deltec is active in most Latin American countries as an investment banker, finding capital for corporate expansion.

In Brazil, Deltec has organized a mutual fund (similar venture in Puerto Rico has been unsuccessful and the fund there is currently up for sale).

In partnership with Johnson & Higgins, which is one of the world's largest insurance agencies, Deltec has insurance brokerage operations in several South American countries.

Then, too, Deltec is a long-term investor in Latin America for its own account. It controls flour mills in Brazil, a land development company in Sao Paulo, sugar plantations in Argentina, a fish meal company in Peru, and it is building an office tower in Caracas.

The irony of all these operations—which for the most part are conducted in local currencies—is they just about break even for Deltec.

Frequently, there are substantial local profits, but more often than not before these profits can be converted into hard currency they are wiped out by inflation and devaluation.

The bulk of Deltec's revenue producing business—from the point of view of the parent company in Nassau—is conducted in dollars, and

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Deltec Encircles the World

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most of this in short-term commercial paper.

For example, Deltec buys notes from Industrias Kaiser Argentina, the big Argentine auto producer that is now owned by Renault, and then resells them at a markup to other lenders—mostly in Europe these days, since American lenders are blocked by the Administration's balance of payments program from expanding their foreign lending.

The appeal to the investor is the high yield (the rates can run 10 per cent or more) on paper with very little risk, since the borrowers (which have to be large and stable companies) have to assume all the risk that, say, the Argentine peso might be devalued.

Lately, according to Mr. Dauphinot, lenders have begun asking for hard currency notes in currencies other than the American dollar—for example, in the French and Swiss francs, and the German mark.

In addition, Deltec, which is very enthusiastic about economic progress in Mexico, has begun to offer notes of Mexican companies denominated in Mexican pesos. "The peso is as strong as the dollar," Mr. Dauphinot told his stockholders.

Then, too, Deltec is exploiting its contacts with institutional investors in Europe by taking an active role in the distribution of Eurobond issues—dollar denominated issues that are sold outside the United States.

According to Julio E. Nunez, the Cuban-born, Harvard-educated lawyer who runs Deltec in Europe, last year the company sold about $60-million of hard currency paper generated by its own organization, up 87 per cent from 1966, and participated in selling 81 Eurobond issues.

Europe Is New Goal

Mr. Nunez told the East Hill meeting that Deltec is making "a concentrated and organized effort" to penetrate the European market for Latin American hard currency obligations, principally through "systematic visiting" of financial institutions on the Continent.

In the United States, Frederic H. Hatch, an old-line over-the-counter securities house that was once controlled by Mr. Dauphinot's father, does a general stock and bond business, and handles placement of Deltec's hard currency paper from Latin America in this country.

Because of the American law that requires complete separation of commercial banking and investment banking, Hatch will probably have to cut back some of its activities in the securities markets if banks such as the First National of Chicago and the Manufacturers National of Detroit are to join the Deltec "family" as shareholders.

But Mr. Dauphinot does not consider that this will present any insuperable operating problems. In fact, when the change in Hatch's operations become effective, its name will probably be changed to Deltec New York, in order to more closely identify its operations with those of the rest of the group.

Strong Associates

The great strength of Deltec in Latin America, from the viewpoint of bankers who participate in the group, is two-fold: the fact that it is on the spot with skilled professionals in all the leading countries and secondly, the quality of the local partners with whom Deltec has associated itself.

This web of personal and financial interconnections on Deltec's board, of course, spreads far beyond Latin America. Gustave Levy, chairman of the New York Stock Exchange, partner in Goldman, Sachs & Co., and an old friend of Mr. Dauphinot, holds about 130,000 Deltec shares, and is on the board.

Salim L. Lewis, of Bear, Stearns & Co., has a similar position, and, according to close friends, has made something of a hobby of Deltec. Other key American financial figures on the Deltec board are Milton Steinbach, partner of Wertheim & Co., and A. Oakley Brooks, partner of Wood, Struthers & Winthrop.

All of these firms are important members of the New York Stock Exchange.

Politics and Business

In Europe, Deltec has major banks from several countries among its shareholders, including the Deutsche Bank and the Commerzbank—Germany's first and third largest banks—and the Bank of London and South America, the Compagnie Financiere de Suez, Credit Suisse, which is one of the major Swiss banks, and many others.

Mr. Dauphinot's job, in effect, is to keep one jump ahead of the rolling political and economic crises that seem to be endemic to Latin America, increasing its commitment where the climate is favorable and cutting back where it is not.

For example, the political stability that has developed in both Brazil and Argentina, following military take-overs in those countries has led Deltec to increase greatly its commitments there. On the other hand, the leftward drift in Chilean politics has caused Mr. Dauphinot to all but suspend operations there.

There is a great deal of logic to the way that Deltec is organized today. The base in Nassau—which provides a complete tax shelter for income that is earned there—is essential for a multinational company such as Deltec, which is originating paper on one continent and selling it in another.

A Different Story

But Deltec's growth was anything but neat and orderly.

During World War II, Mr. Dauphinot had been trading foreign bonds at the investment banking house of Kidder, Peabody & Co., and had made three trips to Latin America in connection with this business.

He was greatly impressed, particularly by Brazil and Argentina, and after the war ended he convinced Albert H. Gordon, Kidder Peabody's managing partner and today its chairman, and the late Edwin S. Webster, Kidder's money partner, that an investment there would be worthwhile.

The two men backed him personally, and Kidder, Peabody guaranteed him a salary for a year while things were starting up. The initial plan was that Mr. Dauphinot would go to Brazil for just six months, set things up, and then leave Mr. Elrick and Mr. Littlejohn to run the operation.

A Long Wait

Things did not work out quite the way they were planned though. It took two-and-a-half years to get the necessary license to operate in Brazil, there was a disagreement that led Mr. Elrick and Mr. Littlejohn to depart (the latter subsequently returned and today runs the Hatch operation in New York), and just to pay current bills Mr. Dauphinot had to sell frying pans and Old Crow whisky.

But Deltec finally got off the ground by selling a stock issue for the Brazilian Light and Traction Company, and Mr. Dauphinot ended up living in Brazil until the early 1960's, when he was, for practical purposes, forced to move to Nassau because of his intense opposition to Joao Goulart, the left-wing former President of Brazil.