Chavez escalates his attack on Gallo

It's enough to drive a company to drink—especially when the company happens to be E. & J. Gallo Winery, the country's largest wine producer. Because wine prices were up almost 30% in 1974, consumer demand appears to be shifting toward beer and distilled spirits, which rose in price less than 10%. At the same time, Gallo has just been slapped with a $225-million anti-trust suit by three members of the United Farm Workers union and three consumers. The suit, filed earlier this month, accuses Gallo of monopolistic practices that have purportedly cost harvest workers at least $15-million in lower wages and consumers at least $60-million in artificially inflated wine prices. Now, to top off Gallo's troubles, the UFW plans to step up the pace of an 18-month-old program of picketing and boycotts against Gallo products.

The struggle between Cesar Chavez' union and Gallo traces back to July, 1973, when the UFW's six-year contract expired and representation of Gallo's 500 permanent and seasonal farm workers switched to the Teamsters. Gallo called the union change a "voluntary agreement," but the UFW labeled it a "sweetheart deal" between Gallo and the Teamsters. Since then, the UFW has staged random picketing and boycotts of retail outlets handling Gallo products.

So far, Gallo claims the so-called "hit-and-run" tactics of the UFW have not dented the company's performance. "In areas where illegal secondary boycotting has been heavy," says a spokesman for the privately held, Modesto (Calif.) company, "sales at those stores are down." Over-all, Gallo claims that dollar sales through the first three quarters of 1974 were up only 1% to 2%, or far less than the rate of inflation.

Full-time action. Either way, the UFW is determined to make things hotter for Gallo. Up to now, the union has been running grape, lettuce, and Gallo boycotts at the same time. But now that grapes are off the market for a while, says Chavez, the union will devote full time to the Gallo action. "The Gallo boycott," says Chavez, "is going to be three to four times as effective, because we are now throwing our full weight behind it." Chavez concedes that he does not expect any quick, easy victories. He predicts that it will take at least two more years before the UFW finally forces Gallo to return to UFW representation.

James Drake, director of the Los Angeles and Orange County UFW, claims that 600 to 700 pickets turned out in Los Angeles alone during the Christmas week, bearing signs reading, "Cesar's Greetings: Boycott Gallo." At that time, Chavez and the rest of the UFW's executive board decided to put full emphasis on the Gallo boycott. This month, UFW representatives visited some 800 stores in the San Francisco Bay area and received assurances that 50 would remove Gallo products from their shelves. Last weekend, new UFW boycotts hit Gallo outlets from San Diego to Chicago, Detroit, Pittsburgh,
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An Arab may bid a billion in banking

The battle over Saudi Arabian Adnan Khashoggis's bid to purchase one-third control of the First National Bank of San Jose may be a preview of things to come in banking.

Richard Nagel, a representative of the Saudi Arabian, says his employer "would like to build up a critical mass in the banking business," apparently in the San Francisco area. Khashoggis, who recently helped Northrop Corp. win a $750-million Saudi contract for jet fighters, already controls two small area banks: 98% of Security National Bank (not related to the troubled New York bank of the same name) and 84% of Contra Costa Bank in Walnut Creek, Calif. But the combined assets of these banks are hardly more than $150-million, and Nagel says that his employer "cannot be a major factor domestically or internationally at that size." Consequently, Nagel continues, his boss is looking for "maybe $500-million or maybe $1-billion" in personal banking interests.

Khashoggis, who is worth more than $80-million, reportedly is interested in First National of San Jose because of its strength and because it fits into a geographical market that he has not yet touched in the Bay area. Initially he wanted to make a tender offer for a one-third interest in existing shares, but management rejected that. Now Khashoggis has offered to pay a 125% premium for a new issue of 650,000 shares of common stock to be sold privately to him.

**Counting votes.** The offer has splintered the bank's board. On Nov. 25, nine directors approved the sale, five opposed it, and three were absent. This week the schism widened as the dissidents sought legal counsel and became more vocal in their criticism.

Directors who are against the Khashoggis purchase point out that it could easily lead to a complete, low-cost take-over by Khashoggis. A partial acquisition, says director Grant Early, "would pave the way for Khashoggis to acquire absolute control of the stock at bargain prices when he is free to move into the open market after June 30." If the deal is approved, Khashoggis would be prohibited from buying any more stock until then.

In addition, director Louis Sullivan is concerned about the response to a "community bank becoming an Arab bank." Already, the president of the Jewish Federation of Greater San Jose has indicated that he will pull out his account if the Khashoggis deal goes through.

The leading advocate of the Khashoggis stock purchase is Howard W. Rathbun, vice-chairman. Rathbun believes First National shareholders will benefit from Khashoggis's interest and cash. His bid of $21.83 per share was substantially higher than the closing $16.50 bid price on the date of the agreement. In addition, the new capital will provide the bank with a broader financial base, as well as facilitating "continued expansion."

The latter goal has baffled a number of directors, and director Early sums up their feelings. "What this all boils down to," he says, "is that we would be surrendering control of the bank to Khashoggis for capital we cannot use effectively." The problem, he says, is that the bank has no plans on the drawing boards that would require huge amounts of capital.

Whether Khashoggis gains control of the bank or not will be decided by a vote of the shareholders on the last day of the month. Vice-Chairman Rathbun expects the Saudi Arabian to receive the required two-thirds vote and the approval of the Comptroller of the Currency. On the other hand, director William F. Webb, who charges that some directors found out about Khashoggis's intentions only 45 minutes before arriving at a meeting last Nov. 4 to discuss them, hopes that if shareholders read the proxy, they will vote against the proposal, and Khashoggis "will pick up his tent and go home."