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The Problems of U.S. Businesses Operating Abroad in Terrorist Environments

Suzanna W. Purnell, Eleanor S. Wainstein

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PREFACE

As part of the U.S. government effort to combat terrorism, the Working Group on Terrorism in the Department of Commerce requested The Rand Corporation to examine the experiences and concerns of American enterprises operating in high-level terrorist environments. This report, the documentation of that study, is intended to inform and advise businessmen who either have operations abroad or are considering new foreign investments.

The present report is part of Rand's continuing analysis of terrorism in the United States and abroad.

SUMMARY

As the incidence of terrorism has increased in the past 15 years, so have the risks to U.S. businesses operating abroad, particularly in Latin America, where terrorists have targeted U.S. firms with greater frequency than elsewhere. Based on interviews with 59 businessmen, their advisers, and U.S. government officials, this report focuses on the problems of running an overseas operation in a high-risk environment.

One of the most significant findings of the study relates to the detrimental effects of terrorism on productivity and quality control, in addition to the costs of property damage, ransom payments, and expenditures for security purposes. U.S. manufacturers in El Salvador offer the prime example. Most U.S. companies have embargoed employee travel to plants in that country. As a result, one company unable to send technicians there must ship its machinery back to the United States for major overhauls. A second company blames the longer than normal idle times when a machine breaks down on the scarcity of trained technicians. Other corporations have had trouble maintaining quality and quantity controls on the distribution of their products.

Even more serious, these technology-bound manufacturers in El Salvador are unable to send in technicians to set up new lines and to train the work force. Moreover, companies are reluctant to put advanced equipment into such a risky environment. If a corporation has plants elsewhere with updated production lines, the obsolescence of the Salvadoran facility makes it relatively less efficient and more difficult to integrate into the corporation's overall production goals.

In addition to the adverse effects on productivity and quality control, the instability to which terrorism inevitably contributes may induce the host government to enact currency or ownership policies that reduce the profitability or viability of an overseas operation. Recent efforts by the Salvadoran government to stop the transfer of assets out of the country resulted in currency policies adverse to U.S.-based businesses.

Despite the difficult conditions under which businesses have sometimes had to operate abroad, we found little inclination on the part of businesses to pull out of investments as a result of terrorist threats or attacks. Businessmen approach the problem somewhat philosophically, pointing out that businesses cope with terrorism just as they survive war and other violence. Businessmen understand that many

locations that attract investment also foster conditions conducive to terrorist activity, and they accept that risk in order to do business there.

Moreover, businessmen are optimistic about the outcome. They consider terrorism episodic and look beyond periods of instability to an eventual resolution. Although terrorists may harass and attack businesses, only rarely do they try to damage the operation itself, in part because they do not want to alienate local labor. Businessmen believe that most terrorists also realize that if they win their conflict, they will need production capabilities, services, and investments to maintain a viable economy.

American businesses attract terrorist attacks for a number of reasons. Leftist and nationalist terrorist groups promoting an ideology that blames capitalism and foreign influences for local troubles believe that attacks on U.S. interests further their cause. Other terrorists target foreign corporations to obtain publicity for their cause and to embarrass the incumbent government. Most important, terrorists attack foreign businesses—and, in particular, kidnap businessmen—to obtain money, often millions of dollars, to finance further terrorist activities.

Terrorist attacks against U.S. businesses have included bombings (the most frequent form of attack), kidnappings, assassinations, facility attacks, lock-ins, robberies, and extortion. Some businesses are by nature more attractive, as well as more vulnerable, to these attacks than others. The variety of characteristics—including public visibility and size and type of operation—that influence each firm's experience with terrorism make it difficult to generalize such experiences.

Our survey revealed that, for the most part, firms react individually and on their own to the problems of a high-risk environment. Although companies may take advantage of the services of the U.S. and host governments, as well as help from other firms, each firm essentially devises its own strategy and response for dealing with the risk. The extent to which the home office becomes involved in this process varies. Because the legal responsibilities of parent firms in this area remain unclear, corporate officers decide the corporation's role in dealing with the terrorist threat on the basis of perceived moral obligations, legal constraints, and overall corporate profits.

To cope with specific terrorist threats, many large firms have developed extensive corporation-wide security programs that include provisions for executive protection, security of employees and facilities, intelligence gathering and analysis, and crisis management. The overall philosophy of the corporate security program is to make the firm's operations and personnel relatively harder to attack than other potential targets. Firms therefore usually increase security as the

threat increases, seeking to anticipate new threats without overreacting. No matter how extensive the preparations, however, there can be no absolute guarantee against being successfully targeted.

While a stepped-up security program constitutes the most obvious corporate response, a firm may also seek to lessen the vulnerability of its key personnel by encouraging changes in their patterns of behavior—including public appearances, business hours, travel, and general life-style—with the ultimate aim of reducing exposure and maintaining a low profile. Unfortunately, this has the effect of progressively separating the manager from his operation. If the threat continues, the corporation first repatriates the manager's family and then replaces the American manager himself with a country national. While many companies have long had such a policy of replacement, the threat of terrorism accelerates the process, sometimes at the cost of on-the-job training. Local managers may also be targeted, and corporations take the responsibility for them, as they do for American managers; but since local managers tend to be less conspicuous than foreigners, firms have found replacement to be the most satisfactory long-term solution to the problem.

The survey indicated also that the personality of overseas managers is an important factor in dealing with a terrorist environment. A successful manager volunteers despite the threat, speaks the language of the country, communicates well with employees, displays a real commitment to the local operation, and cultivates the perception among the workers that they too have a stake in the continued operation of the firm; but this in itself is no guarantee against being targeted by terrorists.

The kidnapping of an employee, an event that forces the business firm to respond directly—and usually on its own—to a terrorist situation, can cause considerable trauma. Without exception, corporations have assumed the responsibility for trying to obtain the release of an employee kidnapped because of his association with the firm. This role entails corporate judgments on acceptable concessions and on negotiation limitations. The process can result in enormous strains on the victim, his family, and corporate colleagues, strains that can have further consequences after the victim has been released. A kidnapping may also strain the firm's relationship with the host government. While the host government may help in facilitating the negotiating process, the safe release of the hostage may not necessarily be the government's primary goal. It may, for example, place a higher priority on apprehending the kidnappers or on preventing the corporation from paying ransom which the terrorists use to finance further attacks. In fact, host governments on occasion have threatened expropriation when corporate negotiators have made concessions to

kidnappers in contravention of government policies or national laws.

In sum, businessmen fear the environment of political, social, and economic instability to which terrorism contributes more than they fear specific acts of terrorism. Nevertheless, they remain optimistic about the future of investment abroad.

Appendixes to the report present brief case studies of the effects of terrorism on U.S. businesses in Argentina from 1969 to 1978 and in El Salvador from 1972 to 1981. Each case study is accompanied by a chronology of terrorist incidents affecting business in that country.

ACKNOWLEDGMENTS

Although the major findings of this report are based on interviews with members of U.S. corporations having interests abroad, both the individual respondents and the corporations must remain anonymous. The authors want to thank them for the hours spent discussing the subject of terrorism and for their gracious hospitality.

We would also like to thank the following business advisers for their useful discussions of aspects of the terrorism threat: Brooks McClure of IMAR Corporation; Walter Burns, Martin Argostegui, and Frank Schwartz of Risks International, Inc.; Henry DeBuck and Vадja Kolombatovic of Intertel; Gerald West and John Gurr of Overseas Private Investment Corporation; and Damira Buzdovac of American Home/National Union Insurance Companies.

We acknowledge also the assistance and support of our Rand colleagues. Brian Jenkins helped formulate the research, conducted some of the interviews, and reviewed the various versions of this report. Konrad Kellen and Bridger Mitchell served as technical reviewers and made useful comments on the manuscript. Geraldine Petty contributed to the research, and Deborah Peetz prepared the manuscript for publication.

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ACRONYMS

BPR	Popular Revolutionary Bloc—El Salvador
CRM	Revolutionary Coordinating Committee—El Salvador
DOC	Department of Commerce—United States
DRU	United Revolutionary Direction—El Salvador
ERP	People's Revolutionary Army (Trotskyite)—Argentina
ERP	Popular Revolutionary Army—El Salvador
FAL	Argentine Liberation Front
FAP	Peronist Armed Forces—Argentina
FAPU	United Popular Action Front—El Salvador
FARN	Armed Forces of National Resistance—El Salvador
FDR	Revolutionary Democratic Front—El Salvador
FPL	Farabundo Marti Popular Liberation Forces—El Salvador
FREJULI	Justicialista Liberation Front—Argentina
IADB	Inter-American Development Bank
LP-28	28th of February Popular League—El Salvador
Montonero	(Outgrowth of Peronist youth organization)—Argentina
ORDE	Nationalist Democratic Organization—El Salvador
PCD	Christian Democratic Party—El Salvador
PCN	Party of National Conciliation—El Salvador
UGB	White Warriors Union—El Salvador

I. TERRORIST THREAT TO U.S. BUSINESS ABROAD

INTRODUCTION

Since the late 1960s, when terrorism became a problem of major international proportions, U.S. businessmen and their enterprises abroad have been favorite targets. Of the 2072 recorded international terrorist attacks on U.S. citizens and property from 1970 through 1980, 32 percent were aimed at business facilities or executives.¹ For the most part, American business has responded to the terrorist threat on its own. The U.S. government, however, in its program to combat terrorism, has gradually assumed an active role in advising U.S. corporations operating abroad on responses to terrorist threats or actions.

The Department of Commerce (DOC), through its Working Group on Terrorism,² tasked Rand to study the problems of U.S. corporations operating in terrorist environments. Their purpose, and the purpose of this report, is to advise businessmen who have invested or are considering investing in operations abroad about the terrorist threat. Because the funding for the survey documented in this report was limited and the respondents were constrained by the nature of the subject,³ we are unable to offer a set of specific rules supported by statistical analysis. We present instead the advice and observations of experienced businessmen and other experts for coping with terrorism abroad.

After a discussion of sources, this section analyzes the threat to U.S. enterprises abroad. Section II details the manner in which U.S. corporations, their employees, and their advisers carry on day-to-day operations in high-risk areas and how they have coped with the incidents of terrorist violence directed against them. Section III considers the role that governments—both U.S. and host country—play in fighting terrorism directed against business. Section IV deals with

¹ Central Intelligence Agency, *Patterns of International Terrorism: 1980*, Research Paper, June 1981, in Department of Defense, *Current News*, Special Edition No. 738, July 28, 1981, p.43.

² The DOC Working Group on Terrorism was dissolved in May 1981. Inquiries on terrorism should be directed to the Office of Business Liaison, DOC.

³ To protect employees and investments abroad, some corporate officials refused to discuss certain aspects of the terrorist problem: Corporate views and experiences concerning kidnap insurance, for example, were withheld because insurers demand complete secrecy on the part of policyholders. In other cases, security devices and methods were not discussed because disclosure would compromise their effectiveness. All corporate respondents requested anonymity.

executive kidnapping and the manner in which corporations respond. The report concludes with a summary of the impact of terrorism on U.S. investments abroad. Two appendixes present case studies of specific acts of terrorism directed against business enterprises in the unstable political climates of Argentina in the early 1970s and El Salvador more recently.

The present work concentrates on Latin America, first, because it is an area where terrorist groups target U.S. businessmen more frequently than elsewhere. For 1970 through 1978, although Europe led the world in reported terrorist incidents, Latin America had more than twice as many incidents directed against U.S. businesses as Europe had.⁴ Further reasons to concentrate on the threat in Latin America are its proximity to the United States and the extent of business investments in the area.⁵

The study relies for the most part on interviews with businessmen, their advisers, and U.S. government officials. Figure 1 indicates the affiliations of the 59 respondents and the functions of those employed by corporations doing business abroad.

The 49 private sector respondents either experienced a terrorist environment abroad, formulated corporate strategy to combat the problem, or negotiated with terrorists during their company's involvement in a terrorist crisis. Of the 40 corporate employees, 15 were responsible for security of their firm's operations and personnel abroad; 9 were overseas managers and executives, 3 of whom were held hostage by terrorists; and the remaining 16 were executives in the parent corporations or political and risk analysts who advised executives.

We also interviewed six security firm employees responsible for analyzing the threat in specific areas of the world, assisting corporations in setting up crisis management teams, formulating security systems for overseas facilities and personnel, and, in the event of a kidnapping, managing or cooperating in negotiations with the terrorists. In addition, we spoke with three members of insurance companies specializing in kidnap and political risk insurance.

The 33 corporations represented by the 49 private sector respondents varied in both nature and size: The smallest was an engineering consulting company with no capital investment in foreign countries; the largest were multinationals with millions of dollars invested abroad in plants, equipment, inventories, and personnel. Figure 2 groups the companies by type of business. Of the 33, five pro-

⁴ Risks International, Inc., *Regional Risk Assessment, Latin America*, 1979, p. 2.

⁵ As of the end of 1979, approximately 20 percent of all U.S. direct investment abroad went to Latin America. Department of Commerce, *Survey of Current Business*, August 1980, p. 27.

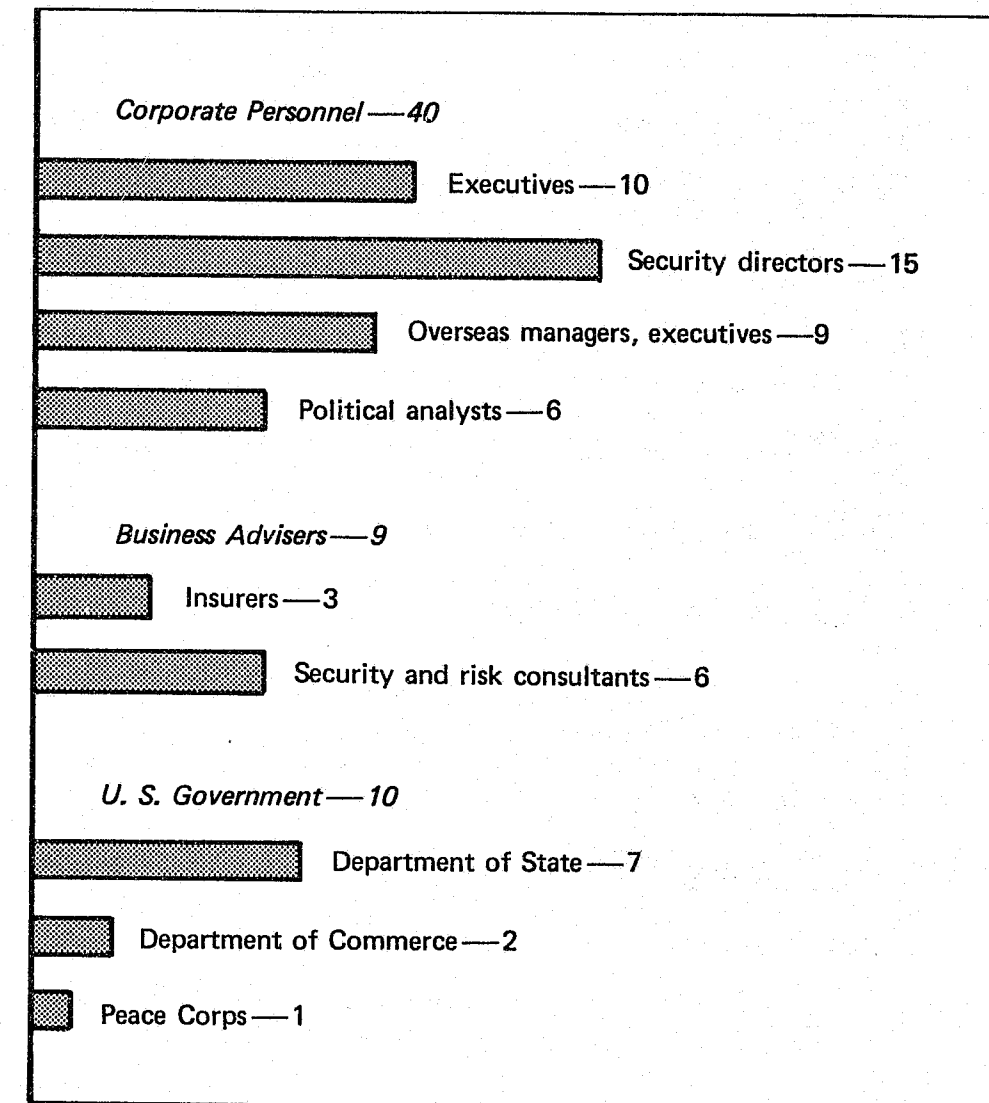


Fig. 1 — Affiliations of the 59 survey respondents

duced oil; two, chemicals; one, automobiles; three, heavy equipment; and three, electronic devices. The remaining corporations either produced or marketed consumer goods, or provided services to the local economy. These service industries included two banks, two insurance firms, and four consulting firms. One airline and one communications firm were also represented.

Finally, as Fig. 1 shows, ten respondents were U.S. government employees. Five represented three offices of the Department of State:

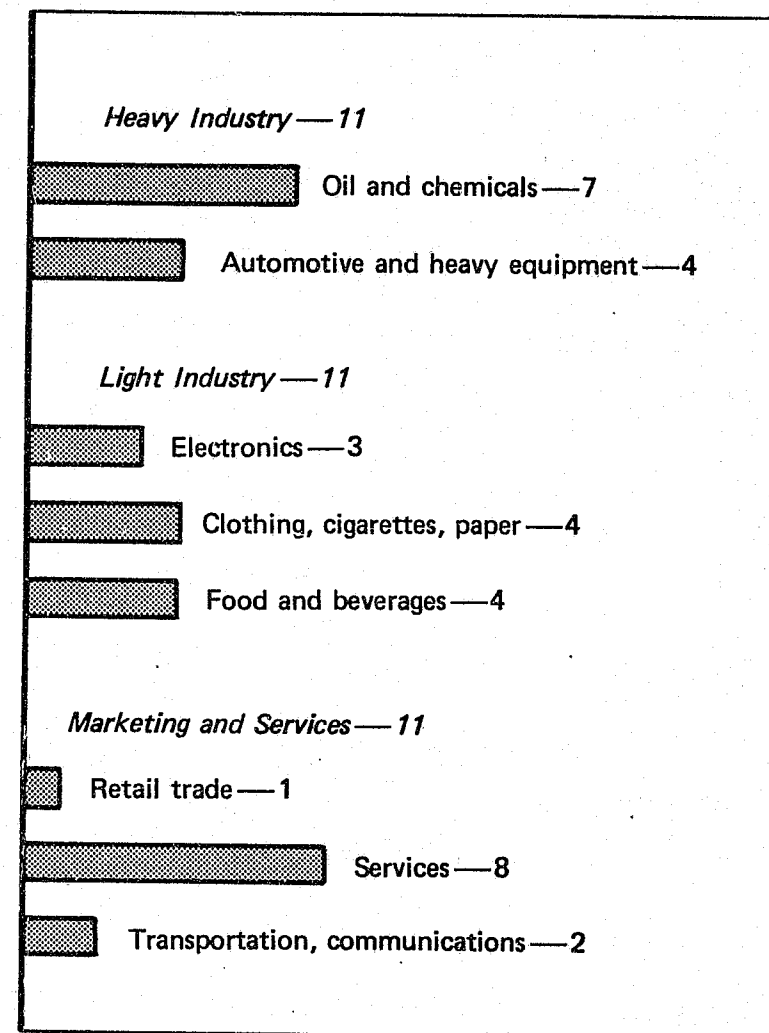


Fig. 2—Types of businesses represented by the 49 private sector respondents

Office for Combatting Terrorism (Office of the Undersecretary); Office of the Deputy Assistant Secretary for Security; and the Bureau of Inter-American Affairs. In addition, two Foreign Service officers and a Peace Corps volunteer who served in El Salvador during the past five years related their firsthand experiences with terrorism. Foreign trade area experts from the Department of Commerce also contributed their analyses.

BUSINESS AS A TARGET

Two significant trends underlie the increase in terrorist activities against U.S. enterprises abroad during the past 15 years: the burgeoning of the U.S. business presence and the proliferation of terrorist groups seeking redress against the established order. Spurred by developments in communications and transportation, U.S. businesses in foreign countries—and especially in developing countries—have grown tremendously in size and number, with direct investments increasing approximately 4½ times between 1965 and 1979.⁶ Some multinational corporations have budgets comparable to that of the host government. Many of the countries, particularly in Latin America, that have attracted U.S. businesses have at the same time experienced a proliferation of increasingly dissatisfied revolutionary terrorist-guerrilla groups. These groups want to overthrow the often long-entrenched political establishment, which they consider oppressive, and they view foreign, especially U.S., business interests as allies of the government that they are trying to overthrow. Thus, driving out U.S. enterprises represents a revolutionary goal.

Many governments in the developing world have encouraged U.S., European, and Japanese firms to establish subsidiaries in their countries. Representatives have actively courted foreign business interests with promises of favorable tax arrangements and cheap labor. When these corporations market products of local labor and resources elsewhere, they become vulnerable to charges of exploiting the land and the people. The success of international enterprises thus can make them attractive targets to the terrorist elements in the developing countries.

The current wave of political terrorism began in Latin America in the late 1960s and spread to the Middle East and Europe during the 1970s. Throughout this period U.S. businesses were popular targets. Risks International, Inc., a firm that compiles and analyzes data on international terrorism, indicates that 41 terrorist groups were active in Latin America from 1970 through 1978. During that time, they instigated 1357 incidents, 210 (15.5 percent) of which were directed against U.S. businesses, at a reported loss of over \$35 million.⁷

TERRORIST OBJECTIVES

In targeting U.S. businesses, terrorists hope to achieve several goals. The first is an ideological goal. American corporations symbol-

⁶ Department of Commerce (1980) and DOC unpublished statistics.

⁷ Risks International (1979), pp. 2-4. Because they use only verified data, Risks International statistics actually underestimate both the number of incidents and the costs.

ize a conspicuous U.S. presence, and attacks on "Yankee imperialism" constitute a part of the Marxist ideology of leftist guerrillas. Such attacks also embarrass the local regime and make it appear unstable. By the nature of these attacks, terrorists promote their ideology and gain support for their cause. In Argentina, for example, terrorists hijacked milk trucks and distributed milk to the poor in 1970. The following year they demanded that other companies distribute food and medical supplies.

The publicity that attends terrorist acts is a second important payoff. Often kidnapping or extortion demands include the demand that the company pay for the publishing in both local and foreign newspapers of statements by the terrorists or that press conferences be held in which the company whose official is being held is made to admit its guilt for, say, exploiting the workers or supporting the oppressive regime and to promote the terrorists' cause. Exxon, which paid the highest ransom of any U.S. corporation, also met the terrorists' demand to publish a communique in Argentine newspapers stating that the ransom was an indemnity "for superprofits that Esso obtained in the country, thanks to the exploitation of its workers."⁸

Terrorists also threaten businesses for financial gain. Extortion payments for a kidnapped executive can run to the millions of dollars, and terrorists can use this money to finance their operations, including buying arms, providing safe houses and transport, and supporting their group. A kidnapping operation can be expensive; it was estimated that the kidnapping of West German businessman Hanns-Martin Schleyer cost the terrorists approximately \$100,000.⁹ Private enterprise has traditionally ransomed kidnapped executives in the face of assassination threats. As an executive of one major U.S. corporation expressed it, "You can ask men to die for their country but not for their company." Estimates of ransoms paid by all businesses during the past decade range from \$150 million to \$250 million, of which approximately \$125 million was paid by U.S. firms.¹⁰ A former U.S. ambassador believes that in El Salvador alone foreign businesses paid \$40 million to \$50 million in ransom during the two years ending in spring 1980.¹¹

Successful terrorist "fund-raising" activities often encourage criminal imitation. By placing blame on the terrorists and cashing in on

⁸ Lester A. Sobel (ed.), *Argentina and Peron 1970-1975*, Facts on File, Inc., 1975, pp. 108-109.

⁹ *New York Times*, November 27, 1977.

¹⁰ The low estimate is from E. Patrick McGuire, "International Terrorism and Business Security," *The Conference Board Information Bulletin*, No. 65, New York, 1979, p. 6. The high estimate is from Business International Corp., *Terrorism and International Business*, New York, 1979, p. 2.

¹¹ Frank J. Devine, draft of speech.

their credibility, ordinary criminals heighten the danger to both the hostage and the corporation. To avoid encouraging either terrorist kidnapping or criminal imitation, corporations do not reveal the amount of ransom paid.

Terrorists may also use threats against businesses to make political demands on their government. For instance, in 1970 Argentine terrorists kidnapped a Paraguayan consul and threatened to kill both him and the managers of U.S. firms unless the Argentine government released two prisoners. Similar tactics often characterize hijackings, when terrorists demand that the local government, or the government associated with the airline, release prisoners. Although political demands have been made in connection with some executive kidnappings, most involve money ransom and publicity.

Despite the expressed aim of fanatical terrorists to drive foreign business out of their country and thus to bring about economic collapse, most respondents to this survey feel that terrorist organizations seek that goal only if their situation is desperate. Some analysts believe that the situation in El Salvador at present is approaching that state of desperation. Most believe, however, that the terrorists themselves want a viable economy when the struggle is over and therefore are unlikely to try to destroy the economic base by severely crippling business.¹² In the views of businessmen interviewed, the question of whether the right or the left wins poses less of a problem to business than the instability resulting from the struggle itself.

MANIFESTATION OF THE THREAT

Bombing is the tactic most frequently employed to harass foreign business. According to a Risks International report, from 1970 through 1978 bombings constituted 62 percent of all terrorist attacks on U.S. businesses in Latin America. Kidnappings, in contrast, amounted to 19 percent, facility attacks 13 percent, and assassinations 7 percent.¹³ For bombings, terrorists usually target sales offices, corporate headquarters, airlines, banks, and restaurant franchises to express their protest and generate publicity for their cause. Such at-

¹² Bowman H. Miller and Charles A. Russell have concluded that "The seemingly obvious objective of actually destroying a corporation does not find itself reflected often, if at all, in the way terrorists have gone about attacking business enterprises. Although many facilities have been bombed or in other ways attacked, few penetrations have been made into the core of any industrial production facility. There are, in fact, relatively few indications that this has been desirable in the terrorists' thinking." See "Terrorism and the Corporate Target," in Yonah Alexander and Robert A. Kilmarx (eds.), *Political Terrorism and Business*, Praeger, New York, 1979, p. 58.

¹³ Risks International (1979), pp. 3-4.

tacks have rarely caused casualties or serious destruction. When terrorists target key industrial production facilities, such as oil refineries or utilities, as they have done recently in El Salvador, the economic consequences are more serious.

Although kidnappings constituted only one-fifth of reported terrorist incidents in Latin America between 1970 and 1978, ransom payments amounted to 64 percent of the estimated total \$35.6 million business loss to terrorism. Individual businessmen indicate that kidnapping is the threat they fear most. In an environment where kidnapping is prevalent, the threat disrupts the lives of managerial personnel and their families, restricts personal and business contacts, and increases security costs.

A recent report analyzing terrorist activity in El Salvador noted a targeting pattern: During the early stages of a campaign, terrorists resorted to bombings and kidnappings, first against government and then business targets. As they became better organized and acquired more sophisticated weapons, the terrorists turned their attacks against such hardened targets as police and military facilities and became less of a threat to business. In July 1980, 59 percent of Salvadoran terrorist incidents involved businesses; by January 1981 the figure had fallen to 10 percent and the proportion of armed attacks on police and government installations had risen in what the terrorists termed the "final offensive." Total incidents remained approximately the same during both months.¹⁴ This experience indicates that when terrorists escalate the conflict to the level of guerrilla warfare, the direct threat to business is likely to diminish.

In sum, U.S. corporations abroad make both vulnerable and lucrative targets to dedicated terrorists. Many corporate respondents point out, however, that successful multinational firms learn to live with terrorism as with other adversities. In Section II, we will consider the strategies U.S. businessmen use to confront the threat and to operate in high-risk terrorist environments.

¹⁴ Risks International, Inc., *Executive Risk Assessment*, January 1981, p. 24.

II. HOW CORPORATIONS OPERATE IN A TERRORIST ENVIRONMENT

Interviews with businessmen and research on the corporate experience with terrorism abroad yielded strategies for dealing with the threat and reality of terrorism ranging from minor administrative suggestions to broad policies. A set of firm rules eludes us, however, for a number of reasons. First, the special circumstances of each incident that we studied made it unique and imposed qualifications on any ironclad rule that we might expound. Second, each business venture or investment abroad is also unique, depending on the size, location, type of business, and other variables. And third, each country or society presents a different aspect of both the threat and the manner of coping with it. Any study of the problem must consider, among other aspects, the nature of the terrorist movement, the effectiveness of the government and security forces in dealing with disruption, the stability of the government and its security forces, and the laws affecting corporate actions to counter terrorism.

Based on our interviews and research, we present below some general and specific measures that businesses take to survive in a high-risk environment. First, we consider the characteristics of business enterprises that influence their manner of dealing with terrorism and the varied aspects of parent company responsibility for and involvement in overseas operations. Following that, we examine some of the strategies that businesses adopt to cope with uncertain and disruptive terrorist environments.

ASPECTS OF BUSINESS VULNERABILITY

Certain characteristics of a foreign business venture—type, size, image, and location—affect its attractiveness as a terrorist target and its flexibility in responding.

Type of Operation

Much business vulnerability depends on the nature of the investment. A temporary or mobile enterprise, such as a consulting firm or an advisory service, can evade terrorism by moving out of the affected area. The relocation of capital-intensive operations involving substantial fixed assets (plant and equipment) presents a more difficult

problem. For example, a major oil company that withdrew its regional headquarters from El Salvador still maintains a large refinery there. Moreover, plant and equipment need specialized maintenance and repair, often by trained personnel from the United States who may be targeted by terrorists. Other companies have substantial investments in plantations and mines, some of which are more vulnerable than others. A businessman who had invested in coffee plantations was tied to El Salvador's troubles, but one in the cattle business protected his investment by driving his herds across the border.

Labor-intensive operations can respond more flexibly to a terrorist environment. With little or no investment in equipment, such firms can temporarily suspend operations or pull out permanently. On the other hand, labor-intensive enterprises are vulnerable to terrorists who infiltrate their labor organization. Textile and wearing apparel "transformation"¹ factories in El Salvador, for example, fell victim to a series of lock-ins in which labor agitators held both U.S. managers and local workers hostage and demanded unrealistic wage and benefit increases. As a result, many such firms left the country.

Size

The size of an enterprise does not necessarily affect its vulnerability. Indeed, many small operations in Argentina survived the years of terrorism because of their low visibility. A firm that is part of a large corporate structure acquires flexibility from the parent company's ability to pay for additional security or to absorb the loss associated with pulling out of the country. Although small firms and independent businessmen may have the advantage of low visibility, they are less likely to have the capital to invest in security measures and may have no alternative but to remain and risk losing everything.

Large enterprises often attract terrorist attack. If, on the other hand, they provide an essential product or employ a large number of workers, they will likely have the active support of the host government. For example, when terrorists killed three employees of the Ford Motor Company in Argentina, the Argentine government provided federal troops—at Ford's request—to guard its large plant.

Image

The image that a business projects, on the other hand, may affect its vulnerability. When a firm manufactures or markets a typically

¹ Transformation enterprises import raw materials, use local labor to manufacture a product, and export the product for sale. Transformation factories in El Salvador produced mainly electronic devices, textiles, and clothing.

American product or in some other way symbolizes the United States, it is more likely to attract terrorist activity. Ironically, in many instances the local distributor or franchise becomes the target. In Argentina, four Argentine executives of local Coca-Cola bottling and distributing companies were kidnapped by terrorists who thought they were employed by the U.S. company. The sales offices of local American car dealers or franchises such as McDonalds are frequently bombed because they symbolize the United States.

Affiliates of some well-known U.S. corporations derive an advantage from maintaining a local image. A popular U.S. cigarette manufacturer, for instance, which produces and markets cigarettes in El Salvador, has little trouble with terrorism, in part because the plant and product have Spanish names that in no way connect them with the U.S. parent company.

Location

The location of an investment can sometimes bear on its vulnerability to terrorist attacks. Sales offices and retail outlets located on major squares or highways are vulnerable targets for symbolic bombings or machine-gun strafings. Several people interviewed for this study felt that plants located in the El Salvador countryside were less likely to be attacked than those in the cities. Much of course depends on where the terrorists themselves are based. Location can be examined in terms of such other factors as accessibility to protection. One company, for example, reported no trouble after it located its factory outside the city, a quarter of a mile from a major military installation.

Type of Business

Finally, the general characteristics of the business in which a firm engages may constitute a factor of its vulnerability. Banks, for example, have always invested heavily in security measures, and terrorism does not appear to have made any significant difference in their security programs. Oil companies, to cite another case, provide a vital product, and local governments do not hesitate to extend protection to their facilities.

Airlines exemplify a type of business that attracts terrorist attacks—and also one that responds with flexibility. Airlines are targeted because they have high visibility abroad and often symbolize their government by virtue of being national carriers. Also, the large number of both airports and flights offers the terrorist many points of access. Finally, with a relatively small financial investment, a terrorist

hijacker can threaten a \$50 million aircraft carrying as many as 400 passengers of various nationalities.

The November 1977 experience of Lufthansa, West Germany's national airline, illustrates the vulnerability of airlines to terrorists.² In reprisal for the suicide in prison of their most prominent members, German terrorists publicly threatened to stage rocket attacks against three Lufthansa airliners. Three months earlier, German authorities had stopped terrorists as they prepared to fire missiles into the office of the Federal Chief Prosecutor, and three years earlier the Italians had arrested Arab terrorists as they prepared to fire missiles at jetliners taking off from Rome's Fiumicino Airport. German officials had every reason to take the threat seriously. They imposed stringent security measures on airports and instructed Lufthansa pilots to fly evasive flight patterns. Preventive measures were extended abroad when, at the request of the German government, the U.S. Coast Guard patrolled the waters around the New York, Philadelphia, and Boston airports to prevent the use of floating rocket launchers against scheduled Lufthansa flights. Because the media publicized the threats, Lufthansa temporarily lost business, and for two weeks the airline's stock declined on the Frankfurt Exchange. But the terrorists never attacked.

Although airlines are attractive targets, their unique characteristics have also influenced their response to the problem. First, airlines have advantages in operational flexibility. Because they rent most of their facilities and equipment abroad, airlines can suspend service to a given airport or country until the danger has passed. They can avoid overnight or long layovers for crews and aircraft in an unsafe area, either by schedule changes or deadhead flights to safe airports. U.S. airlines have used these tactics successfully during periods of disruption in Latin American countries. Second, since airlines are a major provider of communication and transportation as well as prestige, they tend to have considerable leverage on the host governments, as Lufthansa's experience illustrates. They can use this leverage to obtain protection for their aircraft and for airports. The U.S. government, for example, has taken an active role in setting up standardized airport security systems, assigning federal marshals to threatened airlines, and managing the response to hijackings. The U.S. government's participation in the protection of the airlines offers a rare example of joint industry-government response to the terrorist threat.

² See Paul Hofmann, "West Germany Tightens Security Near Its Airports," *New York Times*, November 7, 1977; Edith Evans Asbury, "Terrorists Sought in U.S. Waters on Threats to Lufthansa Airplanes," *New York Times*, November 15, 1977; and Paul Hofmann, "Germans Tighten Flight Security in Face of Threats to Lufthansa," *New York Times*, November 16, 1977.

CORPORATE RESPONSIBILITY

A business operating in a high-risk terrorist environment must adopt a policy for dealing with terrorist threats. The top management of the organization determines the limits of corporate involvement before, during, and after a terrorist incident, including how much security help, if any, the parent firm will give the local operation; who will receive protection; whether the firm will pay extortion demands or respond in some other way, such as withdrawal of personnel; and what limit it will set on ransom payment to free a kidnapped employee. The legal guidelines for these and other such decisions are limited. Assumption of corporate responsibility in this ambiguous area is influenced by the relationship between the corporation and the foreign subsidiary, legal considerations, and the costs of security and ransom.

Relationship Between Local Operation and Parent Firm

The specific ownership and management structure influences intra-company responsibility. Generally, the closer the corporate tie, the more involved the parent company becomes in running the local operation. Because multinationals often rely on interlocking operations, they must be concerned with each overseas operation and its relationship to the corporation's product and marketing strategies. Some international holding companies, on the other hand, have little to do with operations of a local affiliate, especially in the case of joint ventures that maintain the local identity of the firm. Given the loose ties of franchisers and distributors to the parent firm, the parent firm would probably do little more than give advice in the event of a terrorist problem.

The lawsuit brought against Beatrice Foods by the kidnapped manager of a Colombian affiliate addressed some of the legal limits of parent company involvement. The case to some extent revolved around the relationship of the local operation to the parent firm. Gustavo Curtis, manager of an autonomous subsidiary, Industrias Gran Colombia, sought damages from Beatrice Foods for failing to take sufficient action to free him from terrorist kidnappers. The New York judge dismissed the suit in 1980 after determining that the company acted "reasonably, fairly, and diligently" in ransoming the hostage and that Curtis had failed to show that Beatrice Foods was his employer within the meaning of Colombia's Labor Code. The judge noted that Curtis had worked for "an extraordinarily autonomous subsidiary whose corporate identity was scrupulously recognized by Beatrice

Foods."³ The Beatrice Foods suit is the only such case to have reached the courts.

Because corporate responsibility in the event of terrorist incidents remains a gray area, some companies have taken steps to preclude lawsuits such as that against Beatrice Foods. In at least one instance, a corporation gave a kidnapped executive favorable financial and career incentives to forestall a threatened suit. Another corporation has instituted the preventive practice of having an employee and his spouse—when they accept an assignment abroad in a high-risk terrorist area—sign an agreement giving the parent company the responsibility of handling a terrorist kidnapping, should such occur, but absolving the company of responsibility if things go wrong. The corporation also asks for the spouse or another family member to sign a similar agreement once a kidnapping has occurred, but this agreement may not be legally binding without the signature of the kidnap victim.

Legal Considerations

Host government laws may impinge on corporate policy and responsibility. In the Beatrice Foods case, the New York judge considered the company's actions under the laws of Colombia, in this case because the company was technically a Colombian one. Some countries outlaw the payment of ransom or the publicizing of terrorist demands. Even where the national government is cooperative, firms may seek to avoid customs when bringing ransom money into a country or getting a released hostage out. Although most companies follow a policy of working with the local government, some have been less than candid with local authorities on occasions involving negotiations with terrorists. Such situations are discussed in greater detail in Sections III and IV.

Costs of Security and Ransom

Security and contingency planning for day-to-day overseas operations vary significantly among firms. Some companies support extensive security programs, others provide little or no security and compel local operators to deal with the terrorist environment on their own. Although the high cost of extensive security measures can cut into profits, some corporations consider preventive measures to be economical in the long run if they can save lives and the payment of millions in ransom or extortion.

³ *New York Times*, January 5, 1980, p. 42.

Kidnapping is another matter. In our research, we encountered no instance of a company's failure to make some effort to negotiate the release of an employee kidnapped because of his identification with the firm. Corporations base such action on not only their moral obligation for the welfare of their employees but also the practical consideration that they would have difficulty staffing overseas positions if they did not ransom their employees.

Policies will differ, however, on the extent to which corporations bargain to reduce the ransom. Soon after a kidnapping takes place, most corporations set an upper limit on the amount they will pay. A number of factors influence this decision, including the size of the company's assets and kidnap insurance premiums and the negotiators' estimation of the kidnappers' flexibility. In the Curtis suit against Beatrice Foods, the manager charged that the company had put his life at risk by hiring negotiators who were connected with the firm holding the company's kidnap insurance policy and thus had a vested interest in reducing the amount of the ransom payment.

On the other hand, corporate officers cite their responsibility to the stockholders to operate profitably. Indeed, two Exxon stockholders have filed a class action suit against the company, claiming that corporate officials exceeded their authority when they paid \$14.2 million to obtain the release of an American manager kidnapped in Argentina in 1973.⁴

Corporations paying ransoms are also criticized for helping terrorists finance future operations. After receiving the Exxon ransom payment of \$14.2 million, the kidnappers announced that they would donate almost half to a consortium of terrorist groups to finance operations in Chile, Argentina, Bolivia, and Uruguay. Other critics charge that U.S. tax laws may actually encourage ransom payment by allowing corporations to write off ransoms as a business loss.

Corporate decisionmakers therefore have to balance the adverse costs of paying ransom against the positive value of achieving the safe return of a kidnapped employee.

CORPORATE SECURITY PROGRAMS

While senior officers decide corporate policies for dealing with terrorist incidents, they often delegate the implementation of these policies to formal security programs.⁵ Businesses such as banks have tra-

⁴ *Wall Street Journal*, March 7, 1980, p. 2.

⁵ The extensive literature covering the various aspects of security programs includes: Business International Corp. (1979); Jan Reber and Paul Shaw, *Executive Protection Manual*, Motorola Teleprograms, Schiller Park, Ill., 1976; Paul Fuqua and Jerry

ditionally had security programs reflecting the need for protection against threats from criminals, disgruntled employees, and the like. Usually, such established programs have expanded to include the terrorist threat. Most other firms, however, have established corporate-level security programs in response to the terrorism of the last decade. Almost every security officer we interviewed indicated that his job had been created within the past five to seven years, often as the aftermath of a terrorist threat against the corporation.

A security program involves taking prudent precautions as a response to a possible threat. Firms usually increase security as the threat increases, seeking to anticipate new threats without overreacting. Security experts agree that no absolute guarantee exists against being successfully targeted; therefore, they try to make terrorist operations against their employees and facilities more difficult than operations against other potential targets. In all instances, security is a preventive measure and not a solution to the terrorist problem. It may prevent terrorists from choosing a particular target, but it will not necessarily deter them from acting elsewhere.

Experts recommend that security functions be an organic part of the corporate organization rather than additional administrative detail imposed from the top. Consultants can help set up security programs, provide independent advice and threat analyses, and run the response to a specific incident, but really effective security must become an integral part of the corporation. Many security operations mirror the organization. For example, large multinationals are often divided into three tiers of administration: local, regional, and corporate, each with its security officers reporting up and down the chain of command. In some instances, the corporate security officer deals directly with the local enterprise and also helps to structure general corporate and executive protection plans. In others, corporate security has little contact with the local affiliate, which must provide its own security arrangements. In general, any significant local security expenditure requires either regional or corporate approval, but the local budget bears the cost.

Perceptions of security needs often vary. More than one corporate security officer noted that a local manager often does not want to admit that a problem which he cannot handle is developing, so he tends to downplay the threat. Later, if the threat escalates, he may complain that the home office does not do enough for him. Some local managers, on the other hand, argue that, in their experience, the home office does not understand the local situation and may actually issue directives that make their job more difficult.

V. Wilson, *Terrorism, The Executive's Guide to Survival*, Gulf Publishing Co., Houston, 1978; and various articles in Alexander and Kilmarx (1979).

Security experts recommend a corporation-wide security program, usually consisting of four elements: executive protection, facility and employee security, intelligence, and crisis management. A discussion of each of the components follows. The reader should keep in mind that specific advice on each must be tailored to the local situation.

Executive Protection

Many companies have instituted programs to protect their key personnel by increasing threat awareness and altering behavior patterns accordingly. The program usually includes training sessions on such tactics as detecting surveillance, evading seizure, and coping if taken hostage. Training stresses the avoidance of routines that terrorists may observe and take advantage of in planning a kidnapping or assassination. Executives are told to vary routes to work, leave home at a different time each morning, leave the office at a different time each evening, and avoid such routinized activity as the daily early morning racquetball game. The program also encourages executives to keep a low profile and avoid publicity.

A second phase of the executive protection program may include a number of services for the traveling executive. Most security officers routinely review itineraries and check out meetings and conference sites, and then brief executives before departure. If the political situation is particularly threatening, as it is currently in El Salvador, corporations may embargo company travel to that area.

Many companies provide daily protection to executives in dangerous areas in the form of armored cars, bodyguards, chauffeurs trained in defensive driving, and offices protected from public access. Such services may extend to family and house and include guards, installation of protective devices such as alarms and lights around the house, and even moving at company expense to a safer location. One firm found the expense of upgrading the security of the house that each newly assigned manager rented so great as to warrant the purchase of a house for its managers and the installation of sophisticated security devices. Many companies have executives make their own arrangements for protecting their families and homes, although security personnel might advise them. The company may also provide hardship pay to help the executive defray security-related expenses.

A recent survey indicates that such corporate security programs have had a positive effect.⁶ Interviews with 314 senior U.S. executives from the Fortune 1000 list indicate a high correlation between increased threat perception and the presence of a staff security special-

⁶ *The Figgie Report, Part II, The Corporate Response to Fear of Crime*, A-T-O Inc., Willoughby, Ohio, 1980, pp. 33, 51-54.

ist in the corporation. Survey results also revealed that 26 percent of the executives try to keep their home address confidential; 27 percent thoroughly inspect hotel rooms for hidden intruders when traveling; and 35 percent vary their daily route to work.

Putting a security program, such as the one outlined above, into effect may require personal sacrifices on the part of the executives. Advising executives to maintain a low profile, for example, may mean advising them to abandon the very rewards and symbols of their success and the activities that make life abroad desirable. Expensive cars, publicized social affairs, and high office in prominent trade and commercial groups are difficult to relinquish. Sometimes the executive finds it impossible to maintain a low profile when he is already well known.

Concern over the availability of information to would-be kidnapers sometimes has resulted in stringent corporate secrecy in risky areas. In Argentina, some corporations refuse to publish company directories, announce the appointment of new executives, or release biographical information. In 1978, the Securities and Exchange Commission proposed increasing the number of corporate executives required to disclose their salaries and fringe benefits, including executives of wholly owned foreign subsidiaries.⁷ Almost 400 corporations and businessmen protested to the SEC, many claiming that the publication of such sensitive information would place executives abroad in jeopardy.

Both security officers and the executives themselves hold varying opinions on the effectiveness of high-profile security, such as bodyguards and armored cars. Proponents argue that a public display of formidable protection discourages terrorists and causes them to transfer their attention to easier targets. They believe also that such protection reassures the executive and allows him to devote more time and attention to his job. Those opposed argue that the more obvious security trappings hamper mobility, attract attention, and may actually create a target. Moreover, such security is expensive. An armored car costs upward of \$30,000, and charges for bodyguards, depending on location, can amount to \$3000 per day. Competent bodyguards are difficult to find and much in demand in high-risk areas. Businessmen in El Salvador, when first targeted in 1978, considered importing experienced guards from Argentina, where demand for their services was decreasing. Bodyguards run a high risk in protecting vulnerable executives, as kidnappers frequently kill them outright during the abduction. Some executives expressed qualms about using bodyguards because they do not trust their competency or their

⁷ *New York Times*, November 20, 1978, pp. D1, D3.

loyalty in a crisis. In Argentina, guards on a number of occasions took bribes not to defend their client, or simply abandoned them under attack. Other executives judged that one bodyguard is of little use; one suggested that at least four are needed for adequate protection. Several also expressed an uneasiness about having guns in their homes and felt that the presence of armed guards might actually invite violence.

Proponents of a low-profile approach emphasize evasive tactics and a defense based on alertness, flexibility, and mobility. One overseas manager whose company did not have the resources for executive protection survived in the extremely risky El Salvador environment in part by a low-profile individual style. He drove an old car, wore jeans, worked unconventional hours, and never put on a coat and tie until he actually arrived at a business meeting. He basically just "tried to look unimportant."

While terrorists generally do not target families of businessmen, fears for the family can become a major concern of the executive. During the mid-1970s, when auto manufacturers in Argentina were being targeted by a coalition of terrorists and radical labor, residences of auto executives were strafed with machine-gun fire. Terrorists sent package bombs and threatening notes—sometimes addressed to wives—to homes rather than to offices. In addition to causing several injuries, these tactics lowered morale. Even though corporations in most instances provided protection, such as guards and security devices for the homes, some executives quit their jobs or sent their families out of the country. During one month in 1976, a U.S. affiliate had two top managers resign and a third move out of the country after the company and its executives were threatened and attacked.

Security of Employees and Facilities

Threats against buildings and employees in the form of bombs, facility attacks, illegal entries, lock-ins, harassment of employees, sabotage, and other terrorist acts on the business premises require active security programs. In one spectacular kidnapping—that of Victor Samuelson of Exxon in Argentina—terrorists abducted their victim from the plant lunchroom. During a kidnapping in Bogotá, communications from the terrorists regularly appeared on the desk of the company's president.

Security is important not only in terms of the physical condition of the plant and its occupants, but also in terms of employees' morale. A company's concern for security reassures its employees. Several security experts interviewed noted that in high-risk environments a significant company investment in security encourages employees to

trust the company. It not only underscores corporate concern for the safety of the employees, but indicates that the corporation has a commitment to stay and continue to employ them.

A knowledge of the threat and trends of terrorist operations can help a corporation distribute its security resources. For example, overseas bombings target primarily administrative and sales offices, because they are highly visible and the attack will therefore generate a lot of publicity.⁸ According to an airline security officer, hijackers in North and South America have targeted only aircraft of the local nation. One interviewed manager, who had the responsibility for a small plant in San Salvador but virtually no security budget, perceived that the greatest threat to the plant was a lock-in. Instead of requesting funds to secure the facility against intruders, he took the bars off the windows and removed the fence so that in the event of an attempted lock-in both the management and work force could escape.⁹

One company classifies its facility sites according to the environment in which they operate: (1) those in a currently risky environment (e.g., El Salvador), (2) those in a country that could soon become risky (e.g., the Philippines), and (3) those where adverse change would take place only over an extended period (e.g., Britain). The classification indicates the priority for the allocation of company security resources: First, the company improves the security of sites in immediate danger; then it improves security in the second category and develops contingency plans for the third category of sites.

We registered conflicting opinions about locating a facility close to that of another company. One respondent suggested that a company unable to afford an elaborate security program might locate in an industrial park and share the costs with other firms. On the other hand, another security officer stressed that as a matter of policy his firm never locates in an industrial park because trouble in one plant may spill over into the others. Such problems have occurred in the San Bartolo Free Zone in San Salvador. A number of foreign transformation industries located there at the encouragement of the government. The firms acquired a local image identifying them with the unpopular host government and stereotyping them as exploitive companies that contributed little to the local economy. Some of these firms became the target of lock-ins, and a few managers were held hostage. In one instance, a battle between a militant union and local

⁸ See Clarence J. Mann, "Personnel and Property of Transnational Business Operations," in Alona E. Evans and John E. Murphy (eds.), *Legal Aspects of International Terrorism*, Lexington Books, Lexington, Mass., 1978, p. 413.

⁹ Lock-ins occurred in El Salvador when labor agitators and terrorists took over a plant and held both management and the work force hostage until the company agreed to demands concerning wages, benefits, and working conditions.

security forces began in one plant and ended in a shoot-out at another.

According to respondents, companies with local facilities in high-risk environments may want to conduct internal security and awareness programs for their employees. Small firms that do not have full-time security experts can hire trained consultants to inspect the premises, advise the local manager, and subsequently conduct surprise inspections. In some terrorist incidents we examined, terrorists may have received information from someone inside the firm. Companies often responded by setting up a screening process and limiting the distribution of sensitive information. If a facility receives continuing bomb threats that do not materialize, the company might develop a standard operating procedure short of immediate evacuation.¹⁰

Intelligence

While intelligence is one of the most important functions of a corporate security program, it is also the least formalized activity. Because government officials as a rule provide only limited information on the threat, security officers must find and cultivate sources on an unofficial basis.

For the most part, companies gather information from an informal network of contacts built on personal relationships inside and outside the corporation. Important local sources are the company's employees. Corporations also get general reports from their people at the scene, but these are often limited. One operations executive told us that he did not want his local managers open to the charge of being spies. Sources other than company personnel are security consultants, locals, especially lawyers retained by the firm, U.S. and host government officials, subscription and newsletter services, newspapers, banking and insurance representatives, and security officers of other corporations.

Organizations of security experts, such as the American Society for Industrial Security, while cumbersome for the exchange of specific information, facilitate contacts among corporate security officials that lead to intelligence exchanges. More recently, a number of small, informal groups of security officers have been meeting regularly to exchange threat and other relevant information. Such groups usually organize around common interests in a particular geographic location or similar businesses with problems in common.

The exchange of intelligence presents some problems. Most compa-

¹⁰ Some experts estimate that in the United States as high as 98 percent of these bomb threat phone calls turn out to be a hoax. Fuqua and Wilson (1978), p. 62.

nies fear that sharing information might inadvertently reveal facts useful to their competitors. Also, companies often hesitate to reveal threats such as extortion or even kidnapping, because once these threats become known other terrorists and criminals might imitate them. In addition, managements do not want to alarm their employees and stockholders. Finally, since the goal of a security program is to make the company's facility more difficult to target than those of other firms, companies might hesitate to tell neighboring firms the extent of their protection.

Corporations use intelligence for several purposes, the most important of which is to assess threats against them. This process involves constant updating and depends not only on identifying specific threats but also on tracking general trends and assessing capabilities of the terrorists. Since successful terrorist operations often encourage imitation by both terrorists and criminals, such intelligence assists a corporation in predicting future threats. The chronologies of terrorism in El Salvador and Argentina, found in Appendixes A and B, illustrate the existence of patterns of terrorist activity. For example, lock-ins at two bottling plants in El Salvador were followed by six similar incidents within the next few months. A company can use such information in allocating its resources, if it can discern some progression in terrorist tactics and thus predict the most likely targets.

Current intelligence may also yield information useful in a crisis: for example, which banks can accommodate ransom demands, which airlines will help a released hostage leave the country quickly, which guard force will be most reliable, or even which local security force will respond favorably to calls for assistance. Developing local contacts and information is sufficiently important to one company that it assigns an inside and an outside security man to overseas facilities. The main job of the outside man is to cultivate local contacts so that the company will receive good intelligence and local cooperation when an incident occurs.

Crisis Management

A final component of a corporation's security response to a terrorist environment is its crisis management mechanism in the form of a committee of corporate officers that establishes the guidelines for the corporation's response to a threat. The committee is chosen on the basis of authority and expertise, and its members should undergo training in handling a crisis situation. Their job entails determining corporate policy in response to an event, allocating resources, setting the limits of corporate involvement, and authorizing the individuals who will represent the company abroad.

Generally, the crisis management team membership includes a top-level corporate officer (chief executive or senior vice president), the head of the international or relevant regional division, a financial officer, a corporate legal official, a personnel representative, a public relations or communications expert, and the corporate security director. Each contributes to the corporate response during the crisis. The corporate officer provides authority for decisions, the financial officer facilitates money payments, the international or regional officer contributes knowledge of the local situation, and the others participate according to their particular expertise. The size of the committee varies, and in the event of an incident, the corporate team sometimes selects a small team from among its membership to handle the specific crisis.

Corporations with large subsidiaries sometimes set up crisis management teams at these subsidiaries to handle the local response and facilitate contacts at the scene. One company we talked to distributes instructions on how to respond to a local incident to those who would most likely be involved. Most enterprises we interviewed keep current lists of relevant names and phone numbers at both the local sites and corporate headquarters.

Crisis management teams must anticipate problems, develop contingency plans, and undergo training to handle them by simulating crises. For example, one corporate subsidiary in Argentina that had already paid off one extortion threat and expected further trouble developed a contingency plan to get its expatriate executives out of the country within 24 hours. The plan included such details as reserving a number of airline seats on a daily basis. When terrorists again threatened the company six months later, the contingency plan enabled it to evacuate the most vulnerable executives from the country the same day.

While we are concerned with crisis management only as a method of dealing with terrorist incidents, companies can use this mechanism to handle a wide variety of situations, from natural disasters to a revolution. In fact, one company we talked to refers to its crisis management group as the "special events" committee.

STRATEGIES OF OVERSEAS MANAGEMENT

While corporations can take numerous security precautions to protect their investment, they can also employ other strategies to maintain a viable business in a high-risk environment. In many cases, these strategies represent less institutionalized and more personality-dependent responses.

Management Styles

Personal characteristics appear to be an important factor in developing a successful management style. Almost everyone interviewed agreed the corporation should assign only volunteers to serve in dangerous environments. Moreover, firms should assure their employees that they can pull out at any time with no adverse effects on their career advancement. With that assurance, businessmen who choose to stay in a country despite the risk are likely to feel a strong commitment to the enterprise and are also more likely to succeed. During the course of our interviews, we met managers who took visible pride in their accomplishments. Many actually improved the local operation and increased profits. In some instances, the home office literally had to order them out of the country when they determined the risk was too high. A typical comment was that the home office "thought I was crazy" not to get out sooner.

Certain qualities and communication skills enhance a manager's ability to operate successfully in a dangerous environment. First, he must know the language of the country. This may seem a fairly obvious requirement, but we found instances where this was not the case. Not knowing the language seriously handicaps any businessman, because it forces him to depend on the interpretations of others. A manager who knows the language communicates better with employees and is better able to pick up early indicators of impending trouble.

Management strategies often change with the environment. A strategy of graduated response has proved an effective way to match an increasing threat. In El Salvador and Argentina, U.S. businessmen progressively applied security precautions which had the effect of increasing the separation of the executive from the local operation. First, the manager takes the established precautions of the executive protection programs described above. He maintains no established routine. Hours at the office become erratic as he arrives and leaves at irregular times. As the situation deteriorates, the executive increasingly runs the business by telephone from home. If he is threatened, he takes unannounced trips out of the country. At other times he may stay at local hotels or use rented cars.

Such conduct takes its toll on the businessman's family. Social life diminishes as friends leave the country and more public places become unsafe. In extreme situations, the company may hire bodyguards for wives and children. Children are the first family members to return to the United States; wives follow. Such circumstances have led to recommendations that only bachelors be assigned in areas of terrorist activity, but most respondents felt that while families are an added concern, they also provide the support needed in such circumstances. One company executive who had weathered the worst years

in El Salvador cited the support of his wife as his most important asset.

The next step as the situation deteriorates is to move temporarily to a nearby country, conduct business by telephone, and make "lightning visits" to the local operation by arriving unannounced and departing the same day. Some respondents judged that an unsatisfactory manner of running a business because it results in some loss of control. A businessman in Argentina cited several companies that kept their management there and did much better than those who ran the operation from Montevideo or another location. Often at this point companies also remove nonessential operations, such as regional headquarters, from the country.

Finally, as the most frequent response, the corporation replaces American executives with country nationals. But terrorists also target local executives. In Argentina, for example, terrorist groups kidnapped many more local businessmen than foreigners. Companies may therefore still have to provide security protection and other support, such as moving an executive to a safer location. However, a local manager is not as conspicuous as an American and certainly enhances the image of the company.

The trend toward local management has progressed for some years for reasons of economy, local payroll laws, and feelings of nationalism, especially in the third world countries. Most firms we contacted already had a policy of recruiting and training local personnel, or personnel from a neighboring country, although in some instances the terrorist threat accelerated the practice. At times, Americans have withdrawn abruptly before locals were ready to take over, and the sudden change has penalized the company's operation for a time. However, most respondents consider the assignment of local employees to managerial positions to be the most satisfactory long-term approach to the problem.

Labor Relations

In Argentina and El Salvador, as in other countries, terrorists have tried to capitalize on labor disputes and unrest. They have, for example, kidnapped or harassed executives, demanding better working conditions or the rehiring of fired employees. The frequent lock-ins in El Salvador featuring such demands as guaranteed jobs and the doubling of wages backfired when many companies closed because they could not afford the demands. Much of the urban work force, perceiving the terrorists as responsible for the loss of employment, has become alienated from them.

Successful managers expend a great deal of effort in cultivating

good relations with their work force. They point out that a company does not necessarily have to pay exorbitant wages or benefits to enlist the workers' support. They stress the importance of communication and dialog with local employees, so that employees understand the company's limitations in terms of jobs, wages, and benefits. In fact, one manager hired a communications specialist to facilitate good relations in his plant. Some corporations provide for grievance committees, formal channels for complaints, and profit sharing to promote good labor relations. If the workers perceive that they have a stake in the corporation, they may actively help management keep alert to threats.

In a terrorist environment, only a small minority of the labor force will generally have terrorist connections. While such strategies as the above cannot eliminate their presence or guarantee that a business will not be targeted, they can make it a less attractive target.

Dealing with the Terrorists

Businessmen may also deal directly with terrorists and their sympathizers. Examples are few because of an understandable reluctance on the part of those involved to discuss such contacts. The local situation, timing of communications, personalities, and terrorists' goals and expectations of success affect the outcome of this direct approach to the problem.

An American executive in San Salvador dealt with the high-risk environment by a strategy he called the "centrist route." Faced with acts of terrorism by both the right and the left, the manager tried to prevent the company's identification with either side. However, when the home office ordered a cutback in production and the firing of some workers, an action that normally would invite a violent response, the manager contacted well-known leftist sympathizers to seek their support. Preparing the way for the layoff, he described the nature of his business and explained that decreases in sales and overstocked inventories necessitated cutting back production and therefore jobs. As a result, he was the only manager in the area to succeed in laying off workers without retaliation. When a local leftist newspaper exaggerated the number fired, the manager explained the situation and the newspaper printed a retraction.

Dealing with terrorists has its perils. In the extreme situation in El Salvador, terrorists of the right often retaliated against anyone dealing with the leftists. On the other hand, the fact that many rightist terrorists were affiliated with the local security forces made it difficult to request their help and still maintain a centrist image. In such a situation, one has to maintain constant caution that contacts with one extreme do not attract the fire of the other.

Gulf Oil Corporation demonstrated a strategy for dealing with insurgents when it aligned itself with the Popular Movement for the Liberation of Angola (MPLA) as Angola emerged from its civil war. Gulf's intelligence analysts predicted that the MPLA would prevail and that its leadership would provide a stable business environment. Gulf now counts the Angolan operation as one of its largest overseas.¹¹

Finally, management may provide financial support to either the terrorists or their opponents in order to keep the business operating. For example, businessmen in Northern Ireland routinely pay protection money, and in the Basque province of Spain firms operate by virtue of a "revolutionary tax" paid to local terrorists. At the other extreme, businessmen sometimes contribute financial support to anti-terrorist vigilante operations, such as U.S. Ambassador Robert White suggested was the case in El Salvador in 1980.¹²

BUSINESS HEDGES IN A TERRORIST ENVIRONMENT

Many U.S. businesses operating in a terrorist environment attempt to minimize potential losses by reducing exposure of their assets. This strategy may involve rapid repatriation of earnings, management contracts and license fees designed in advance to move profits out of the country, or obtaining equity interests in foreign subsidiaries through transfer of noncash items such as equipment, technology, and management services. A retail firm in Central America reduced the corporation's assets when the political climate deteriorated by contracting its credit terms, since credit accounts are its chief asset abroad. This same company has also tried to reduce its capital investments in Central America. A construction company contracting to work in a high-risk and remote area sold its expensive construction equipment to the local government for the duration of the contract so that the government would assume the risk of damage or destruction by terrorists.

Manufacturers may hedge against risks by setting up plants in different countries. Ironically, one U.S. executive we interviewed told of setting up a plant in then peaceful San Salvador some five years ago as a hedge against a potentially unstable political situation in the Philippines, where his company had several other plants.

Several respondents suggested that U.S. businessmen, especially

¹¹ Louis Kraar, "The Multinationals Get Smarter about Political Risks," *Fortune*, March 24, 1980, p. 88.

¹² Speech to San Salvador American Chamber of Commerce, reported in *Wall Street Journal*, April 1, 1980.

those with small businesses, consider investing in joint ventures with local capital in high-risk environments. Such an arrangement would not only identify the enterprise with the locality, but might also promote local government support of the business. A trend toward joint ventures already exists in Latin America—but for reasons of nationalism rather than terrorism. Because of restrictive foreign ownership laws, U.S. businesses find it almost impossible to set up a new venture as the sole owner. In Venezuela, for example, a U.S. company can own no more than 19 percent of a manufacturing enterprise or 49 percent of a service company. While joint ventures may appear attractive for many companies, they can become a hindrance to overall corporate planning for product lines, production, and centralization. We found no examples of U.S. businessmen who invested in joint ventures specifically as a hedge against terrorism.

Corporations can also hedge against losses by buying insurance. Although respondents could not disclose the extent of their company's insurance coverage because the terms of such policies forbid disclosure of coverage even to the employees covered, a 1980 study estimates that 40 to 60 percent of U.S. multinational corporations purchase kidnap and ransom insurance.¹³ While both Lloyds of London and the American International Group have offered kidnap ransom insurance to executives for many years, only recently have U.S. companies—responding specifically to terrorist activities directed at businessmen abroad—expanded coverage to all employees and to a broad spectrum of corporate activities related to handling a kidnapping or extortion threat. Thus, policies can now provide coverage for executives' relatives and corporate guests, "in transit" insurance on delivery of ransom, fees for independent negotiators as needed, interest on bank loans for ransom, hotel and related expenses for the hostage's family, costs of newspaper advertisements and other publicity demands of the kidnappers, and court expenses for suits related to the company's handling of the kidnapping.

Insurance premiums vary according to extent of coverage, location, nature of business, the firm's previous kidnapping experience, and financial profile. For that reason it is difficult to generalize on rates, other than to say that where risk is high, premiums are higher than elsewhere. One engineering consultant interviewed said that the high rates that he estimated he would have had to pay for kidnap insurance in Argentina in the early 1970s led him to decide against entering into a contract there.

¹³ Harvard Business School and Yale School of Business and Management, "Assessment of Terrorism as It Impacts on the Business Community," joint student research project, August 1980, p. 11.

While not directly applicable to terrorism, political risk insurance is also available. The government created the Overseas Private Investment Corporation (OPIC) in 1969 to encourage American business investment in certain less-developed countries. Private insurance companies also sell political risk insurance. OPIC provides political risk insurance for U.S. investments, covering such liabilities as the inability to convert local currency into dollars, loss of investment because of expropriation or abrogation of contract rights without compensation, and losses or damage due to war, revolution, or insurrection. The last is most relevant to terrorism. One respondent retail firm collected OPIC insurance for damage to its warehouse during the recent revolution in Nicaragua.

III. RELATIONS WITH THE U.S. AND HOST GOVERNMENTS

Governments affect businesses both directly and indirectly in a high-risk environment. In the course of our interviews, we gathered many accounts of firms' experiences with the U.S. and host governments. In summarizing these, we emphasize three points about the role played by governments. First, experiences obviously vary—not only from country to country but over time. We looked at two kidnappings of American executives in Colombia that occurred about one year apart. In the first instance, the Colombian government cooperated with the negotiators; in the second, it detained the negotiators because they had paid the ransom. Second, governments act in what they perceive to be their own best interest. For example, if a government feels seriously threatened, it may place a higher priority on capturing the terrorists than on ensuring the safe return of a kidnapped businessman. Finally, the range of actions of governments is more limited than that of businesses. For example, government negotiations with terrorists might imply political recognition of the terrorists and make the government appear weak. Business negotiations, on the other hand, have no such profound implications.

ROLE OF THE U.S. GOVERNMENT

Businessmen who experienced the terrorist threat overseas responded to inquiries about the U.S. government's role with a mixture of criticism, high praise for individual initiatives, and suggestions for additional services. More than anything else, businessmen want information on (1) the terrorist threat and (2) the stability of host governments. Such information is essential for both operational and investment decisions.

Information and Advice

The Department of State provides information and other services to businesses through a number of channels.¹ In the Office of the

¹ Department of State, Office of Security, *Countering Terrorism: Security Suggestions for U.S. Business Representatives Abroad*, State Department Publication 8884, January 1977; Department of State, Bureau of Public Affairs, *GIST: International Terrorism*, June 1981.

Deputy Assistant Secretary for Security, the Threat Analysis group, which assesses political trends and terrorist threats, briefs businessmen on any country or region. Also in the Office of the Deputy Assistant Secretary for Security, the Foreign Operations Division, which follows security matters in specific countries, advises business representatives on how to maintain a secure operation. Although they analyze threats in terms of security responses, Foreign Operations Division analysts do not recommend specific responses, but rather refer businesses to private security firms about such problems.

In addition, more than 100 State Department regional security officers stationed throughout the world, as well as local embassy officers responsible for security, can advise businessmen on the general and particular threat in a given country. They may also suggest local contacts in the police and government and provide information on (1) local laws and regulations that may affect how a business handles a terrorist incident, (2) private security services, and (3) practical security and travel precautions. Most corporate security officers that we interviewed found these State Department security officers to be particularly helpful. Individual American travelers can obtain information on conditions in specific countries from the State Department's Citizen Emergency Center.

Since the dissolution of the DOC Working Group on Terrorism, businessmen are advised to use the above services.

Other U.S. government agencies advise on specific problems; for example, the Federal Aviation Administration will inform a company on the risk of flying private aircraft into countries with doubtful security.

Despite the availability of the above services, most security officers and executives we interviewed expressed dissatisfaction with both the amount and type of intelligence they received from the U.S. government, describing it as "sanitized," "too general," and "not current enough." State Department respondents emphasized that they are not permitted to pass classified information to private enterprises. They said, however, that they do provide security analyses based on classified information to the business community.

Although industry respondents would like to have more exchanges of relevant information with the government, they realize the problems associated with such an exchange. First, U.S. officials would be reluctant to reveal sensitive information. Second, business itself might judge that involvement in such a program would portend government regulation.

When they receive information about a specific threat to a U.S. firm, embassy or Washington officials relay the information to the firm. Several business respondents stressed, however, that they would

prefer a wider access to intelligence. For example, they would like to know when other enterprises in the area are threatened, since such information is relevant to their own security arrangements and their ability to continue operations in a high-risk environment. One respondent suggested that the government establish a mechanism to enable businessmen and CIA analysts to exchange intelligence.

Conflicts of interest between the goals of the U.S. government and business may affect the distribution of intelligence. The timing of advisories to U.S. citizens living in foreign countries exemplifies such a conflict of interest. Businessmen have complained that the U.S. embassy in Iran waited until the last minute to advise evacuation when the shah fell from power. One corporate security officer who learned of the gravity of the situation from private contacts was able to evacuate his firm's American personnel well before the chaotic exodus brought on by the embassy's last-minute advisory. In Iran, and to some extent in El Salvador, the U.S. government hesitated to encourage Americans to leave, because withdrawal might have undermined support for the incumbent regime. In the case of El Salvador, the economic effect of a sudden withdrawal would have made a bad situation even worse. Most respondents felt that because these considerations influence the timing of the State Department warnings, corporate security officers should advise their foreign subsidiaries to make independent assessments and contingency evacuation plans.

Businesses must take the initiative in seeking access to U.S. government information. One U.S. executive who did not seek U.S. government advice accepted the assurance of his firm's local Salvadoran lawyer, in whose interest it was to minimize the threat, that Americans would not be targeted by local terrorists. During a later trip to the company's Salvadoran plant, he was taken hostage in a lock-in that lasted seven days. The U.S. embassy in San Salvador would have given him a better appraisal of the threat.

Assistance During a Crisis

The U.S. government provides a number of services during a terrorist incident. When an American is abducted, it supports and assists the host government, which, under international law, exercises full responsibility for and jurisdiction over all persons within its territory. The stated policy of the U.S. government is to encourage the host government to follow the U.S. policy of denying concessions to terrorists in the form of ransom or release of prisoners.²

² Department of State (1981).

In Washington, the State Department's Office for Combatting Terrorism arranges secure international communication and provides general advice on resolving terrorist incidents. Business representatives have 24-hour access to the State duty officer who monitors and maintains a log on worldwide crises. The Terrorism office does not, however, assist in negotiating the release or ransoming of a hostage.

The most frequently used and potentially most effective contact during a terrorist crisis abroad is the U.S. embassy. The embassy can provide secure communication for relaying information to the corporation and family members. The embassy can also establish local government contacts for U.S. businesses, especially with local security and intelligence forces, and advise on local laws concerning paying ransom, making concessions to terrorists, and possessing and registering weapons.³

An embassy's awareness of and attitude toward the terrorism problem depends to a great extent on the ambassador and the priority he and his country team assign to the matter. Under current guidelines, an embassy has a great deal of latitude in choosing its course of action and in carrying it out. A forceful reaction by an experienced ambassador can help to warn, protect, and disengage American businessmen from potentially dangerous situations. In this respect, American businessmen whom we interviewed highly praised the U.S. embassy staff in El Salvador. The successful handling of terrorist threats depends not only on the personality and initiative of the local embassy staff, but also on their local government contacts. Relations vary from country to country, and some embassy personnel have better rapport with host government sources than others have.

RELATIONS WITH THE HOST GOVERNMENT

The policy and general attitude of the host country government toward terrorism significantly influence foreign businesses in two important ways: First, a company operating in a foreign country subjects itself to the government and laws of that country; second, under international law, the host government that permits foreign nationals to enter the country and conduct business must protect them according to the same standards that it applies to its own citizens. The host government's ability to handle the terrorist problem and the company's relationship with the government, according to one respondent, influence business decisions more than does terrorism itself.

³ Department of State (1977).

Host Government Contacts

In many developing countries, businessmen deal with high levels of government because the size of their corporation, investment, or product commands significant government attention and influence. In fact, several respondents cited examples of cases in which the president of the country became involved in the firm's response to terrorism. In most cases, however, business must seek out host government connections.

Respondents recommended the following guidelines for establishing and using host government contacts:

1. Make inquiries through embassy officials, other corporate contacts, or security firms to ascertain whether the official to be contacted is competent, trustworthy, and in a position to assist your firm.
2. Establish contacts between corporate executives and high-level government officials. When the impetus comes from above rather than below, authority to follow through on security measures carries more weight.
3. Consider the profile of the country's security force against the company's needs. A bank might determine that the local police are equipped to assist it in its security problems, but a large facility, such as a refinery, might have to rely on the national security force.
4. Build on past goodwill. A local contact who has worked successfully with Americans in the past and is acquainted with their manner of doing business is more likely to respond to a corporation's problem.
5. Having established host government contacts, maintain them—even when there is no threat—to provide a link through which information may be exchanged should a terrorist threat or changes in government personnel and policy develop.

When establishing contacts with national security forces, a corporation may face a choice among several organizations or individuals. For example, El Salvador has three security forces, each with varied abilities to fight terrorism. Businessmen should, early on, match the capabilities of each force to their own specific needs in requesting the services of one of them. In Argentina, corporate reluctance to report executive kidnappings reflected in part the judgment that the suburban police—under whose jurisdiction such cases usually fall, because executives reside in the suburbs—were incapable of handling the problems.

A U.S. company operating abroad should know the national laws affecting the handling of a terrorist incident. Some countries, such as

Argentina and Venezuela, prohibit the payment of ransom or publication of terrorist manifestos, and some discourage negotiations with terrorists. Restrictions on the movement of money and people across national borders have delayed the resolution of some kidnapping cases. Information not only on laws but on government policies that affect the resolution of terrorist incidents—and judgment as to how strictly these laws and policies are enforced—may assist the firm in responding to terrorism.

Relations During a Crisis

Success in bargaining and negotiating situations is greatly enhanced by government assistance. The businessmen and security advisers we interviewed advocated as a general policy consulting and cooperating with the host government. Not only do businessmen need security assistance during a crisis, but often they require government help for such things as permits to land private aircraft, special flight clearances and customs waivers, and cooperation in making no public statements about the event.

When trying to resolve a terrorist incident, the foreign corporation may find itself working at cross purposes with the host government because of conflict of interests. The corporation's first priority is to get the hostage back alive and then to keep the enterprise operating, preferably at a profit. The government usually wants, first, to apprehend the terrorists and, second, to prevent further acts of violence. At the same time, the local police may try to retrieve the ransom money. When one party disregards the other's priorities, a situation such as that existing in Argentina in the early 1970s may develop. There, foreign corporations beset by terrorist kidnappers neither sought nor expected assistance from the Argentine government in freeing the hostages but instead developed their own expertise in dealing with the problem.

If the company and the host government work increasingly at cross purposes, consequences may be severe for the business. The Venezuelan government, for example, threatened to nationalize Owens-Illinois for acceding to terrorists' demands to publish documents embarrassing to the government. In another case, Argentine Montoneros kidnapped Juan and Jorge Born, top executives of the Bunge and Born trading conglomerate in 1974. When the two brothers were freed for a reported world record ransom of \$60 million, the terrorists asserted that the money would be used to further "national liberation." In return, the Argentine government expressed its dissatisfaction by arresting seven Bunge and Born executives and launching an

investigation to determine whether the company had violated tax or foreign exchange laws in their agreement with the terrorists.⁴

In extreme circumstances, such as a civil war, a business might find advantage in dissociating itself from the host government. One security officer whose company has an important facility in Nicaragua told us that Somoza, before his overthrow, offered to provide National Guard protection for the plant. The company decided, however, that the presence of the National Guard might actually encourage a Sandinista attack, and they turned down Somoza's offer and hired private guards.

Despite the many problems, a visibly cooperative host government can be of great value to a business during periods of high risk. The Ford Motor Company, when Peron's troops guarded its plant for two years, and other companies, when they hired "moonlighting" police to patrol their facilities, found that high-profile association with the host government helped them deter the threat.

⁴ Sobel (1975), p. 146.

IV. MANAGING KIDNAPPING INCIDENTS

The terrorist kidnapping of an employee overseas represents a special challenge to the corporation, some aspects of which we considered in earlier chapters. However, because kidnappings can have far-reaching effects on the corporation in many ways—personnel, government relationships, security, public image, and current and future expenditures—we devote this section specifically to the problems of kidnapping and some possible corporate responses.

As we have emphasized in previous Rand studies of diplomatic kidnappings, the unique circumstances of each kidnapping incident makes generalizations elusive.¹ Each incident unfolds in a different and unpredictable series of events, and each corporation grapples in its own way with the problems at hand. Kidnappings are seldom straightforward, and simple solutions almost never suffice.

Corporations can hire security firms to advise corporate officials on kidnapping incidents or to handle the actual negotiations. Literature and manuals are also available to instruct the firm.² This report summarizes the firsthand observations of 15 corporate executives and advisers who had participated in kidnapping incidents.

We examined ten kidnappings involving the responses of ten major U.S. corporations reported in the *Fortune 500* or equivalent indexes to have annual profits ranging from multimillions to multibillions of dollars. Among the kidnapping victims—all males—were nine executives and five employees. Of the latter group, one was seized simply because he happened to be in the company of an executive who was being kidnapped; the remaining four employees were taken as a group. We interviewed eight corporate officials and consultants who helped to formulate and/or execute their corporation's response to a specific kidnapping incident. We also talked to three of the executives held hostage and four others who advised corporations during kidnapping crises.

¹ See Gail Bass, Brian M. Jenkins, Konrad Kellen, and David Ronfeldt, *Options for U.S. Policy on Terrorism*, R-2764-RC, July 1981; Brian M. Jenkins, *Hostage Survival: Some Preliminary Observations*, P-5627, April 1976; Brian M. Jenkins, Janera Johnson, and David Ronfeldt, *Numbered Lives: Some Statistical Observations from 77 International Hostage Incidents*, P-5905, July 1977; Margaret Krahenbuhl, *Political Kidnappings in Turkey, 1971-1972*, R-2105-DOS/ARPA, July 1977; and Eleanor S. Wainstein, *The Cross and Laporte Kidnappings*, Montreal, October 1970, R-1986/1-DOS/ARPA, February 1977.

² See, for example, Richard Clutterbuck, *Kidnap and Ransom: The Response*, London, Faber and Faber, Ltd., 1978; Fuqua and Wilson (1978); Reber and Shaw (1976).

This survey, although it is by no means a definitive study of kidnapping, reveals the variety of problems corporations have to manage, as well as the similarities and dissimilarities of such experiences. Figure 3 illustrates some of the characteristics of these ten kidnappings, all but one of which took place in Latin America. In all cases, the company negotiated with the kidnappers and the kidnappers released their hostages. In seven cases, negotiators and hostages were confident that they were dealing with terrorist groups; in the remaining three, corporate participants suspected that their adversaries were criminals imitating terrorist methods to obtain ransom money. Most kidnappers demanded cash ransom, which the corporation paid. In one kidnapping, the major aims of the terrorists were to embarrass the local government and to use the corporation as a lever to gain political concessions. Two corporations paid for the publication of terrorist manifestos in local and foreign newspapers.

Figure 4 gives some indication of the length of the crises, which ranged from three days to eight months. The very short episodes

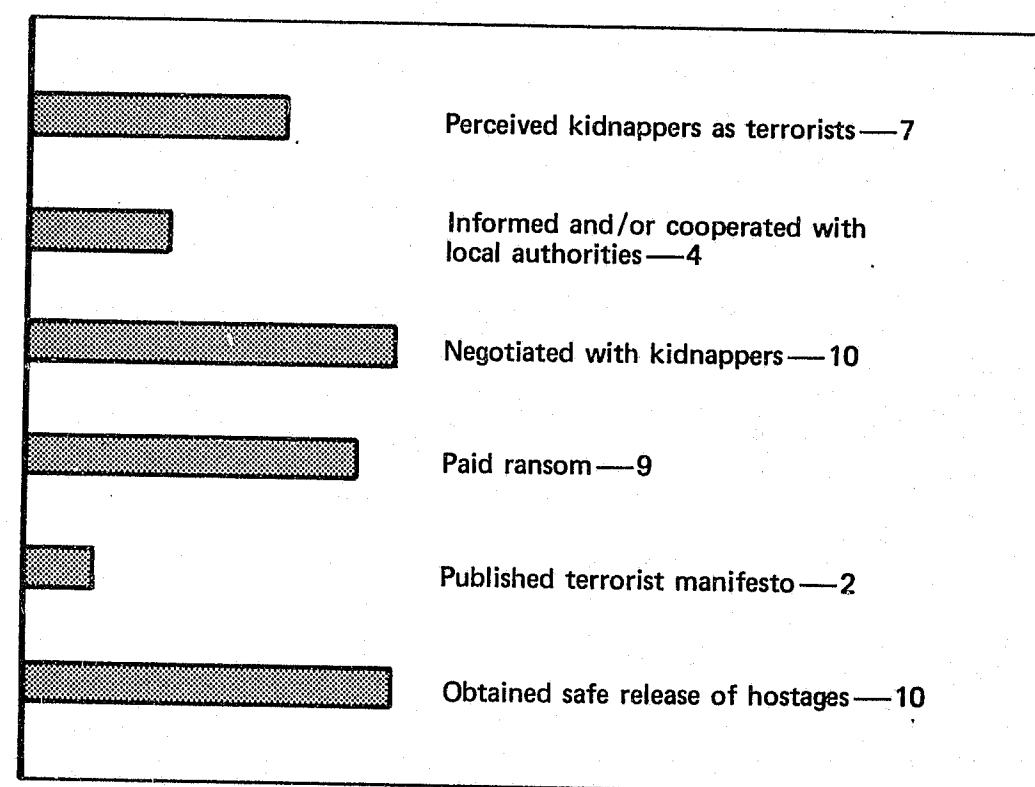
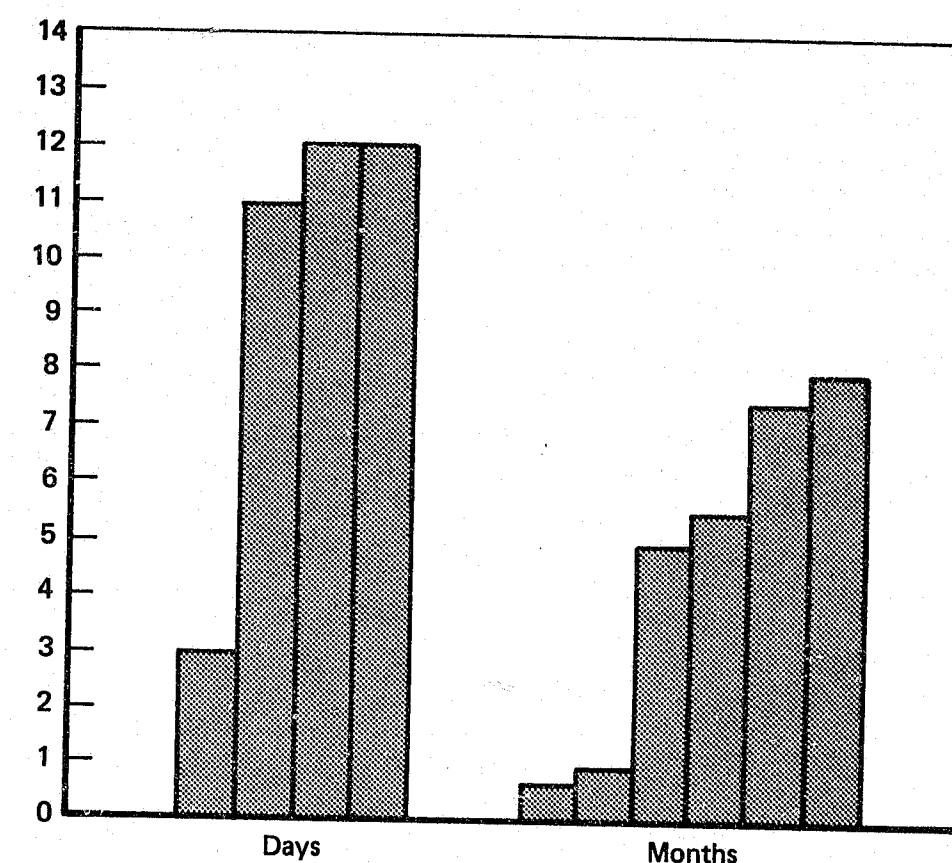


Fig. 3—Kidnapping experiences of ten corporations



legal responsibility, to consult legal authorities about pertinent laws in the country in which the kidnapping has occurred, and to review insurance policy restrictions that might affect negotiations. To avoid possible charges of negligence, the company is advised to document company initiatives and responses.

The negotiating team, according to the advice of seasoned negotiators, should consciously maintain flexibility from the start. The solution to the last kidnapping will not necessarily apply to the next one. Argentine kidnappings in the early 1970s took on a sameness that allowed each side to know what to expect at each stage of the action. The kidnappers knew that the corporation would eventually pay the ransom, and the corporate negotiators knew that the kidnappers would release their executive on payment. Yet negotiators must be wary of the routine, because any number of variables can suddenly change the circumstances and endanger the hostage's life.

Selection of Negotiators

Respondents indicated that corporate officials select negotiators from among a variety of sources, including the home, regional and country offices; security consultant firms; and other outsiders. Several respondents advised against assigning someone from the local operation, because of his possible personal involvement with the hostage. In over half the cases we examined, the corporation used a national of the country in which the kidnapping occurred as the contact with the terrorists so as to avoid misunderstandings due to language or cultural differences. One firm, for example, employed a local lawyer who had acted successfully as the point of contact in a previous kidnapping. In fact, of our 15 respondents involved in negotiations, only two ever talked with the terrorists and one of the two was a foreign national.

In most cases, a negotiating team, often composed of a security and a regional corporate officer, goes to the scene to direct the corporation's response, particularly the negotiations. The respondents stressed the point that, although the home office sets the limits of the negotiators' authority regarding the amount of ransom and other concessions, negotiators must have the freedom to make some decisions on their own, because of time pressures (deadlines) and possible difficulties in establishing reliable communications with the home office. On the other hand, some limits on the negotiators' authority can often give them the advantage in the bargaining process by allowing them to stall for time while they consult with the home office, a tactic that may wear down the terrorists and gain concessions.

Relations with the Media

At the outset of the crisis, companies often assign a public relations officer to coordinate all press releases and to limit media coverage to a minimum for a number of possible reasons. First, publicity can obscure the identity of the kidnappers, because if it is generally known that a kidnapping has taken place, extortionists other than the kidnappers may claim they have the victim so as to collect the ransom. Second, companies may not want their employees to know about the kidnapping, because such knowledge may increase the employees' feelings of vulnerability and lower their morale. Third, companies do not want the news media interfering in what can be very delicate negotiations, especially if the resolution involves the violation of another country's laws. Finally, the company may want to use publicity as a concession in the bargaining.

Publicity can both benefit and harm terrorists. Kidnappers may not want publicity if they aim to keep local security forces from becoming involved. This was the case in half of the ten kidnappings we examined. In most cases, however, terrorists will claim credit afterward to promote their image and cause. According to several respondents, the Argentine public enjoyed hearing that terrorists had "ripped off" a U.S. corporation. Terrorists benefit also from publicly embarrassing their own government, and for that reason they sometimes demand publicity—especially the publication of their manifestos—in addition to money.

Relations with the Host Government

Company executives prefer to have the cooperation of the host government in dealing with a crisis, and most corporations seek it in the event of a kidnapping. In three of the ten kidnappings that we examined, corporate negotiators benefited from such cooperation. Host government contacts, often facilitated by American embassy personnel, have given companies access to intelligence concerning the identity of the kidnappers, their methods, and their intentions. In addition, corporations have gained host government cooperation to bring ransom money into the country and to obtain special landing clearances and other such services.

Corporations may be reluctant to contact local security forces because of the following concerns: (1) fear of retribution if the terrorists stipulate that the government not be notified or consulted; (2) ineptitude of the local police force; (3) possible infiltration of police units by terrorists; and (4) fear that a premature confrontation by security forces would endanger the life of the hostages. In six of the ten kidnappings examined, the corporation did not inform host government

authorities for one or more of these reasons. Sometimes corporate negotiators will avoid telling local law enforcement authorities about a kidnapping but will consult higher-level contacts in the host government. In one instance, corporate negotiators used such access to prevent a proposed police operation that would have jeopardized the release of their executive.

In Argentina under Peron, corporations perceived little interest on the part of the Argentine government in resolving kidnappings of foreign executives. As a result, corporations informed neither the Argentine government nor the U.S. embassy (because it would have informed the Argentine government), often denied that a kidnapping had taken place, and secretly negotiated and paid ransom on their own to facilitate a resolution.

NEGOTIATIONS

Although there have been cases in which kidnappers failed to communicate with the corporation or broke off contacts, in most terrorist kidnappings the abductors or their representatives present their demands to the corporation, and negotiations to effect the return of the hostage follow. Experienced negotiators recommended that once communications are established, the company should locate negotiations away from the local office or the victim's home. This separation removes attention from the local enterprise and the victim's family, makes employees and family members feel less vulnerable, and allows business to function as usual. It also isolates any informants that the terrorists may have inside the firm. Because kidnappers must elude police, respondents recommended a location in a hotel or apartment, or frequent moves from one location to another, so as to avoid surveillance and telephone taps. In one case, negotiators rented three apartments in different areas of the city, acquired three identical automobiles, and moved from one location to another as the negotiations progressed.

Initially, the company will want to identify the kidnappers, establish that the hostage is alive and well, and assess the terrorists' aims, capabilities, and credibility. Negotiators may use a number of tactics to determine whether the group making the demands really has the hostage and whether he is alive: They may ask for information that only the hostage would know or demand that the terrorists allow him to telephone, write a letter, or send a picture linking him to a current event (for example, a photograph of the hostage reading a recent newspaper).

Formulating an appropriate bargaining strategy requires an

understanding of the kidnappers' motivations and goals, and that entails establishing whether they are part of a political or criminal group and how dedicated they are to satisfying their own demands. According to one security expert, criminal groups are more likely than political terrorists to kill the hostage if their demands are not met quickly, but they may also be more willing than terrorists to compromise on their demands. Political terrorists, on the other hand, may fanatically hold to demands that a corporation cannot or will not meet. When dealing with politically motivated kidnappers with secure operations and hideouts, negotiators may have more time to bargain (see, for example, the length of some kidnapping incidents shown in Fig. 4, above).

Demands

For the most part, terrorists demand substantial ransom money, and in the negotiations that follow the demand, the company attempts to reduce the amount. In some cases, terrorists have displayed a remarkable knowledge of the firm's finances, so that pleading inability to pay when balance sheets show profits may not convince the kidnappers. In fact, kidnappers abducted corporate employees in Uruguay and El Salvador solely to obtain financial and political information about their firms.

The second most frequent demand is for the publication of terrorist documents, a demand that can entail many problems and considerable money. Because some countries prohibit the publication of terrorist propaganda, kidnappers frequently demand publication in newspapers in other countries. In El Salvador, terrorists specified certain prominent foreign newspapers in which their advertisements were to appear and, in one instance, in which three colors. A Dutch corporation reportedly paid \$2 million for advertisements in newspapers throughout the world in exchange for the release of an executive in El Salvador. Some newspapers refuse to publish the material on the grounds that they are being used to promote terrorism, causing problems for negotiators who must find acceptable alternative newspapers.

Political demands, although infrequent, are the most difficult to handle, because terrorists who make such demands tend to overestimate the influence that U.S. corporations can exert on host governments. One hostage told us that his conversations with his captors convinced him that they grossly overestimated the extent of U.S. corporate involvement in local politics and in CIA operations. These misconceptions sometimes lead terrorists to kidnap businessmen but make demands on the host government.

Political demands usually involve the release of fellow terrorists held in local prisons. In one of the ten incidents we examined, the terrorists demanded that the corporation arrange the release of some 75 "political" prisoners. The corporation was, of course, unable to obtain the government's compliance, and the negotiators spent a great deal of time convincing the terrorists of that fact. Negotiators were unsuccessful in convincing the kidnappers of West German businessman Hanns-Martin Schleyer; they killed Schleyer when the West German government refused to release jailed members of the Baader-Meinhof gang.

Other types of political demands may affect the corporation's relationship with the host government. Venezuelan abductors, for example, demanded corporate documents embarrassing to the host government. The corporation's compliance with this demand led the host government to threaten expropriation, a consequence much more serious for the corporation than the payment of ransom.

The process of bargaining and making decisions on when to accept or reject demands is something akin to walking a tightrope. The negotiators have to draw on all their resources to assess the mental state of the kidnappers and of the hostage. Telephone conversations may be taped and studied and written communications analyzed to provide clues to the identity and psychological state of the kidnappers and the condition of the hostage. Such information can help the negotiator to determine when to draw the line. One negotiator described the process as one aiming toward the optimum point at which the negotiators extract maximum concessions from the kidnappers without further endangering the hostage.

Communications

Communication between the corporation and the kidnappers inevitably presents problems, no matter how thorough the preparations for such an event. Negotiators can encourage communications by making a secure telephone line available in several locations to avoid detection by local security forces. Communication with the terrorists usually occurs at their instigation; this can mean that negotiators spend days or weeks waiting for contact. During one Argentine kidnapping, the negotiator had to go to Montevideo to get a secure telephone line back to corporate headquarters in New York City. American embassies offer the use of their secure communications to relay messages to the United States, although in one instance the State Department withdrew the offer when negotiators sent their messages in code. One company considered communication such a problem that it installed its own secure network at considerable expense at vulnerable facilities throughout the world.

Logistics

The logistics of ransom payment often present a succession of crises associated with raising cash in a form acceptable to the terrorists, delivering it without the knowledge of the police, and getting the hostage back. When a large amount of cash is needed, negotiators can simplify their task by having a bank transfer the money rather than bringing it into the country in cash. Cash ransoms of hundreds of thousands, or even millions, in bills of small denomination have considerable weight and bulk, making protection and disguise difficult. One firm, racing a deadline to transfer ransom in \$100 bills from Miami to Central America, had to (1) withdraw cash from banks on a weekend when vaults were locked, (2) verify the counting and packing of bills in the bank, (3) charter a private aircraft on short notice, and (4) get host country permission to pass through customs and airport security. Once the cash is in the host country, protection becomes a major problem while negotiators await contact and delivery instructions from the terrorists. Negotiators have slept chained to bags of bills or carried them around cities noted for their lack of security.

Cash payoffs can be accomplished in a number of ways. Our respondents indicated a pattern for Latin American kidnappings resembling a reverse treasure hunt, involving changes of cars, instructions for the next move to be acquired at odd checkpoints, and intricate travel patterns throughout the city under threats of retaliation if directions are not followed. The purpose of these maneuvers is to elude the police. If the terrorists suspect police complicity, the whole negotiating process may collapse, necessitating a renegotiation of terms for a release. Once ransom is in the possession of the terrorists, the return or release of the hostage can take considerable time. The kidnappers sometimes wait until they have laundered the money. After Exxon paid \$14.2 million for Victor Samuelson in Argentina, the kidnappers took six weeks to launder the money, bringing Samuelson's total captivity to five months.

THE HOSTAGE AND HIS FAMILY

Interviews with former hostages indicate that a hostage could better handle his situation if he had some knowledge and advice beforehand. Respondents suggested briefings on terrorist groups and on what is known of their operations. Kidnappings in Argentina became routinized to the extent that executives taken hostage generally knew what to expect in terms of living conditions, procedures of release, and the possibility of a long imprisonment. Hostages whom we

interviewed felt that this knowledge helped them cope with the uncertainties of the situation. A hostage who trusts his corporation to do everything possible to secure his release is better able to face the ordeal.

A major concern for the hostage is the physical and economic security of his family. Almost all hostages with families list this as their chief worry during captivity. They recommend that corporations advise executives to put their affairs in order before moving to a high-risk environment. Businessmen who know they are potential targets should talk with their families about the possibility of their abduction and make plans about what the family would do in that event. Such forethought contributes to peace of mind of the hostage during his ordeal.

The presence of the hostage's family overseas can cause added responsibilities and concerns for the corporation. If it appears that the hostage will be held for an extended period, the family usually returns to the United States, and the firm may have to provide additional financial support at this time. Firms may assign a liaison to keep the family informed of the progress and, if necessary, act as a buffer against an inquiring press. As the period of captivity increases, family members often express concern that the corporation is not doing all it can to promote release, and they may threaten to negotiate on their own. In some cases, the family has threatened to sue the corporation. Under these circumstances, the company should try to persuade the family not to interfere.

Once the hostage is freed, the company usually arranges for him to leave the country immediately. If local security officials know about the release, they will want to debrief him. In some cases, negotiators have allowed their man to brief security officials in return for his expeditious departure from the country.

Kidnap victims rarely return to the country where they were abducted, fearing retribution by the terrorists, who might assume that the former hostage would give evidence against his captors. Argentinian terrorists often made a point of threatening both the hostage and his fellow workers with death if they should give evidence. This threat, combined with the fear that terrorists had a network of informants who would know of any such cooperation with the government, extended the terror beyond the actual kidnapping itself.

Many hostages have to undergo a period of adjustment upon return. Both they and their families may need medical or psychiatric help. For some, such a life-threatening experience makes them reconsider their life style and career. All need to know that they can continue to work without penalty to their careers and that they will not

be victimized further as a result of their experience. Businesses should plan for these adjustments by providing medical, psychiatric, and career counseling services as needed.

V. THE IMPACT OF TERRORISM ON U.S. INVESTMENTS ABROAD

Businessmen with overseas investments generally agree that terrorism is simply another risk that they live with, just as they live with war and other violence. As we have already shown, living with the risk can affect a company's policies, manner of doing business, finances, investments, personnel relations, and business decisions. Some effects are trivial, others are basic, but all constitute part of running a long-term, profit-making enterprise, and corporate managers ultimately judge them in that context. In this chapter, we review some direct and indirect consequences of terrorism on the viability of operations abroad and the impact of these consequences on such basic decisions as entering a particular market, increasing an existing investment, or withdrawing from the country.

The more obvious costs associated with operating in a high-risk terrorist environment, as detailed in previous chapters, include the expense and inconvenience of a more stringent corporate security program, hardship pay, ransom and extortion payments, insurance premiums, and the replacement of destroyed property. The cost encompasses adverse consequences on management as executives become more removed physically from their operation or specific threats necessitate abrupt changes in personnel. Such an environment may also exact a toll on labor relations as employers and terrorists vie for employees' loyalty.

Our interviews revealed additional ways in which terrorism directly and indirectly disrupts local operations, often making it difficult for that operation to meet overall corporate objectives. For example, the fact that the terrorist threat makes travel in that country dangerous can have far-reaching consequences. During the worst years in Argentina, two American corporations could not maintain their routine quality and quantity product checks on local producers and distributors. Manufacturers had similar problems servicing, repairing, and updating production lines.

The current situation in El Salvador offers a good example of how terrorism disrupts overseas businesses. Most U.S. companies have embargoed corporate travel to plants in that country. As a result, one company reports that it services machines locally for minor repairs but must ship the machinery back to the United States for major overhauls. Another company reports longer than normal idle times when a machine breaks down, because of the scarcity of local techni-

cians. Even more serious, manufacturers are technology-bound, because they are unable to send in technicians to set up new lines and train the work force. Moreover, companies may be reluctant to put advanced equipment into such a risky environment. If a corporation has plants elsewhere with updated production lines, the obsolescence of the Salvadoran facility makes it relatively less efficient, and its integration into the corporation's overall production goals becomes an increasing problem.

Despite the increased costs to the corporation, we found little evidence that companies pull out of overseas operations as a direct consequence of terrorism. Once corporations have made large investments and are well established, they have a number of incentives for staying. First, if the market can sustain it, the company usually tries to ride out episodic terrorism in exchange for longer-term return on the investment. One well-known American manufacturing subsidiary in Argentina that operated at a loss for several years because of high costs associated with terrorism now makes healthy profits and is considered the star of the corporation.

Second, a business pays a large penalty for pulling out, in terms of severance pay, disposition of capital equipment, compliance with local divestiture laws, and loss of prestige associated with abandoning an investment. Local laws may require severance pay as high as a year's salary. One firm whose executive we interviewed wants to close its Salvadoran plant, but the union and employees—with local government support—continue to operate the plant, refusing to ship the company's expensive, high-technology equipment back to the United States.

A third reason for continuing despite a terrorist threat pertains to corporations with more than one facility in the area. Shutting down the threatened plant may invite terrorists to target remaining facilities. Such a situation tends to polarize the decision to an all-or-nothing choice, and the large investment therefore usually remains.

Although businessmen fear kidnapping more than any other terrorist threat and although kidnapping has exacted a high cost from corporations, we found no U.S. corporation that pulled its investment out of a country solely because of a kidnapping or ransom payment. We interviewed representatives of corporations that had withdrawn operations from two Latin American countries for reasons generally believed to have stemmed from executive kidnappings, and in both cases we learned that long-term economic considerations, rather than kidnapping, had prompted the withdrawals. The threat and actuality of kidnapping bring about many corporate changes, but they do not directly cause the closing down of the operation.

Some U.S. corporations have withdrawn from high-risk terrorist

environments, but in the case of every corporation whose officials we talked to, the reasons for withdrawal were basically economic and long term. One U.S. firm closed its transformation plant in the free zone of San Salvador because the operations became unprofitable after management was forced to negotiate unrealistic labor contracts under duress during a lock-in. The company based its withdrawal decision not on the act of the lock-in but on the fact that the subsequent Salvadoran government ruling that the contract was binding eliminated the economic advantages of remaining there.

Similar considerations influence the decision to initiate or increase an investment. While terrorism may increase the riskiness of an operation, businessmen assess the acceptability of that risk in terms of potential economic returns. For example, most of the manufacturing and retail firms that we talked to have postponed or cancelled investment plans in much of Central America because the market is not expanding as expected. Terrorism and political instabilities may have contributed to the worsening economy, but they were not the primary considerations in the corporate decision.

While the calculation of political risk has received more attention since the recent events in Iran, it remains difficult to determine its relationship to investment decisions. One expert in the field of political risk as it affects manufacturing has concluded that too little is known about how political instability affects the risk to a specific firm to construct predictive models. For example, while the size and potential of the market determine investment in manufacturing, there is no evidence of any direct relationship between perceived political instability and investment.¹

The empirical evidence suggests that direct terrorist threats or even a deteriorating economic infrastructure concern businessmen less than do potential changes in government policy, currency controls, limitations on foreign ownership, and expropriation of foreign businesses.² Our interviews supported this evidence. According to one respondent, currency restrictions in El Salvador cause more problems for the operation of his business than any acts of terrorism. Because of the general instability of the country, there had been a run on the local currency as Salvadorans tried to transfer their assets out of the country. As a result, the local government nationalized the banks. Now all payments must be made in local currency, making it much more difficult for U.S.-based businesses to operate to advantage.

¹ See Stephen Kobrin, "When Does Political Instability Result in Increased Investment Risk?" *Columbia Journal of World Business*, XII, Fall 1978, pp. 113-122, and "Political Risk: A Review and Reconsideration," *Journal of International Business Studies*, Spring 1979, pp. 67-80.

² Ibid.

We can only conclude that as terrorism contributes to a deteriorating economic and political situation, it influences basic investment decisions. Although the terrorist risk directly affects the company's day-to-day operations and financial strategies, corporations seem to cope by making the necessary adjustments within the context of sustaining the longer-range viabilities of a profit-making enterprise.

Appendix A

TERRORISM AGAINST U.S. BUSINESSES IN ARGENTINA: 1969-1978

The turmoil and uncertainty in Argentina during the 1970s greatly disturbed U.S. business concerns operating in that country. The Argentine situation was the first in which terrorists waged a concerted campaign against businesses—especially foreign firms.

American business interests in this second largest nation of South America were substantial. In 1969, U.S. companies accounted for the largest source of foreign private investment, estimated at \$1 billion invested either directly or through licensees, primarily in manufacturing. Similar investments by Western European firms totaled \$1.5 billion.¹ Argentina posed a \$21 billion GNP in 1970.

Surveying terrorism in Latin America from 1970 to 1979, Risks International found that Argentina led all nations in the western hemisphere in the number of bombings (131), kidnappings (82), and assassinations (72).² The chronology of terrorist incidents against U.S. business and government officials at the end of this appendix indicates that in the late 1960s Argentine terrorists were robbing banks, trains, and businesses, often distributing the food and goods that they had stolen. The Sylvester kidnapping in 1971, inaugurating a new tactic, provided the terrorists huge ransom payments, publicity, and other concessions from businesses. The chronology at the end of this appendix indicates that kidnappings of businessmen rose from seven in 1972 to 34 in 1973. Thirteen of the 1973 kidnappings involved American firms. These incidents seemed to decrease in subsequent years as terrorists turned to threatening and murdering executives and managers of firms embroiled in labor disputes. In 1976, there were eleven such assassinations, six involving employees of U.S. businesses. Since many incidents were not reported, these numbers do not fully describe the magnitude of the problem.

Terrorist groups active during the 1970s represented various ideologies. The two major terrorist groups were the Montoneros, an outgrowth of the Peronist youth organizations, and the People's Revolutionary Army (ERP), which had its origins in the Trotskyite Revo-

¹ Frederick P. Munson et al., *Area Handbook for Argentina*, U.S. Government Printing Office, October 1969, pp. 352-353.

² Risks International (1979), pp. 4, 6.

lutionary Party. A number of smaller groups evolved from leftist elements of the Peronist movement (including the Peronist Armed Forces, or FAP) and from the revolutionary left (including the Argentine Liberation Front, or FAL, a splinter group of the Communist Party of Argentina). One of the smaller groups, the Revolutionary Armed Forces (FAR), combined both Peronist and Marxist-Leninist influences. All of these groups began to operate between 1968 and 1970. A third major terrorist group, the Argentine Anticommunist Alliance (AAA), which began in the mid-1970s, during the presidency of Isabel Peron, actually consisted of a number of right-wing death squads composed mainly of police and military personnel operating with some guidance from government officials.

The terrorist activity of the 1970s was bound up in the politics, economics, and social characteristics of the Argentine people and in the career of the exiled former president, Juan Peron. To understand the terrorist activity against U.S. business, it is first necessary to review the context of that activity.

THE ARGENTINE POLITICAL ENVIRONMENT

Terrorism reflected and helped to generate the unstable political and economic conditions of the late 1960s and 1970s. Repression and frequent changes of government were important political factors. At the same time, the national economy was depressed and the workers were dissatisfied.

In 1966, a military junta took over the government and established the dictatorship of General Juan Carlos Onganía. The regime, undermined by social tensions and economic pressures, became increasingly repressive. Workers, unhappy with the decline in real wages, demanded large pay increases. The government sought to encourage foreign investment, despite rising nationalist feeling against such a policy. By 1969, leftist terrorist groups had become active.

Two terrorist events contributed to Onganía's ouster: the violent labor demonstrations in Córdoba resulting in the death of hundreds of students and workers and the kidnapping and killing by the Montoneros of Pedro E. Aramburu, the former president, because he had helped to oust Juan Peron in 1955. In June 1970, the commanders-in-chief forced Onganía to resign and installed General Roberto Marcelo Levingston as president. Within a year, however, following further rioting and increasing economic problems, the junta removed Levingston.

The announcement by General Alejandro Lanusse, whom the junta installed as the new president, that presidential elections would be

held in 1973 reflected the junta's decision to reestablish Peron as president in the hope of using the exiled president's charisma and continued popularity to unite the people in support of the government.³ Peron himself helped promote his own return by encouraging the unrest. In 1968, he had called for a "phantom war," using armed resistance and civil disobedience, against the Argentine leadership. In 1971, the Montoneros, citing Peron's pronouncements, called for civil war.

Peron's return was organized through a political umbrella organization called the Justicialista Liberation Front (FREJULI), which nominated a surrogate candidate, Hector Campora, to run for Peron. Not only did Campora win the presidency, but FREJULI won the majority of the provincial governorships and control of the legislature. Later, in September 1973, Peron was elected president and his wife, Isabel, vice-president.

Despite the hope of the military that Peron would unite the nation, the newly returned president was unable to reconcile the competing factions that had developed in the Peronist movement during his absence. In fact, his return to power only exacerbated the differences within the movement, and when Peron died a year after his return, even the appearance of unity was abandoned.

The extremes of Peron's coalition represented traditional and revolutionary factions. The traditional elements included the older generations who lived through and benefited from the first Peron era. This group tended to support Peron's quasifascist ideology, or *justicialismo*, in which the individual achieves self-realization through the glorification of the state under the leadership of Peron. The revolutionary elements tended to be young leftists who imputed their own ideology to the Peron they had only heard about. The traditionalists were loyal to the person of Peron, while the leftist revolutionaries were committed to ideology.⁴ As Peron and his wife moved closer to the traditional wing, the coalition fell apart.

Terrorist activity increased markedly during Peron's presidency. Prior to Peron's return, Campora, pressured by public demonstrations, had issued a general amnesty to all "guerrilla" prisoners to signal both the end of the "phantom war" and the terrorists' support of the new regime. Some 375 to 500 prisoners were released, including guerrillas connected with the killing of Aramburu, Fiat executive Oberdan Sallustro, and Army General Juan Carlos Sanchez. Campora, attempting a public reconciliation, received representatives of

³ Kenneth Johnson, *Peronism: The Final Gamble*, Conflict Studies No. 42, Institute for the Study of Conflict, London, January 1974, pp. 2-3.

⁴ *Ibid.*, pp. 5-7.

FAP, FAR, and the Montoneros, an exercise Peron repeated with the latter two groups. While the Montoneros and FAR nominally supported Peron, the FAP and ERP resumed their terrorist activities, having augmented their ranks as a result of the amnesty. After Peron died and was succeeded by his wife, the Montoneros publicly announced their intention to return to their subversive activities.

Peron's policies in other areas, particularly the economy, also contributed to the disintegration of his power base and devastated the economy. To retain the support of labor, Peron froze prices and increased wages. As a result, businesses had little incentive to invest; production actually decreased in 1975 and 1976; serious shortages of consumer products developed; and the black market flourished.

At the same time, the government held the exchange rate at an unrealistically high level. Imports increased and exports decreased, threatening the nation with a balance-of-payments crisis and the possibility that the government would default on its foreign debt. According to a January 1976 report, no new investments had been made in Argentina for nearly three years.⁵ A representative of the Argentine Import/Export Association claimed that no industrial machinery was imported into the country during 1975,⁶ a year in which the inflation rate reached 335 percent.

On March 24, 1976, with the country on the verge of collapse, the military again took over. General Jorge Rafael Videla put Isabel Peron under house arrest. The new government began to restructure the economy, removing some of the problems, such as wage-price controls and disincentives to foreign investment, while gradually devaluing the peso. The economy, and especially the balance of payments, registered some improvement. Some major problems remain in terms of the inflation rate, one of the highest in the world, and the overvalued peso. The regime's economic program has helped restore Argentina's credibility abroad and foreign investment has increased.

The Videla government's handling of terrorism succeeded in removing the threat but at a great cost both in terms of lives and Argentina's world image. Isabel Peron had begun in 1974 to lay the groundwork for a tougher government response. In September 1974, the government enacted a sweeping antisubversive law granting broad police powers to imprison accomplices, strikers, and newsmen who report on subversive activities. This law, combined with the state of siege declared the following November, upgraded the government's counterterrorist capabilities.

⁵ *Newsweek*, January 19, 1976.

⁶ Manuel J. Chavez, Jr., "Terrorism, Its Effect on Multinational Operations in Argentina," mimeographed, Argentine Import/Export Association, February 29, 1976, p.8.

In addition to the increase in official government activities, the AAA stepped up its murdering of leftists and their sympathizers. The government apparently made no attempt to restrain AAA's vigilante activity. The organization's publication of death lists caused an exodus of leftist politicians, artists, and intellectuals from the country. A 1976 AAA communique illustrates the range of its targets:

Within six months we will exterminate and annihilate all individuals whatever their nationality, religious creed, race or investiture, who respond to the interests of foreign Marxists, Masons, anti-Christians or synarchic international Judaism. . . . In particular we will execute economic delinquents, venal and corrupt functionaries, especially ministers of state, judges, senators, deputies, mayors and councilmen, as well as corrupt labor union leaders, priests of the 'Third World' movement, representatives of synarchy and leftist infiltrators in our Catholic Church.⁷

Although the AAA's vigilante activities appeared to have decreased significantly by the end of the decade, human rights organizations estimated in 1979 that 7,000 to 15,000 people had disappeared as a result of its activities.⁸

The effective ERP organization became virtually inoperable when Argentine police killed most of its leaders during a shootout at a Buenos Aires hideout. The Montoneros, the other significant terrorist group, also had trouble operating, although members remained active until 1977, when the surviving leadership left the country and set up a number of foreign offices to represent the Montonero Political Movement in France, Italy, and Mexico.⁹

BUSINESS TARGETS AND TERRORIST TACTICS

Argentine terrorists appear to have campaigned against foreign business for a number of reasons. First, such attacks played on a popular xenophobic fear that foreign investors—especially from the United States—were trying to gain control of the country. This had always been a theme of the Peronists. After his election in 1973, Peron told the nation that many of the national political and economic problems stemmed from the influence of foreign imperialism. Peron promised a revolution solely for the Argentines.¹⁰ Similarly, the Montoneros claimed that their goal was national liberation from imperial-

⁷ Lester Sobel (ed.), *Political Terrorism, Volume 2, 1974-1978*, Facts on File, Inc., New York, 1978, p. 102.

⁸ *World Business Weekly*, "Survey: Argentina," June 11, 1979, p. 38.

⁹ *Risks International* (1979), pp. 18-19.

¹⁰ Sobel (1975), pp. 96-97.

ism. Terrorists often said that corporate ransom and extortion payments were really indemnities from foreign exploiters.

Second, such attacks were also compatible with each group's ideological aims, whether freeing Argentina from the threat of foreign domination envisioned by the Peronists or helping to promote a communist revolution. When the attacks succeeded in driving out the foreign investors or discouraging new investments, that outcome also was compatible with the terrorists' goals.

Third, attacks against businesses provided a good source of operational funding. The terrorists had robbed banks and trains until they discovered that successful kidnapping and extortion demands netted much larger sums. In fact, as Argentine terrorists established their credibility, the ransoms also increased from the modest five-figure range to the Montoneros' purported collection of \$66 million for the safe return of the Born brothers.

The Montoneros invested some of their payoffs in the very kinds of organizations they operated against. A major scandal broke when in April 1977, it was revealed that the Montoneros had invested \$12 to \$20 million dollars with Argentine financier David Graivers. Graivers used the money to buy stores, industrial plants, real estate, and bank shares in such U.S. firms as Century National Bank and American Bank and Trust Corporation. These investments netted the Montoneros monthly dividends ranging from \$145,000 to \$175,000.¹¹ Such success attracted criminals who imitated the terrorists' methods. Our interviews indicate that a large percentage of the ransoms went to such criminals. In at least one instance, a kidnapping may have been a hoax perpetrated by the "victim."

Fourth, terrorists could use such attacks to help broaden their base of support. In its early operations, ERP cultivated a "Robin Hood" image, stealing goods—without bloodshed—from "rich" businesses and giving them to needy Argentiniens. ERP not only hijacked shipments of food for distribution but also extorted the corporations into making donations to the poor. One example of this approach to image-building was ERP's distribution of stolen toys to poor children, forcing the police to play the role of the villain when they confiscated the stolen property.

Both ERP and the Montoneros used similar tactics to gain labor support. They often demanded that firms with labor problems resulting from layoffs rehire the dismissed employees. In fact, ERP first started its operations in the Tucuman region, where the government had shut down one-third of the area's sugar mills.

Finally, businesses were targets of convenience, being both numerous and highly visible. Many of the bombings of businesses were of a

¹¹ Sobel (1978), p. 112.

symbolic nature, aimed at store fronts, automobile dealerships, and corporate headquarters. In fact, Argentine distributors and dealers sometimes suffered more from terrorist activities than the foreign firm associated with a product.

As shown in the chronology below, Argentine terrorists used a variety of tactics against businesses and were among the first to exploit the kidnapping of businessmen for other than monetary gain. They were also among the first to make demands on businesses as an alternative to making demands on the government. On May 23, 1971, members of ERP kidnapped Stanley Sylvester, an honorary British consul and manager of the Swift Company's meat packing plant in Rosario. Swift is owned by Deltec, an international holding company. Instead of making demands on the Argentine government, which took a hard line in response to such events, the kidnappers set a precedent by negotiating with the company. To gain Sylvester's release, Swift officials agreed to rehire dismissed workers, reduce work quotas, improve medical services for its employees, distribute \$50,000 worth of food, and publish ERP's communique. The terrorists obtained favorable publicity, having produced some tangible benefits without resorting to bloodshed. In contrast, the FAL had kidnapped the Paraguayan consul the previous year. The Argentine government refused to meet the terrorists' demand that it release prisoners, and FAL had to back down and release its hostage for "humanitarian" reasons. Clearly, the Sylvester kidnapping suggested that business might be a more efficacious target.

While kidnappings of businessmen often included demands for such concessions as those described above,¹² the single most important demand was for ransom. For the most part, the terrorists maintained their credibility by releasing their hostage in exchange for that payment. Most hostage injuries and deaths took place either during the capture attempt or when police discovered the captors' hideout.

Other than kidnapping, the major tactic employed by the terrorists against business involved intimidating management with threats and assassinations. This tactic, used originally to obtain extortion payments, was later applied in labor disputes. To gain concessions, terrorists and/or labor agitators murdered managers, communicated threats to both the company and families, sent package bombs, and fired weapons on residences and workplaces. When the Videla government tried to restrict unions by declaring strikes illegal, putting most

¹² For additional examples of terrorist demands, see the chronology at the end of the appendix for March 21, 1972; February 23, 1973; September 19, 1974; and October 24, 1975.

of the important unions under military administration, and making it easier for companies to dismiss workers, agitators formed shadow unions or struggle committees that sought to take control of the work force and to promote slowdowns and sabotage. As noted above and in the chronology, terrorists, especially the Montoneros, murdered and harassed managers of firms with labor problems. The terrorists also used threats of this kind of activity to prevent businesses from reporting troublemakers in their labor force to local authorities.

BUSINESS RESPONSE

For most U.S. firms, the situation in Argentina was their first experience with terrorism. Most, but not all, of those whom we interviewed said that their firms had formulated some kind of response to the situation. In fact, many of the security recommendations contained in this report were derived from the Argentine experience.

Probably the most difficult aspect of the business response was the paucity of help from the Argentine government, especially in handling the kidnappings. An underlying problem was the inability and/or reluctance of the government to deal effectively with terrorism. In part this reflected the general attitude of the Argentine population, which did not view kidnapping as a heinous crime. An American executive who lived in Buenos Aires at that time indicated that the local population rather enjoyed seeing U.S. firms pay exorbitant ransoms.

The Peron government considered dealing with the problem politically inexpedient because the kidnappers generally targeted foreign enterprises. Moreover, many terrorists were thought to be related to the important upper ranks of Argentine society. Given these factors, the government did not even publicly condemn the murder of Ford Motor executive John Swint in November 1973. It was only when Ford threatened to close down its operation that Peron offered to send federal troops to guard the plant.¹³ Not until 1974, when the ERP attacked an army garrison, did the government begin to take more vigorous action against the terrorists.

When the government did react, its policies caused problems for the corporations. For example, members of ERP kidnapped Oberdan

¹³ A December 12, 1973, editorial in the conservative publication *The Review of the River Plate* indignantly noted that, in response to the Swint murder and other acts of terrorism, "there is no general disgust, no wave of nationwide indignation, there have been no mass demonstrations of collective shame, and signs that those responsible for maintaining public order and safety are aware of their failure to secure them have yet to be observed."

Sallustro, general manager of Fiat Concord, and made demands on both the Argentine government and the corporation for the release of prisoners and rehiring of fired workers. President Lanusse rejected the demands and forbade Fiat to meet the demands. Sallustro was killed by his captors when a government patrol discovered their hide-out. American executives faulted Argentine authorities for not placing a premium on saving Sallustro's life.

Faced with the Argentine government's handling of terrorism, and especially of kidnapping, U.S. corporations tended to deal with the situation on their own. Specifically, they adopted the policy of maintaining secrecy and paying ransom as quickly as possible as the best way to ensure the victim's safe release. Kidnappings were reported to neither the local authorities nor the U.S. embassy, which took the position that the host government should deal with the crisis. A corporation might even explain the victim's absence as a trip or vacation.

The probable infiltration of their organization by terrorists or their sympathizers also confronted foreign businesses,¹⁴ providing another inducement to keep kidnappings and extortion threats secret. Company officials were reluctant to talk about their experience for fear of reprisals. A kidnap victim usually left the country immediately after release so that he could not be asked to give evidence against his captors, again for fear of reprisals against firm members remaining in Argentina.

Success encouraged kidnappers—and others—to try again, and kidnappings became almost a routinized experience. Potential victims had a fair idea of what to expect in the way of treatment, accommodations, and length of captivity and were prepared to tell their kidnappers whom to contact in the corporation to negotiate a release.

Most large American firms removed their most vulnerable expatriate personnel from the country. As a result, virtually all regional headquarters located in Argentina were at least temporarily moved to other countries. The State Department estimates that the number of American businessmen in Argentina fell from 1270 in 1972 to 100 in 1975. Some firms even banned business trips to Argentina. A few Americans returned to Argentina in 1976, but most of the security officers to whom we talked did not ease corporate security measures and restrictions until 1978. State Department security officers advised American executives returning to Argentina to keep a low profile and, in the event of labor problems, to keep out of the discussions.

Many companies provided protection for executives—both expatri-

¹⁴ ERP was particularly adept at this tactic, having penetrated the security and police forces. At one point, they recruited the assistant commissioner of the Federal Police. See *Risks International* (1979), p. 19.

ate and local—remaining in the country.¹⁵ Under Peron, a few firms received protection from the Argentine government, but for the most part, corporations developed their own security programs for their facilities, hiring guards or moonlighting policemen.

IMPACT OF TERRORISM ON BUSINESS

Terrorism affected business operations in a number of ways,¹⁶ causing abrupt changes in management and hindering the modernization of operations and maintenance of quality control of product distribution. Moreover, the expense of additional security or ransom payments often negated profits.

Few corporations pulled out of Argentina, however, as a result of the terrorist threat. With the exception of the permanent relocation of a number of corporate regional headquarters, most targeted businesses listed in the chronology are still doing business in Argentina. In two known cases, corporations contemplated leaving following terrorist attacks. One large, well-established firm considered shutting down after terrorists murdered several employees. Argentine executives, however, who were at greatest risk, argued for the firm's remaining in the country, and when the government provided troops to protect its major plant, agreed to stay. In the other case, Hilanderias Olmos, S.A., a major textile firm, closed in 1975 after one executive was killed, others threatened, and much of its equipment sabotaged. After the firm shut down, the Argentine government took over its operation.¹⁷

Direct U.S. investment in Argentina actually declined by approximately \$6 billion in 1974,¹⁸ and some firms left because of the political and economic instability. The decline in investment may also have been attributable to the restrictive foreign investment laws passed by the Peron government. Laws passed in 1973 prohibited all technology payments between a subsidiary and parent firm and put a 12.5 percent ceiling on remittances. Moreover, investment incentives were limited to companies that were at least 50 percent locally owned. Peron also nationalized the marketing of petroleum products, centralized bank deposits, forbade majority foreign ownership of new

¹⁵ See Section II.

¹⁶ See Sections II and V.

¹⁷ Chavez (1976), p. 26.

¹⁸ See Department of Commerce, Bureau of Economic Analysis, *Selected Data on U.S. Direct Investment Abroad, 1966-1978*, U.S. Government Printing Office, 1980, pp. 10-11.

banks, and cancelled the several public utility supply contracts with foreign firms.

The Videla government, on the other hand, encouraged foreign investment by passing some of the most liberal investment laws in South America. Direct investments increased most dramatically in 1978, when the political situation seemed to have stabilized. While serious economic problems persist, many investors are attracted by the expectation that Argentina will soon be energy self-sufficient.

Some of the U.S. businesses touched by terrorism have since closed their operations, but again primarily for economic reasons. Chrysler, for example, recently sold out as part of an overall restructuring of the corporation. In 1978, General Motors announced that it would close, because it had too small a share of an already limited local market. The firm reportedly lost \$106 million over a six-year period.¹⁹ Ford Motor Company, on the other hand, was able to improve its position by 1978, having gained one-quarter of the local car market during the first six months. In the same period, Goodyear Tire Company led its sector with a 35 percent share of the market, while Firestone had a 25 percent share.²⁰ Exxon, which paid the largest ransom of a U.S. firm, is now involved in oil exploration.

Although in general the terrorist threat did not itself cause U.S. businesses to leave Argentina, the extent to which terrorism added to the political and economic instability of the country made it at least an indirect contribution to each corporate decision to remain or to leave the country during the mid-1970s.

¹⁹ Business International Corp., *Argentina in Transition. Evaluating Business Prospects in a New Setting*, New York, 1978, p. 44.

²⁰ *Ibid.*, pp.43-44, 57.

CHRONOLOGY OF TERRORIST INCIDENTS IN ARGENTINA: 1969-1978²¹

1969

June 26. FAR bombed 14 U.S.-owned Minimax supermarkets in protest before an official visit of Governor Nelson Rockefeller. Seven stores were completely destroyed and the others severely damaged, for an estimated \$3 million loss.

October 6-8. Offices of the following U.S. corporations were bombed: Pepsi, Squibb, Dunlop Tires, and First National City Bank of Cordoba; IBM and GE in San Miguel de Tucuman; Buenos Aires branch of Bank of Boston; and Santa Fe office of Remington Rand.

November 20. Bombs slightly damaged American Club, Inter-American Development Bank, offices of 10 U.S.-owned and 3 British-owned companies in Buenos Aires and Cordoba. Nobody was injured. FAP claimed responsibility.

1970

March 24. FAL kidnapped Joaquin Waldemar Sanchez, Paraguayan consul in Ituzaingo, and threatened to kill him and the managers of American business firms unless the government released two of their imprisoned members. The Argentine government, with the support of the Paraguayan president, rejected the demands. Sanchez was released unharmed for "humanitarian" reasons, but the kidnappers vowed to murder police and government officials.

²¹ The chronology is based on the following sources: "Chronology of Significant Terrorist Incidents Involving U.S. Diplomatic/Official Personnel and Installations, 1963-April 30, 1979," and "Chronology of Terrorist Attacks Involving Non-Official American Citizens and Installations, June 20, 1969-August 16, 1980," both mimeographed and obtained from the Office of the Committee to Combat Terrorism, Department of State; Brian M. Jenkins and Janera Johnson, *International Terrorism: A Chronology, 1968-1974*, The Rand Corporation, R-1597-DOS/ARPA, March 1975; Brian M. Jenkins and Janera A. Johnson, *International Terrorism: A Chronology (1974 Supplement)*, The Rand Corporation, R-1909-1-ARPA, February 1976; James Kohl and John Litt (eds.), *Urban Guerrilla Warfare in Latin America*, MIT Press, Cambridge, Mass., 1974; Edward F. Mickolus, "Chronology of Transnational Terrorist Attacks Upon American Business People, 1968-78," in Alexander and Kilmarx (1979); Sobel (1975); Sobel (1978); *The New York Times*; and *The Times* (London).

March 24. Aerolineas Argentinas plane hijacked to Cuba.

June 18. Buenos Aires Parke-Davis pharmaceutical plant severely damaged by explosion. Three employees reported missing and feared dead.

June 18. FAL robbed the Banco de la Provincia de Cordoba of two million pesos.

June 27. Nine facilities, including U.S. firms, were bombed in Buenos Aires, Rosario, and Cordoba.

July 1. Fifteen Montoneros took over town of La Calera for 2 hours and robbed bank of \$25,000.

July 9. Montoneros robbed 28 million pesos from Banco del Interior in Laguna Larga, Cordoba.

July 30. FAR guerrillas occupied town of Garin, robbing banks.

September 1. Montoneros robbed 13,750,000 pesos from the Ranos Mejia branch of Banco de Galicia y Buenos Aires.

September 9. Three gunmen raided USIA office in Cordoba and detonated bomb in storeroom.

September 24. FAL robbed El Rosarino train of 510 million pesos.

September 29. FAP robbed 14 million pesos from Banco Aleman Transatlantico in El Palomar.

October 2. ERP bombed the offices of U.S. and West German companies, banks, and the homes of police and university officials in Buenos Aires, Rosario, and Santa Fe.

October 16. U.S. Defense Attaché's house in Buenos Aires was destroyed by firebombs.

October 20. Bombs exploded at the homes of two U.S. officials in Buenos Aires.

October 25. ERP robbed 700,000 pesos from ENTEL (state telephone company) offices in Cordoba.

October 28. FAL assaulted three police guards at the U.S. embassy in Buenos Aires, taking weapons and uniforms.

November 9. Montoneros took 4 million pesos from the Cordoba railroad station.

November 16. ERP stole 22 million pesos from Banco Comercial del Norte in Tucuman.

November 18. FAR robbed Bank of Galicia in Gerli of 30 million pesos.

November 23. ERP robbed 16 million pesos from Banco de la Nacion.

November 27. FAP raided the homes of three U.S. military attachés in Martinez, taking documents, weapons, and uniforms.

December 15. FAR took 10 million pesos from the Banco Comercial de la Plata, killing two policemen.

December 18. FAL raided Spanish Consulate in Rosario, took 300,000 pesos, and set fire to the building.

December 22. ERP occupied Fiat factory in Ferreyra, Cordoba, and delivered speech to workers.

1971

January 3. Guerrillas took 14,300,000 pesos from Banco de Credito Rural in the town of Transito, Cordoba.

January 13. ERP seized a milk truck and distributed the contents to Santa Fe slum dwellers.

January 19. ERP took a cattle truck in Tucuman and distributed livestock to slum dwellers.

January 22. Ten FAP commandos stole 6 million pesos from Banco de Galicia in Banfield and killed a policeman.

January 29. Montoneros robbed Banco de Hurlingham in Villa Bosch of 14 million pesos and wounded a policeman.

February 12. In the largest theft in Argentine history, ERP stole 121 million pesos from an armored truck of the Banco de la Provincia de Cordoba.

February 14. ERP robbed an additional 34 million pesos from Banco de la Provincia de Cordoba.

February 28. ERP seized truck loaded with sugar and distributed contents in slums of Cordoba.

March 1. ERP seized milk truck in La Plata and distributed contents to poor.

March 4. FAL stole 21,600,000 pesos from La Plata racetrack.

March 9. ERP seized milk truck in Tucuman and distributed contents.

March 25. ERP seized milk truck and distributed contents in Pueblo Nuevo, Rosario.

April 2. ERP seized meat truck and distributed meat in the slums of Rosario.

April 14. ERP bombed ENTEL building in support of striking telephone workers.

April 27. ERP occupied offices of Parke-Davis Laboratory in La Plata and stole equipment.

April 27. Fourteen ERP guerrillas occupied the Nelson meat-packing plant in Santa Fe; earlier, the unit had occupied the home of the corporation's president.

April 27. ERP placed 11 bombs in U.S.-owned business offices in Rosario.

April 28. ERP seized a milk truck in Tucuman and distributed the contents.

May 3. ERP bombed three foreign businesses in Buenos Aires.

May 23. ERP kidnapped Stanley Sylvester, honorary British consul and manager of Swift de la Plata packing plant in Rosario, and demanded that \$62,500 in food and goods be distributed to the poor. ERP publicized fact that as a Swift manager, Sylvester had fired 4,000 workers without recompense in late 1970. Swift distributed \$50,000 in food, rehired the workers with compensation for lost wages, and improved working conditions. Sylvester was released unharmed on May 31.

July 15. Juan Pablo Maestre, FAR leader and marketing executive for Gillette, was killed by a death squad.

November 24. Bomb exploded at home of an American embassy employee.

1972

January 30. Guerrillas robbed National Development Bank in Buenos Aires and escaped with \$450,000 after holding 12 people hostage.

March 18-20 (approx.). Urban guerrillas kidnapped wine company executive P. Donati and released him after payment of \$37,000 ransom.

March 21. ERP kidnapped Oberdan Sallustro, general manager of Fiat Concord, and demanded freedom for jailed Fiat strikers, the rehiring of workers laid off in the 1971 strike, release of 50 guerrilla prisoners, and publication of an ERP communique. President Lanusse rejected the demands and forbade Fiat to meet the demands. When on April 10 government patrols stumbled on the ERP people's prison, Sallustro was killed by his fleeing captors.

May 12. One Dutch and four U.S. firms were bombed by the Comite Argentino de Lucha Anti-Imperialista to protest U.S. escalation of Vietnam war.

June 30. Four armed men kidnapped Ernanno Barca, president of the Buenos Aires branch of Banco de Napoli, and released him unharmed after payment of \$200,000 in ransom.

August 15. Guerrillas raided security prison at Rawson, freeing 25 prisoners and taking six to Chile on an airliner hijacked at Trelaw Airport. The Chilean government allowed the hijackers to go to Cuba despite Argentine objections. On August 22, guards killed 16 prisoners "escaping" from Trelaw.

September 5. Montoneros kidnapped Jan Van de Paune, Dutch industrialist and chairman of the local affiliate of Philips. They demanded \$500,000, which company reportedly paid, and released him unharmed on September 7.

October 16. A bomb exploded in the Sheraton Hotel, Buenos Aires, killing one and seriously injuring two others. Pamphlets signed by an extremist Peron group were found at the scene.

November 7. Enrico Barrella, Argentine industrialist, was kidnapped and released on November 10 after his family reportedly paid \$250,000. Barrella's abduction was not reported to the police because the family wanted to handle the matter with "complete discretion."

November 9. A bomb explosion damaged San Miguel de Tucuman branch of the IBM Corporation.

December 10. ERP kidnapped Ronald Grove, British executive and managing director of Vestey Corporation. It is believed that Vestey paid between \$500,000 and \$1 million for Grove's release on December 19.

December 17. Bomb planted by Montoneros destroyed 14 rooms in the International Hotel, Parana, injuring four.

December 20. Six businesses in Rosario were bombed.

December 22. 15 bombs damaged buildings used by armed forces, labor unions, political parties, banks, and businesses.

December 27. Vincente Russo, an executive of Standard Electric of Argentina, an ITT-subsiidiary, was kidnapped and released several days later after the company ransomed him for a reported \$500,000 to \$1 million.

1973

January 11. ERP unit held up train in western Rosario.

February 3. FAL kidnapped Norman Lee, Argentine executive of a Coca-Cola bottling company in Buenos Aires. He was released unharmed on February 21 after his family paid a ransom.

February 16. Naum Kakabowycz, a businessman, was kidnapped; \$1.5 million ransom was demanded.

March 8. ERP kidnapped Hector Recardo Garcia, multimillionaire newspaper publisher and TV station owner. Kidnappers demanded and got the publication of a communique, in violation of Argentine law. Garcia was released unharmed.

March 19. Pinuccia Enrica Cella de Callegari, wife of a wealthy Argentine industrialist, was kidnapped and released 4 days later after ransom payment.

March 28. Guerrillas kidnapped Gerardo Scalmazzi, manager of the Rosario branch of First National Bank of Boston. Scalmazzi released unharmed after bank reportedly paid ransom of \$500,000 to \$1 million.

April 2. FAL kidnapped Anthony de Cruz, American executive of a Kodak subsidiary in Buenos Aires, and freed him 5 days later when Kodak paid a reported \$1.5 million ransom.

April 2. Angel Fabiani, son of a Buenos Aires businessman, was freed April 5 after payment of "large ransom," according to the press.

April 4. Shoot-out between Cordoba police and 2 men attempting to kidnap jeweler Marcos Kogan resulted in the deaths of Kogan and his abductors.

April 8. ERP kidnapped Francisco Brimicombe, President of Nobleze Tobacco Company, a subsidiary of the British and American Tobacco Company. He was freed 5 days later, following a reported ransom payment of \$1 million to \$2 million.

April 8. FAL kidnapped Alberto Faena, a Buenos Aires textile executive. Released two days later after family negotiated a reported \$1.5 million ransom payment. (Some accounts place kidnapping 2 days earlier.)

April 26. Miguel Minossian, Buenos Aires businessman, kidnapped.

April 29. Santiago Soldati, son of a Swiss businessman, kidnapped in Buenos Aires. Freed unharmed on May 4 after family negotiated a \$1.5 million ransom demand.

April 30. Bomb seriously damaged building owned by Goodyear Rubber Company in Cordoba. ERP later claimed responsibility for the blast.

May 18. Enrique Fridman, manager of Lanin Company, kidnapped by FAR.

May 21. Oscar Castells, manager of Coca-Cola bottling plant, Cordoba, kidnapped. Released June 2 after ransom payment of \$100,000.

May 21. Two executives of Ford Motor Company's Argentine subsidiary shot during an unsuccessful kidnap attempt by ERP. One of the executives, Luis Giovanelli, subsequently died of wounds. The following day, Ford received an extortion threat, and on May 23 a bomb was discovered in the company's offices in Buenos Aires. Ford Argentina agreed to distribute \$1 million worth of food, hospital equipment, and ambulances for the benefit of the poor.

May 22. Aaron Beilinson, Babic Paving Company executive, taken hostage. Released June 3, after firm reportedly paid ransom.

May 30. ERP issued communiques denouncing the Campora government for its connections with foreign monopolies and representatives of the national bourgeoisie.

May 30. Rolando Felipe Larraux, president of La Armonia Milk Enterprises, kidnapped. 20 million pesos demanded for release.

May 31. ERP threatened to attack and kidnap top executives of Otis Elevator Company and their families unless the company made \$500,000 in charitable contributions similar to those made by Ford (see May 21, 1973) and doubled the wages of 1300 Otis employees in Argentina. The company refused and sent the families of 13 executives to Sao Paulo, Brazil. (In a June 9 press conference, ERP denied responsibility for the threats against Ford and Otis. The threats may have come from an ERP splinter group.) Coca-Cola, ITT, John Deere, and IBM also moved corporate executives and families out of Argentina in response to extortion threats.

May 31. ERP demanded \$500,000 for the release of John Thomson, English manager of Golov Lopez y Carva textile company.

June 6. Charles Lockwood, British executive of an Acrow Steel Argentine affiliate, kidnapped by gunmen identified as members of ERP. (In a June 9 press conference ERP disclaimed credit. A splinter group—ERP-August 22—may have been responsible.) Lockwood was released on July 29 after his firm reportedly met a \$2 million ransom demand.

June 7. General Motors Corporation's Argentine subsidiary refused to comply with terrorist demand that it rehire 1000 employees or run the risk of violence.

June 14. ERP threatened reprisals if industrialist Juan Romero did not give \$1 million in medicine and equipment to hospitals, and higher wages to his employees.

June 18. ERP members kidnapped John R. Thompson, chairman and general manager of Firestone Tire and Rubber Company's Argentine subsidiary, and demanded a \$3 million ransom. Thompson released unharmed on July 6 after company negotiated ransom payment.

June 18. Guerrillas kidnapped Hans Kurt Gebhardt, West German technical director of an Argentine stocking factory. Released late June/early July after reported payment of \$100,000.

June 25. Mario Baratella, vice president of the Italian-owned Bank of Rio de la Plata in Buenos Aires, kidnapped by gunmen believed to be members of ERP. The kidnappers demanded \$2 million. Baratello was released unharmed on July 5 upon payment of an undisclosed ransom.

June 27. ERP unit seized milk truck and distributed contents to poor in Buenos Aires.

July 2. Raul Bornancini, Assistant Manager and head of banking operations for the Cordoba City Bank of the First National City Bank of New York, was kidnapped. A ransom demand of \$1 million was made by a person who claimed the kidnappers were not connected with a political group. Bornancini was released on July 5 after some ransom was paid.

July 23. Gunther Blummer, owner of a textile mill, kidnapped and released 2 days later.

July 25. Hector Fiorani, owner of a plastics plant, kidnapped.

August 11. Coca-Cola Export Company refused to pay a \$1 million extortion demand from leftist guerrillas. Executives and families moved to Montevideo for several months.

August 27. Ian Martin, a British citizen and manager of Liegib's Meat Company, was kidnapped in Asuncion, Paraguay. Although a ransom note signed by the ERP was found in Martin's car, Paraguayan authorities believed the kidnapping was the work of the MoPoCo, a dissident faction of the ruling Colorado Party. Martin was rescued unharmed on September 6 by Paraguayan police. Two of the kidnappers were killed and an undisclosed number were arrested.

September 4. Sandra Polano, the 14-year-old daughter of an Italian businessman, was kidnapped. She was freed after police killed one of her kidnappers and wounded another.

September 16. Guerrillas fired submachine guns and threw firebombs at a branch of U.S. First National City Bank in Buenos Aires.

September 21. David George Heywood, an accountant with the Noble Tobacco Company, a subsidiary of the British-American Tobacco Company, kidnapped. Kidnappers reportedly demanded a \$3.5 million ransom; the family paid \$300,000. Heywood was released on October 20, when police stormed the kidnappers' hideout and seized 4 of 7 kidnappers and more than \$280,000 of the ransom money.

October 1. Pan American World Airways and Braniff International received notes from a group identifying itself as a faction of ERP and demanding that each company pay \$1 million to the group.

October 5. Carlos Jenkins, independent Coca-Cola bottler, was kidnapped. Family negotiated and paid ransom. Jenkins released on December 28.

October 8. Twelve rockets fired at the Sheraton Hotel in Buenos Aires. Two hit the building, causing little damage and no injuries. Demonstrators throwing Molotov cocktails damaged a building housing Bank of America.

October 9. Bombs exploded in front of the Cordoba offices of Coca-Cola, Firestone Tire and Rubber Company, and Mercedes-Benz.

October 20. Argentine airliner hijacked from Buenos Aires by terrorists claiming to be Tupamaros. Plane landed in Bolivia where authorities ended the incident by arranging safe conduct to Cuba for the hijackers.

October 22. ERP kidnapped Kurt Schmid, a Swissair executive, and demanded \$10 million in ransom. After payment of an undisclosed sum, Schmid was released on November 29.

October 23. David B. Wilkie, Jr., President of the Argentina subsidiary of Amoco International Oil Company, was kidnapped and held for a reported \$3.5 million ransom. Wilkie was released on November 11, after part of the ransom was paid. The kidnappers appear to have been common criminals.

November. A regional manager of the Bank of London and South America, Nyborg Anderson, was kidnapped. A spokesman for the bank, which is a subsidiary of Lloyds Bank, said that ERP was probably responsible and that the bank would negotiate. The kidnappers demanded a \$1.2 million ransom.

November 22. An American executive of Ford Motor Argentina, John A. Swint, and three bodyguards were killed in Cordoba. Both FAP and ERP claimed responsibility. Ford immediately evacuated 22 executives and their families from the country.

December 6. Victor E. Samuelson, general manager, Esso oil refinery at Campana, was kidnapped by members of ERP. Samuelson was released on April 29, 1974, after his company paid a record ransom of \$14.2 million. On the following June 12, ERP announced it had distributed \$5 million of the ransom to the Revolutionary Coordination Board, whose members included Argentine, Bolivian, Uruguayan, and Chilean terrorist groups.

December 14. Cities Services evacuated 16 American executives from Argentina as fear of kidnapping spread.

December 21. Charles R. Hayes, construction superintendent of the U.S. engineering firm A. G. McKee and Company, was kidnapped in

La Plata. Hayes' abductors, possibly common criminals, demanded \$1 million and released their hostage on January 31, 1974, after some ransom was paid.

December 28. Yves Boisset, a director of Safrar-Peugeot, was kidnapped in Buenos Aires. The amount of the ransom payment was not revealed, but the abductors reportedly demanded \$4 million. The kidnapping was attributed to FAR, but the guerrilla group denied responsibility.

1974

January 3. Douglas G. Roberts, an Argentine director of the Pepsi-Cola Company, was kidnapped. An undisclosed ransom was paid. On February 2, Argentine police freed Roberts, captured 3 of the kidnapers, and recovered part of the ransom. Roberts' abductors appeared to be common criminals.

February 23. Antonio Vallochia, Swift & Company executive, was kidnapped in retribution for the laying off of some Swift employees. Swift rehired 42 workers with retroactive pay and Vallochia was freed on March 2.

March 8. 18 bombing incidents reported in Cordoba, including one against Goodyear Tire and Rubber Company.

March 9. Bombs thrown at U.S. branch banks in Buenos Aires.

April 4. Robert Francisco Klecher, Fiat-Concord automobile plant personnel manager, assassinated in Cordoba. FAP later claimed credit.

April 12. Alfred Laun, head of the U.S. Information Service branch in Cordoba, was wounded and kidnapped by ERP. After interrogating their captive, the terrorists released Laun on April 13, apparently because of the seriousness of his wounds.

April 19. In Buenos Aires a tourist bus garage and branch of the United Bank of Holland bombed by terrorists.

May 5. Bombs exploded simultaneously at Buenos Aires offices of five Ford automobile dealers and at the American Club. Another bomb was set off at the branch of the Bank of London and South America.

May 27. Members of ERP robbed a U.S. citizen of \$52,000 in currency and valuables in Buenos Aires.

June 3. Jose Chohelo, a Peugeot representative in Buenos Aires, was kidnapped and ransomed for a reported \$200,000 on June 11.

June 7. Gregorio Manoukian, president of the Tanti chain of supermarkets, killed during kidnap attempt in Buenos Aires.

June 17. Herbert Pilz, an executive of Mercedes-Benz Motor Company in Argentina, was kidnapped in Buenos Aires. Pilz was released on July 10 after payment of an undisclosed ransom.

June 19-24. In Buenos Aires, a series of bombs damaged the offices or premises of the following businesses: First National City Bank (2 branches), Bank of Boston (2 branches), Bank of America, Coca-Cola (warehouse), Eveready, Ford (showroom), Parke-Davis, Xerox, Bank of London (3 branches), and Philips electric shop.

July 16. Machine gun fire from a passing car was directed at the suburban Buenos Aires home of Juan Courard, Argentine head of Ford Motor Company of Argentina. One guard was injured in what was a suspected ERP operation.

July 23. Eric Breuss, Austrian manager of a steel factory, was kidnapped. Breuss' captors released him on December 7.

August 6. Maurice Kember, Argentine president of INTI, a Coca-Cola bottling company, was kidnapped in Cordoba. Kember's abductors reportedly demanded over \$1 million in ransom. Kember was freed unharmed on October 8 after police raided the "people's prison" where he was held, killing one kidnapper and wounding two others.

August 27. Ricardo Goya, labor relations manager of the IKA-Renault Motor Company, was assassinated in Cordoba. During the previous four months, there had been some violence at the IKA-Renault plant stemming from a pay dispute with the auto workers union. FAP claimed credit for the murder.

September 4. A bomb thrown from a passing automobile damaged the offices of a USIS center in Rosario, but caused no injuries. The three occupants of the car were believed to be associated with the Montoneros. During pursuit by the police, a bomb in the terrorists' car exploded, killing all of the occupants.

September 11. A series of bombs exploded at U.S. and other foreign companies in Buenos Aires and elsewhere. During this month a number of bombings were carried out by extremist groups to mark the anniversary of Allende's overthrow in Chile on September 11, 1973.

September 16-17. About 100 bombs exploded throughout country, most directed against ceremonies commemorating the military revolt which ended Juan Peron's first period of rule. Montonero slogans and banners were seen at many of the bombings. Targets included three Ford showrooms; Peugeot and IKA-Renault showrooms; Goodyear and Firestone tire distributors; Riker and Eli Lilly pharmaceutical laboratories; Union Carbide Battery Company; Bank of Boston and Chase Manhattan Bank branches; Xerox Corporation; and Coca-Cola and Pepsi-Cola bottling companies.

September 19. The Montoneros killed two persons during the kidnapping of Juan and Jorge Born, directors of Bunge and Born Company, one of the largest international trading conglomerates in Latin America. The kidnappers reportedly demanded \$60 million ransom in cash and supplies and proceeded to "try" and "sentence" the two hostages to one year in a "people's prison." Juan Born was released seven months later but his brother was not freed until June 20, 1975, after the corporation agreed to pay the ransom. Most of it was paid in cash, which the Montoneros said they would use to buy arms and build a popular organization. The Argentine government opposed the payment, which they noted equaled one-third of the national defense budget, and most of the negotiations had to be carried on in Europe. Argentine police attempted to intercept \$1.2 million in food and clothing which Bunge and Born had agreed to distribute in slum areas as part of the ransom. Later, two executives of the company were arrested.

September 30. Alfonso Margueritte, a senior executive of Bunge and Born Company, was kidnapped in Buenos Aires. Margueritte was reportedly abducted by ERP so he could inform the guerrillas how much his company would pay in ransom for the Born brothers.

October 21. A Ford showroom and Pepsi-Cola bottling plant in Rio Cuarto were bombed, with moderate damage and no injuries. An Argentine official of the Transax Company (a Ford affiliate) was seriously injured by a bomb as he left his home in San Carlos.

November 25. In Buenos Aires a branch of the First National City Bank of New York and two General Motors showrooms were damaged by bomb explosions.

December 26. Henry George Sharod and Julian Luis Bisschot, executives with Unilever (an Anglo-Dutch firm), escaped a kidnap attempt en route to the Unilever factory. The company had received kidnap threats and a police car had been detailed to the two executives.

1975

January 8. Rodolfo Saurnier, manager of an automotive parts factory, was kidnapped by the Montoneros.

February 1. Eleven bombs exploded, damaging the homes of several political and business executives in Rosario.

February 21. The First National Bank of New York, the Bank of Boston, and several other foreign banks were damaged by bomb blasts.

February 26. John Patrick Egan, U.S. consular agent in Cordoba, was kidnapped by 12 members of the Montoneros. The terrorists demanded the release of 4 prisoners. The Argentine government refused to negotiate and Egan was murdered 48 hours later.

March 9. Leftist guerrillas bombed new cars on a production lot at the Chrysler-Fevre plant in San Justo. A communique from the Montonero guerrillas warned of future violence against "octopus" American interests.

April. Frank Ingrey, Anglo-Argentine businessman kidnapped in April, kept for 20 days by unidentified group and killed.

April 4. The Buenos Aires branch of the Italo-Belgian Bank was damaged by a bomb blast.

May 14. Three gunmen strafed the residence of the U.S. ambassador.

July 9. ERP kidnapped Jean Deloubieux, an Otis Elevator Company executive on a business trip to Buenos Aires. He was ransomed for a reported \$2 million on August 22.

July 31. Charles Agnew Lockwood, the British financier kidnapped and ransomed in 1973, was abducted again. Police rescued him on August 31, killing four of his ERP captors.

September 23. Ten bombs were exploded in Cordoba, one severely damaging the office of the Xerox Corporation.

October 16. An Italian executive and his bodyguard were shot to death by unidentified terrorists.

October 24. Franz Metz, West German production manager of the Mercedes-Benz truck factory in Buenos Aires, was kidnapped by the Montoneros. Workers at the plant had been on strike for three weeks and the Montoneros demanded that the company rehire 119 workers

who were dismissed and recognize the workers' unions. Metz was released on December 25 after the company paid a ransom, granted a series of labor demands, and paid for publication in foreign newspapers of a Montonero statement predicting civil war in Argentina.

October 29. Montoneros murdered Alberto Salas, personnel manager of two companies owned by Fiat auto manufacturers in Cordoba.

1976

January 29. Montoneros claimed responsibility for the murders of two Argentine executives and one policeman at the Bendix Corporation plant in Munro.

March 26. Two security guards of a Ford Motor Company executive killed by machine gun fire from a passing car.

April 7. Left-wing guerrillas attacked home of Hugo Carlos Sudon, an Argentine executive of Pfizer Drug firm, killing one guard and wounding another.

April 13. Terrorists strafed the home of Argentine executive Antonio Claudio Trigo, manager of a local Goodyear subsidiary, killing two bodyguards.

April 14. Terrorists killed the Argentine marketing manager for the Chrysler Corporation in Buenos Aires.

April 21. The personnel manager of the Sancor dairy cooperative was assassinated.

May 28. The industrial security chief of the Swift meat-packing plant was killed.

August 19. Carlos Antonio Bergonetti, an executive of the Fiat automobile company in Cordoba, assassinated.

August 27. The Montoneros claimed responsibility when three people were injured in separate incidents when bombs hidden in flowers and other gift packages exploded. One of the victims was associated with the Renault automobile company, another with IBM, and a third with a Ford subsidiary.

September 9. The Montoneros claimed responsibility for the murder of an Argentine executive for Chrysler. Workers were on strike at the time and the assassination followed the firing of 121 employees

accused by Chrysler and Ford of promoting work stoppages and slowdowns.

September 15. Guerrillas fired on the Buenos Aires home of Jorge Paquet, an Argentine executive of the Ford Motor Company. The Montoneros claimed responsibility.

September 20. John G. Little, Argentine executive of Schering Pharmaceutical Company, assassinated.

September 20. The Montoneros claimed responsibility for the strafing of the Chrysler Febre-Argentina administrative offices outside Buenos Aires.

October 7-8. Terrorists bombed several foreign businesses in commemoration of Che Guevara's death, including several automobile showrooms and a branch of the Bank of Boston.

October 10. Domingo Loranzo, Argentine manager of a Renault plant in Cordoba, assassinated.

October 18. Enrique Arrosagaray, Argentine executive of the West German Borgward car firm, murdered.

November 3. An Argentine executive of the Chrysler Corporation murdered in Buenos Aires.

1977

January 25. Montoneros attacked the vacant suburban Buenos Aires home of a Goodyear executive. Goodyear had been experiencing labor problems.

March 26. A bomb exploded in the Sheraton Hotel injuring nine persons. The explosion was one of six bombings in Buenos Aires that night.

April 11. An Argentine executive of the Surrey Company, which operated under a license from General Motors Corporation, was killed in Buenos Aires. The Montoneros claimed responsibility.

October 13. Terrorists bombed the Buenos Aires suburban home of Eduardo Beach, an Argentine executive of the Chrysler Corporation. The explosion killed Beach's bodyguard and a passerby. Two others were injured.

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1 OF 2

October 23. Terrorists gunned down Ricardo Solar, an executive of the Lozadur Crockery Company, which had just dismissed more than half of its workers in a salary dispute.

October 26. Jose Martinez, board president of the Massalin y Celasco tobacco company, murdered. Martinez had been kidnapped sometime earlier and was killed when police discovered hideout where he was being held and tried to rescue him.

December 2. The bodyguards of a Chrysler Corporation executive were the victims of an armed attack in a Buenos Aires suburb. Two were killed and the third injured.

December 16. Terrorists killed Andre Gasparoux, technical director of an Argentine subsidiary of Peugeot, and wounded a bodyguard.

1978

August 2-3. Bombings directed at the homes of the president and sales manager of General Motors in Argentina. These actions followed company decision to suspend operations in Argentina.

August 6. Bomb exploded at the offices of Deutz Tractor firm in Buenos Aires after the company had dismissed 150 employees from its tractor plant.

September 1. A bomb exploded in the residence of the legal adviser to the General Motors Board of Directors in Buenos Aires.

Appendix B

TERRORIST THREAT TO BUSINESSES IN EL SALVADOR: 1972-1981

INTRODUCTION

El Salvador, at this writing the scene of bloody factional struggle involving combined leftist populist and guerrilla groups, a moderate civilian-military junta, and rightist military and civilian defenders of the old order, offers an interesting case study of American and foreign businesses as victims of terrorism. Traditionally, when Central American revolutions have overturned governments, foreign business interests have remained the silent partner. The authorities, as well as the revolutionaries, understand that once the violence subsides the economy will again depend on the income and employment generated by foreign-owned or foreign-affiliated businesses. In El Salvador, however, the struggle has taken a different, more dangerous turn—one that has depressed foreign investment and indeed the whole economy.

The smallest and most densely populated Central American republic, El Salvador has offered many attractions to the foreign investor: a good climate, relatively cheap power, and approximately 40 percent of the population located in urban areas. Its greatest advantage lies in the character of the working people, who are industrious, adapt willingly to new methods, and demand lower wages than those prevailing in the developed world. It is said that "if you tell Salvadorans to plant rocks and harvest more rocks, they'll do it."¹ Resourceful Salvadoran entrepreneurs and the Salvadoran government have encouraged foreign firms to locate in the country through public relations campaigns abroad and such accommodations as a free trade zone near the capital. As a consequence, U.S. direct investment in El Salvador increased from \$53 million in 1969 to \$120 million in 1979, representing a growth of 126 percent, or more than twice the rate of increase in the other Central American countries.²

The United States maintains first place as El Salvador's principal trading partner and foreign investor. In 1979, 67 U.S. firms, from accountants to shirtmakers, reported business operations in the coun-

¹ Quoted in *Wall Street Journal*, December 13, 1979, p. 1.

² Department of Commerce, Bureau of Economic Analysis, *Selected Data on U.S. Direct Investment Abroad, 1966-1978*, U.S. Government Printing Office, 1980, and DOC unpublished tabulations.

try.³ Restaurant franchises, retail chains, and oil refineries advertised their familiar U.S. names. During the 1970s, U.S. (as well as European and Japanese) firms invested heavily in "transformation" or "net export" industries. Firms engaged in transformation send raw materials to a country such as El Salvador to take advantage of the relatively cheaper labor, largely for the manufacture of textiles, clothing, and electronic devices. The finished products are then exported for marketing elsewhere. When such products enter the United States, thanks to special U.S. import tariff schedules, only the value added is subject to import duty. Under this system, U.S. imports of man-made fiber apparel manufactured in El Salvador doubled between 1975 and 1978.⁴

SHAPING THE TERRORISM

Despite the industrial growth of the 1960s and 1970s, internal stresses increased in El Salvador. The wealth remained largely in the hands of the traditional minority, while the majority of the approximately 5 million citizens received only a slowly increasing share of the benefits. The population growth caused continuing migration to neighboring countries. By 1969, an estimated 300,000 Salvadoran renters or illegal settlers were living in Honduras. When tensions between the two countries led to open hostilities in the so-called soccer war of July 1969, Honduras expelled the migrants, forcing them to return to El Salvador. In the early 1970s, these pressures, combined with limited hope among both rural and urban masses for an improved share of the economic pie, fueled restive leftist elements. In effect, the attractions that brought foreign investment to the country—the large and willing work force and low wages—became the seeds of a revolutionary movement that would seek to expel foreign business.

At the same time, the political climate militated against the improvement of the nation's economic and social problems. With the exception of one 4-month period, army officers had held the presidency since the 1931 election. Presidential elections in both 1972 and 1977 pitted the ruling conservative Party of National Conciliation (PCN) with its military candidates against the moderate, left-of-center Christian Democratic Party (PCD). After contesting what he and his party judged fraudulent elections in 1972, Jose Napoleon Duarte, the

³ Juvenal Angel, *Directory of American Firms Operating in Foreign Countries*, Simon and Schuster, Inc., New York, 1979.

⁴ *Women's Wear Daily*, March 3, 1980, p. 1.

PCD presidential candidate, went into exile abroad. The election of General Carlos Humberto Romero, the PCN candidate, in 1977 further alienated the PCD and liberal elements of the Catholic clergy, radicalized leftist elements, and polarized Salvadoran society.

Left-wing elements began in the early 1970s to unite in organized guerrilla groups to fight the established oligarchy. The first of these, the Farabundo Marti Popular Liberation Forces (FPL), drew members mainly from among Marxists, communists, and their sympathizers. Dedicated to overthrowing the government, they have confronted the government's rural paramilitary force in the countryside and fought for workers' organizations in urban areas. They have also occasionally kidnapped prominent officials and businessmen.

Pro-Cuban radical Marxists formed the Popular Revolutionary Army (ERP) in 1972. Starting out by bombing government buildings and taking over radio stations, they later turned to assassinations of government officials and businessmen.

A third guerrilla group, the Armed Forces of National Resistance (FARN), formed in 1975 after a split in the ERP, has concentrated on bringing down the government by applying drastic economic pressure. FARN advocates organizing unions, striking for workers' demands, and kidnapping both domestic and foreign businessmen. Indeed, it warned that "If foreign businessmen want to avoid capture by FARN they must promote an economic boycott against all products produced in El Salvador."⁵

Each of the three clandestine guerrilla groups constitutes the militant hard core of a corresponding large popular organization that operates openly in the political arena. The Popular Revolutionary Bloc (BPR), allied with the FPL, is a broad coalition of urban and rural groups. The BPR has organized strikes and sit-ins and, on numerous occasions, occupied the cathedral and embassies. FARN works with the United Popular Action Front (FAPU) and the ERP with the Marxist 28th of February Popular League (LP-28).

In January 1980 the three popular organizations—BPR, FAPU, and LP-28—joined with dissident Catholic groups, the Communist Party, and other reform groups to form the Revolutionary Coordinating Committee of the Masses (CRM), with the aim of bringing down the government. Then, in April, a breakaway faction of the Christian Democratic Party, some trade unions, and other moderate leftists joined with the CRM to form the Revolutionary Democratic Front (FDR).⁶ This organization, which now speaks for the Salvadoran left

⁵ Foreign Broadcast Information Service, *Daily Report, Latin America*, March 30, 1979, p. 6.

⁶ Mary Jeanne Reid Martz, "El Salvador: U.S. Interests and Policy Options," Congressional Research Service, Issues Brief IB80064, October 31, 1980, pp. 2-3.

both at home and abroad, is headed by Guillermo Ungo, a Christian Democrat and Duarte's running mate in the 1972 presidential election.

In May 1980, the three guerrilla groups—FPL, ERP, and FARN—formed a single command structure, the United Revolutionary Direction (DRU). The FDR recognizes the DRU leadership as the military vanguard of the revolution.

On the right, the Nationalist Democratic Organization (ORDEN) is the most populous group, with a membership of approximately 30,000. Although it was outlawed after the Romero government fell in 1979, observers continued to credit it with most of the action against the left. ORDEN's paramilitary groups operate principally in the countryside. The more extreme rightist group, the White Warriors Union (UGB), rumored to have been disbanded, operates in small groups. Members of El Salvador's three armed services are generally perceived to form the backbone of the right in their zeal to root out leftist opposition.

PROGRESSION OF TERRORIST VIOLENCE

The public became conscious of the first manifestations of terrorist activity—sporadic bombings—in the early 1970s. Guerrillas targeted a Pan Am ticket office, international trade fair, IBM office, and minor government officials. Kidnappings did not begin until 1975, when the ERP kidnapped Francisco Sola, a wealthy industrialist. They released him on payment of \$2 million ransom and later distributed pamphlets calling the ransom a "war tax for the Salvadoran revolution." The operation enabled the guerrilla organization not only to obtain publicity and to further the cause of popular revolution by taking money from the rich, but also to finance other terrorist activity.

In January 1977, the same group kidnapped the president of the National Tourist Institute and collected between \$1 million and \$2 million in ransom from family members, who soon learned that he had died of wounds sustained during his abduction. In April, the FPL gained worldwide attention by kidnapping Foreign Minister Mauricio Borgonovo Pohl and demanding as the price of his release the freedom of 37 political prisoners. When the Salvadoran government refused to comply, the kidnappers killed him.

In November 1977, militant labor unions introduced a new tactic to harass foreign—as well as local—businesses: group actions to force their demands for workers' wages and benefits. An American-owned glove factory experienced what would soon become routine—a one-day lock-in. The manager, a U.S. citizen, and the unionized work

force of 450 women were held in the plant by a labor group and denied food, water, and access to toilets while union and management negotiated a new labor contract. Also in November, the BPR occupied the Ministry of Labor for two days, holding the minister and 100 employees hostage in order to bargain for higher wages for rural coffee workers.

Unrest and frequent targeting of businessmen and government officials increased in 1978. In February, armed members of the BPR seized the U.N. Information Center, took five hostages, and demanded the release of 30 to 40 political prisoners. A confrontation between the BPR and ORDEN in San Pedro Perulapan in March led to the intervention of security forces and to an estimated 30 to 300 deaths. In April, BPR members occupied four foreign embassies, demanding the removal of security forces from San Pedro Perulapan and the release of the prisoners who had been taken in March. The government conceded.

Until this time, despite threatening leftist rhetoric, Salvadoran officials had reassured foreign investors and expatriate managers that dissidents were targeting only Salvadoran nationals. In May 1978, however, FARN abducted Fujio Matsumoto, a Japanese textile company executive, demanding that the Salvadoran government release 33 political prisoners and pay some \$4 million. Matsumoto died shortly thereafter, whether accidentally or by the hand of his captors is unknown. This incident, which gave the foreign business community notice that they would be used to gain leverage with the government, galvanized them into action. An exodus of foreign executives and their families began, while those who remained lived with increasing security precautions. During this time also, wealthy Salvadoran businessmen and their families departed to establish exile communities and conduct their businesses from Guatemala, Panama, Miami, and even California.

In most kidnapping cases, terrorists studied their targets and planned the operation with care. Hostages and negotiators often reported that their captors knew details of the company operation and finances and used this knowledge to taunt and intimidate their hostages. They obtained information by pressing local employees for material about the firm or by questioning them. In June 1978, for instance, armed men kidnapped two Salvadoran employees of U.S.-owned McCann-Erickson and held them—one for four hours and the other for four days—during which time they questioned them about company income, senior officials, wages, and salaries.

In August, FARN kidnapped the Swedish manager of L. M. Erickson Telephone Company from his office. They released him ten days later, after payment of \$1 million and the publication of a com-

munique. In November, FARN took a Dutch executive of Philips, Fritz Schuitema, and two British bank executives. They released Schuitema five weeks later, after payment of between \$1 million and \$5 million and the publication of an advertisement in 30 foreign newspapers that announced, among other things: "We shall cease kidnapping foreign businessmen when the people acquire a minimum of democratic freedom."⁷ The terrorists held the two British bankers, however, until the following June, when their bank, a Lloyds subsidiary, ransomed them for an undisclosed amount. Because FARN, on releasing them, threatened further kidnappings, the Salvadoran Foreign Office advised the British embassy staff to leave the country temporarily. The staff, along with a dozen other British government employees, departed without notice, leaving their consular affairs in the hands of an honorary consul and the British business community up in arms. The *Times* reflected their concern when it wrote: "If San Salvador is deemed unsafe for diplomats, can bankers, sales agents, industry remain behind for long? But without them, what hope have countries like El Salvador of developing?"⁸

In December 1978, FARN kidnapped a second Japanese businessman, Takahasu Suzuki, demanding the release of five prisoners and the publication of a manifesto. Although the government refused to release the prisoners, Suzuki was freed in April on the payment of between \$5 million and \$10 million, after which Japanese diplomatic representatives left the country. Of the 408 Japanese residents in El Salvador in early 1978, fewer than 40 remained at the end of 1979.⁹

Diplomatic representation shrank during 1979 in response to leftist terrorist harassment. Israel's honorary consul general and a prominent businessman, the Swiss chargé d'affaires, and South Africa's ambassador were kidnapped and killed. Members of the popular organizations frequently occupied embassies peacefully, taking diplomats hostage and making their release contingent on actions by the Salvadoran government. These tactics, in addition to direct attacks on embassy facilities and bombings, led most countries to transfer diplomatic functions to neighboring countries, to reduce staff, and in some cases to close completely. The departure of diplomats, in turn, robbed expatriate businessmen of their confidence in the Salvadoran government's ability to deal with terrorism.

Targeting of both local and foreign businessmen by leftist guerrillas increased in 1979. In January, two American managers were held hostage for five days in a plant takeover, while unions engaged in a

⁷ *London Daily Telegraph*, December 2, 1978.

⁸ *Times* (London), July 7, 1979, p. 1.

⁹ Conversation with U.S. diplomats assigned to El Salvador in 1978-1979.

jurisdictional struggle. Throughout March and April, strikes and lock-ins disrupted many factories. In June, National Cash Register's local manager was abducted and held for \$3 million ransom. Negotiators from the United States succeeded in reducing the ransom and effecting his release. In July, militant labor leaders took the visiting American manager of a U.S. net-export apparel factory hostage in his plant. He and his local manager were held seven days and forced to sign a labor agreement imposing unreasonably high labor costs on the company. Unable to operate profitably under the new contract, the management closed the plant within two months and shipped the machinery back to the United States.

In August 1979, strikers at the Apex Clothing Company factory held the American manager, William Boorstein, hostage for ten days, demanding wage increases. Boorstein succeeded in escaping from the plant and immediately left the country. In September, two Americans from the Beckman Instruments electronics plant were kidnapped by a minor leftist group and secluded for six weeks while their company negotiated their release. Their ransom consisted of a payment (reportedly in millions of dollars) and the publication of advertisements in U.S. and European newspapers. The local plant now operates under local management, with a fraction of the former work force.

On October 15, 1979, reform-minded army officers ousted President Romero and installed a five-member junta composed of moderate civilian leaders and two military officers. After changes in its membership in 1980, the junta appointed one of its members—PCD leader Jose Napoleon Duarte—to the presidency, committed the government to hold elections in 1982 and 1983, and instituted sweeping economic reforms. The March 1980 reforms included the expropriation of large estates (to be carried out by the army) and the nationalization of banks and of export marketing of primary products. The reforms were directed at breaking the privileged elite's traditional lines of control.

At the same time, the leftist guerrillas were also disrupting the harvest of coffee, sugar cane, and cotton—three crops that are the lifeblood of the Salvadoran economy. One BPR member expressed his group's philosophy as follows: "We are not strong enough to take on an army, but we can cause chaos by destroying the businesses. Then the government will lose control and we will take over."¹⁰

After the overthrow of Romero, the leftist guerrillas succeeded in creating chaos, and they appeared at that time to have the masses behind them. A rally in San Salvador in March 1980 to celebrate the consolidation of the far left and moderate opposition in the FDR drew 100,000 supporters. Concurrently, the forces of the right were in-

¹⁰ Quoted in *Wall Street Journal*, December 13, 1979, p. 1.

creasing their activity. By January 1980, tiny El Salvador clearly led all the nations of the world in terrorist activity, with over 22 percent of worldwide recorded incidents.¹¹

The nature of the struggle changed in 1980 as the leftist organizations began to engage in substantially larger operations against military and government targets. This change indicated that they were receiving arms and training from abroad. In March, for example, 100 insurgents attacked the National Guard compound in San Salvador, and in two separate incidents in the countryside bands of guerrillas occupied plantations and engaged in shoot-outs with military patrols. In June, the combined leftist groups' attempt to bring the economy to a halt with a general strike met with only partial success. Another strike, called in July, was cancelled when support appeared to wane. Again in August they called a general strike to shut down the country, but the workers did not support them. Militants placed bombs in work places, burned buses, and shot bus drivers, but the workers demonstrated that they wanted their jobs more than they wanted revolution. Fearful of losing their jobs and their livelihood, many workers remained overnight at shops and factories until the strike was over. Bus burnings and destruction of company vehicles continued for some time after the August strike.

After summer 1980, the leftists shifted the focus of their activities from the city to the countryside. Not only had the strikes foundered, but they lost an important base in San Salvador when government forces raided the formerly sacrosanct National University grounds in June. Security forces found weapon caches, tunnels leading from the school to other parts of the city, and areas where terrorists could hide and conceal kidnap victims. The action robbed guerrillas of an urban hideout and very likely helped slow their activity in the capital. Increasing supplies of arms from Nicaragua and Costa Rica also assisted their operations based in the countryside. Guerrillas took up the old tactic of raiding small towns or rural settlements, taking over the area, and then melting into the countryside when security forces appeared.

Attacks against business targets did not slacken, however. During 1980, El Salvador had 231 terrorist actions targeting business, or 24 percent of the world total. Of these, 44 were facility attacks, 24 assassinations, and 8 kidnappings; the remaining 155 were bombings.¹² Some 26 companies closed permanently in 1979; in 1980 the number soared to 113.¹³ By the end of the year, American executives of all the

¹¹ Risks International, Inc., *Executive Risk Assessment*, January 1980, p. 8.

¹² Risks International, Inc., *Quarterly Risk Assessment*, January-March 1981, p. 46.

¹³ *Washington Post*, June 27, 1981, p. 12.

large corporate subsidiaries in El Salvador had pulled out, with one exception. The one remaining American manager is still in San Salvador, living and working under conditions of maximum security. Most corporations replaced their executives with local citizens, who also observe strict security rules and leave the country frequently. Others run their businesses from outside El Salvador, paying unannounced visits when necessary. American corporate security directors and corporate officers continue to visit El Salvador, albeit infrequently and, if possible, anonymously. A U.S. embassy advisory against travel still obtains.

CURRENT TERRORIST SITUATION

The combined guerrilla groups launched a major effort to overthrow the junta in January 1981, deploying an estimated 5,000 armed troops in a general offensive throughout the country. Their efforts to meet government forces in open combat and take control of territory failed, however, when the people did not turn out to support them. Although it resulted in many defections from the revolutionary cause, the January failure has neither ended insurgent activity nor discouraged repression from the right, but it has shown the government that the people have tired of disruption, strikes, and unemployment.

At this writing, the leftists continue their three-pronged program to (1) attack in small towns, staying long enough to make their presence known and to disrupt the town, and then leaving when security forces come in numbers; (2) strike out at the country's security forces; and (3) disrupt the communications and power infrastructure of the country. This last activity has accelerated considerably since January. Terrorists hope that by sabotaging power lines they can disrupt production and the economy as a whole, and by extending their attacks to lines of communication they can hamper the government's counterterrorist activity. Their success can be seen in the country's economic statistics: Unemployment rose to 30 percent, and estimated per capita income for 1981 is 25 percent below income in 1979.¹⁴

The junta, in attempting to improve the economy and generate employment as the essential path to gaining popular support, confronts the two opposing factions: the left, seeking to disrupt the economy, and the conservative private sector, intent on reversing the junta's economic reforms. President Duarte's Christian Democrats continue to nationalize banking, agricultural exports, and land redistribution

¹⁴ *Wall Street Journal*, May 7, 1981, p. 25.

—a policy that the landowners, businessmen, and military oppose. The government made one concession to the business community in July, when it extended a wage freeze and controls on rent and selected prices.¹⁵ Continuing rightist opposition to land redistribution and nationalization, however, stymies government efforts to put people back to work.

Strikes and mass street demonstrations have diminished in 1981. Some American businessmen interviewed indicated that they are watching the situation with an eye to further investment. Others with obsolescent plants and equipment plan to upgrade their technology as soon as the investment climate improves. If the junta perseveres and accomplishes its economic reforms, and if the violence in the cities diminishes, businessmen now observing from abroad or running their enterprises from neighboring countries will no doubt be the first to return.

CHRONOLOGY OF TERRORIST INCIDENTS IN EL SALVADOR, 1972-1981¹⁶

1972

November 5. Bombing of Pan Am ticket office in San Salvador caused considerable damage but no casualties.

November 15. Bombing at Argentine-Brazilian pavilion of Fifth International Trade Fair caused damage but no casualties.

1973

April 29. Explosion damaged offices of IBM Corporation.

¹⁵ *New York Times*, July 2, 1981, p.18.

¹⁶ The chronology is based on the following sources: Rand Corporation unpublished chronologies of terrorist incidents; Edward F. Mickolus, "Chronology of Transnational Terrorist Attacks Upon American Business People, 1968-78," in Alexander and Kilmarx (1979); Risks International, Inc., monthly "Terrorist Incident Chronology" in *Executive Risk Assessment*, 1979-1981; *London Daily Telegraph*; *New York Times*; *The Times* (London); *Wall Street Journal*; *Washington Post*.

May. Roque Dalton Garcia, poet, essayist, historian, ERP leader, and critic of ERP's excessively militarist approach, was killed by militarist faction. His death split ERP, resulting in formation of FARN.

1975

June 30. Wealthy industrialist Francisco Sola was kidnapped and ransomed for \$2 million on July 7. Pamphlets distributed by ERP called ransom a "war tax for the Salvadoran revolution."

July 19. A bomb explosion at Salvadoran Tourist Institute was claimed by the Workers' Revolutionary Organization.

December 15. Four security officers were killed and 12 people wounded in separate attacks by ERP on ranch in north and National Supply Institute building in San Salvador.

1976

March 16. The FPL claimed credit for firebombing a Sears store in San Salvador.

August 4. One policeman was killed and one wounded in attacks on embassies of Spain and Nicaragua by gunmen.

1977

January 4. Dr. Mariano Castro Mangana was kidnapped and ransomed after 60 hours and payment of \$200,000. FARN claimed credit.

January 27. Roberto Poma, President, National Tourist Institute, was kidnapped by ERP and three bodyguards killed. Poma later died of wounds inflicted as he resisted abduction. ERP collected \$1 million to \$2 million ransom.

March 12. Jesuit priest was shot by unknown gunmen in Aguilares. (Jesuits advocated land reform, and a number were killed, allegedly by security forces.)

April 19. FPL kidnapped Salvadoran Foreign Minister M. Boronovo Pohl and demanded release of 37 political prisoners. When the

government refused, he was killed on May 9, despite pleas by the UN and Pope Paul. On May 10 a leftist priest was shot in retaliation.

May 29. In Guatemala, a guerrilla group linked to FPL kidnapped and wounded the Salvadoran ambassador; he was freed after reading a statement at the IADB meeting.

July 12. FPL kidnapped and killed 85-year-old Osmin Aguirre Salinas, president of El Salvador, 1944-1945, and a retired Army general—allegedly for his role in crushing land reform in 1932, when he was chief of police.

September 7. FARN kidnapped Elena Lema de Chiorato, wife of an American businessman, after shoot-out with bodyguards in front of husband's office.

September 16. FPL shot and killed Carlos Alfaro Castillo, member of a wealthy coffee-producing family and rector of the university, his driver, and bodyguard. He was linked to right-wing organizations and had repeated trouble with leftist students.

November. BPR occupied the Ministry of Labor for two days holding the minister, the under secretary, and 100 employees hostage. At issue was wages for rural coffee workers.

November 13. Industrialist Raul Molina Canas was killed while resisting kidnapping. Perpetrators thought to be criminal extortionists.

November 15. U.S.-owned Eagle Glove factory was occupied for one day; the manager (a U.S. citizen) and 450 union workers were denied food, water, and access to hygienic facilities.

1978

February 2. BPR seized UN Information Center, holding seven members of staff hostage. They demanded release of political prisoners and denounced disregard for human rights in El Salvador.

February 6. Col. Francisco Rene Chacon, formerly director of immigration, was killed by gunmen. Both ERP and FPL had pledged to kill him.

March. FPL bombed a number of rural municipalities, targeting electric power substations and telephone lines.

March 22-24. BPR-ORDEN confrontation in San Pedro Perulapan resulted in death of estimated 30 to 300. Many prisoners were taken,

and demands for their release sparked a number of subsequent confrontations.

April. Dr. Manuel Antonio Bonilla, son of owner of Telesfenco San Jacinto, Inc., kidnapped on unspecified date and released January 1979. He delivered to terrorists plans for San Jacinto cableway and financial records of father's firm.

April 6. Gustavo Cartagena, President of ARCO, Inc., engineering group, was abducted from his office by FRAP and Workers' Revolutionary Organization. He was released after payment of unknown ransom.

April 13. BPR peacefully occupied embassies of Venezuela, Panama, Costa Rica, and Switzerland and demanded removal of security forces from San Pedro Perulapan and release of prisoners. When demands were met, they vacated the embassies.

May 5 & 10. FAPU occupied San Salvador office of Red Cross.

May 14. Two businessmen, Ernesto Sol Meza and Luis Mendoza Novoa, were kidnapped leaving their hotel in the evening. Sol Meza was released June 21 for a ransom reportedly \$4.8 million. FPL claimed credit.

May 17. FARN kidnapped Japanese businessman Fujio Matsumoto and demanded \$4 million and release of 33 prisoners. Government rejected demands. Hostage died first day but FARN continued to negotiate.

June 8. Manager of U.S. firm, Eagle Glove Company, received kidnap threat (see November 15, 1977).

June 18. Salvadoran employee of IBM was kidnapped, held for \$200,000 ransom, and released unharmed July 24.

June 22. Two Salvadoran employees of U.S.-owned McCann Erickson were abducted as they left the office and questioned at length about senior company officials, income, wages, and salaries. The secretary was released after a few hours and the second employee after four days.

July. Esso Latin America moved regional headquarters from San Salvador to Coral Gables, Florida.

August 14. Swedish businessman Kjell Bjork, manager of L. M. Erickson, was kidnapped from his office by FARN. The company paid ransom of \$1 million and published a communique internationally before he was released on August 24.

September. FARN killed two tax officials and the dean of the faculty of the National University. FPL killed a former president of the Salvadoran National Assembly.

September 16. FPL claimed credit for a machine-gun attack on the U.S. embassy at dawn. A document left called for release of prisoners, reduction of rents, etc., and denounced U.S. imperialism and links to wealthy Salvadoran ruling classes.

November 7. ERP launched nationwide Operacion Balta, a series of 40 bombings along Pan American highway targeting banks, police posts, private business firms, government offices, and ORDEN offices.

November 17. Bomb exploded at McDonald's restaurant in San Salvador. FPL claimed responsibility as part of its "Operation War on Yankee Imperialism."

November 24. Dutch businessman Fritz Schuitema, director of Philips, was abducted by FARN. After Philips paid ransom (reported as \$1 million and \$5 million) and ran advertisements in newspapers in 32 countries, he was freed on December 30.

November 25. Bomb exploded in warehouse of German-owned Bayer Company. FPL claimed credit.

November 30. Two British bankers of the Bank of London and South America, a subsidiary of Lloyds, were kidnapped by FARN and held until June 1979. When ransomed (at amounts said to be in the millions), Britain temporarily withdrew its diplomatic representatives because of threat.

December 17. FARN abducted Takahasu Suzuki, sales manager of a Japanese textile firm, and demanded publication of a manifesto and release of five prisoners. Salvadoran government refused to release prisoners. Suzuki was released after payment of \$5 million to \$10 million on April 2, 1979. Japanese diplomatic representative and most nationals left country.

1979

January 17. FAPU gunmen, mostly students, occupied Mexican embassy, holding 156 people hostage and demanding release of political prisoners, publication of manifesto, accounting for 108 persons who "disappeared," and lifting of Public Order law. They released 90 hostages and negotiated release of the balance on January 18. FAPU members were flown to asylum in Mexico.

January 17. Ernesto Liebes, honorary consul general of Israel and head of a leading coffee export firm, was kidnapped by FARN with demands for release of political prisoners. His body was found March 22.

January 25. A strike at IMES, a subsidiary of U.S. company, Taller Industries, held two U.S. citizen employees hostage at plant. Two trade unions were struggling for control of workers.

February 10. Jose Ernesto Romero, lawyer and former personnel chief of Central American Nylon Industries, was killed by FPL. Leaflets at the site indicated the reason for the killing was that he had dissolved the labor union while serving as personnel chief.

March. Workers took over two bottling plants and brewery and held managers hostage. Strikes at electric generating plants cut off electricity, causing closings of businesses and schools.

March 3. FPL claimed credit for killing Carlos Mata Borrromeo, chief of personnel of Adoc Shoe factory.

May 4. BPR took over French and Costa Rican embassies and cathedral. The Costa Rican ambassador and other hostages escaped. During demonstration at cathedral, police opened fire and killed 21. Cathedral occupation ended May 26. Hostages freed in return for release of prisoners and flight to asylum in Mexico.

May 11. BPR took over Venezuelan embassy. On May 21, the ambassador and four hostages escaped. On May 22, a BPR demonstration outside embassy while food was being carried in was fired on by police and 14 were killed. On May 23, the minister of education was killed in response. Siege ended on June 1 and guerrillas flown to Mexico.

May 20. FPL attacked IBM installation in San Salvador.

May 24. Swiss chargé d'affaires was killed in a kidnap attempt when he tried to drive out of a trap.

June 15. William Rocha, Nicaraguan citizen and manager of NCR office, was kidnapped by FRAP, which demanded \$3 million ransom. Rocha was released June 27 after NCR paid \$400,000.

July 13. Visiting American executive of Aris Gloves was taken hostage during a visit to plant in El Salvador and held seven days. He and the local manager were forced to sign a labor agreement which meant running the firm at a loss.

July & August. Strikes at U.S.-franchise plant, Maidenform. Labor dispute and takeover of SALBRA plant. Labor dispute and takeover at IMES textile plant kept 350 workers out.

August 9. Spanish businessman was kidnapped and held for 15 days.

August 14. American manager of Apex Clothing Company, William Boorstein, was taken hostage and held in the plant by strikers for 10 days. He escaped and returned to the United States.

September 21. Two Americans, Beckman Instruments executives Dennis MacDonald and Fausto Bucheli, were kidnapped from their car and the driver killed. The Revolutionary Party of Central American Workers demanded publication of proclamation in U.S. newspapers and \$10 million ransom. The proclamation appeared October 10, and undisclosed ransom was paid, and they were released November 7.

September 22. Employees took over an American-owned hotel to make labor demands and held tourists hostage.

September 27. U.S. citizen William Horn, visiting from the United States, was killed in crossfire between police and guerrillas in San Salvador.

October 11-16. Fires destroyed machinery in four U.S. subsidiaries after continued labor troubles.

October 26. Deputy manager of the First National City Bank was shot to death.

October 28. FPL claimed credit for bombing the Bank of America building.

October 30. Armed crowd attacking U.S. embassy were held off with tear gas by Marine guards. Two Marines were wounded.

November 28. FPL seized South African ambassador as he left embassy. He was killed after months of unsuccessful attempts to negotiate his release.

December 5. Coffee industry executive Ernesto McEntee abducted by ERP, and millions demanded. He was released May 6, 1980, and \$2 million paid.

December 13. The 28th of February Popular League seized markets throughout city and took 13 hostages, among them Deborah Loff, an

American Peace Corps health adviser to market. Demands were made for lower rents for stalls, higher wages, and disbanding of police guard. Government met demands, and hostages were released after 10 days.

1980

January 2. Leftists burned 4 buses and turned them into barricades in San Salvador.

January 4. LP-28 attacked National Guard headquarters and wounded two guards.

January 22. 100,000 citizens marched in antigovernment protest in San Salvador. At least 20 demonstrators reported killed by gunfire.

January 23. Of the 25 leftists who attacked police station in outskirts of San Salvador, three were killed and remainder fled to city and took refuge in National University.

February 13. BPR seized San Salvador water and sewer administrative offices and reportedly held 250 people hostage, demanding better service and release of people arrested.

February 16. BPR leftists armed with gasoline bombs seized Foreign Trade Institute and took 60 hostages. Institute director said militants seized building to dramatize their demands against closing factories.

February 23. Attorney General Mario Zamora Rivas slain by unidentified gunmen.

April 1. Guatemalan ambassador fired on in his car. He returned fire and escaped.

April 18. Leftist militants fired on Texas Instruments plant. No injuries.

June 15. Panamanian aircraft carrying ammunition for leftists crashed east of San Salvador.

September 17. Leftists shot their way into OAS offices, seized building and hostages, and demanded end of government repression. Hostages were released after diplomatic negotiation.

October 14. Victor Keilhauer, businessman kidnapped six months previously, was released.

October 26. Ramon Valladares, administrator of El Salvador's Human Rights Commission, was assassinated by gunmen.

November 24. Terrorists attacked storehouses of National Coffee Institute and destroyed coffee valued at close to \$1 million.

November 25. Arson at sugar refinery near Valle de Jiboa caused losses estimated at about \$1 million.

November 27. 100 gunmen raided Jesuit-run high school in San Salvador during meeting of leaders of the National Democratic Front, killing six leaders. Credit was taken by the Maximiliano Hernandez Anti-Communist Brigade.

December. Presidents of both the National Coffee Institute and the National Sugar Institute kidnapped and held for ransom.

December 3. Three American Roman Catholic nuns and one lay worker were killed. President Duarte later blamed the extreme right.

December 4. Eight businesses were burned and a police detachment attacked in San Salvador.

December 17. Bank of America bombed in San Salvador, along with two local banks.

December 17. Thomas Bracken, former Nevada policeman, wanted in the U.S. on gunrunning charges, was shot to death in San Salvador while helping detectives investigate the kidnapping of the head of the National Coffee Institute.

December 22. Leftist guerrillas attack Salvadoran air force facility on outskirts of San Salvador.

1981

January 3. Michael Hammer and Mark D. Pearlman, Americans working with El Salvador land distribution program, and Jose Rodolfo Viera, president of El Salvador Institute for Agrarian Transportation, were killed in San Salvador hotel bar. Two civilians of rightist persuasion were later arrested and charged with the killings.

January 10. Guerrillas launched their "final offensive," the first real effort to meet government units in open combat. Attacks—in western and southern parts of the country—targeted communication and electric power facilities. By end of month, it appeared that the offensive had failed.

February 2. Leftist guerrillas firebombed Esso Standard Oil compound in San Salvador during raid that left two people dead.

February 25. Bomb exploded at Water and Sewage Administration.

March. Terrorists assaulted U.S. embassy three times—twice using automatic weapons and once using a rocket-propelled projectile.

March 1. ITT offices in San Salvador were bombed; damages were estimated at \$100,000.

March 28. Terrorists bombed main runway of San Salvador Ilopango Airport.

April. Citibank facility in San Salvador bombed.

April 27. 500 guerrillas attacked army garrison in Nuevo Eden de San Juan, destroying electric and telephone lines and aqueduct.

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