THE WALL STREET JOURNAL.

World News: Russia's Deripaska Faces Western Investigations --- U.S., U.K. Probes of Industrialist Focus on Transfer of Funds; He Also Has Business Setback, Ceding Stake in German Firm

By Glenn R. Simpson and Susan Schmidt
1241 words
10 October 2008
The Wall Street Journal
J
A10
English

Russian billionaire Oleg Deripaska, whose business is facing a squeeze amid the credit crisis, also is under investigation by U.S. and U.K. authorities in connection with a $57.5 million wire transfer last year, according to people familiar with the matter.

Separately, in a second recent blow to his industrial empire, Mr. Deripaska is ceding a stake in a German construction company, Hochtief. Just a week ago, his holding company, Basic Element, gave up a 20% stake in Canadian auto-parts maker Magna International Inc.

In a third development, the Bush administration is putting Russian economic interests under greater scrutiny, partly in response to Russia's August invasion of Georgia. Among other things, the U.S. is stepping up its reviews of Russian investments and of visa applications by Russian businessmen suspected of criminal ties.

The 40-year-old Mr. Deripaska has been ranked by Forbes as among the world's 10 richest people, with assets of $28 billion. They include nearly 5% of General Motors Corp. Mr. Deripaska is allied with the Kremlin and has longtime ties to Russian Prime Minister Vladimir Putin.

In the past, authorities in the U.S. have accused Mr. Deripaska of having ties to organized crime, which he has denied. In 2006, the Federal Bureau of Investigation persuaded the State Department to revoke a U.S. visa he had obtained, according to diplomatic and law-enforcement officials.

The wire transfer being investigated in the U.S. and U.K. originated with a Russian company Mr. Deripaska controls, UC Rusal, passing through Barclays PLC offices in New York and London, according to emails, other documents and people with knowledge of the transaction. Some of the funds ended up with Deripaska consultants in Washington who, according to lawyers and government officials, are being investigated by the Justice Department and Manhattan district attorney for possible money laundering or other crimes.

The transfer is one of dozens under scrutiny. Authorities are looking into whether some of the money might have been moved in connection with potentially illicit activity in countries where Mr. Deripaska's industrial interests have operations, including Nigeria and Kazakhstan.

Mr. Deripaska didn't respond to requests for comment about the probe, including written questions, but in the past has denied any association with criminal activity.

In the money transfer, Moscow's MDM Bank wired the funds through a unit in Latvia to a Barclays branch in New York and then to a Barclays account in London, documents indicate. When a Barclays executive asked about the origin of the funds, he was given letters by a Rusal executive describing the source as a firm called QPB Investment Ltd., according to people familiar with the matter. QPB is registered in Belize, a nation with strict corporate secrecy laws, and couldn't be reached for comment.

Barclays turned over records of the transfer to British authorities and to U.S. state and federal authorities in response to subpoenas, lawyers said. A spokesman for Barclays declined to address specifics of the transactions but said: "We have robust compliance programs in place, and it is our policy to cooperate fully with any investigation or request from law enforcement." A spokesman for Rusal declined to comment.

The funds went to an account in the name of Brookrange Ltd., a firm based in Gibraltar. A lawyer for the firm said it could "neither confirm nor deny the existence of any business transactions."

Mr. Deripaska has been working with a small group of advisers in Washington and London who have helped him deal with inquiries and lawsuits over his alleged ties to organized crime, according to business records and interviews with people involved in the work. The advisers include Alexander Mirtchev and Thomas Ondeck, who operate a

Washington consulting firm called GlobalOptions Management. They are among the consultants who lawyers and government officials say are being investigated by the Justice Department and Manhattan D.A. for possible money laundering. A lawyer for their firm said they haven't been contacted by either Justice or the Manhattan D.A.

Records show that $9.75 million from the wire transfer went to Messrs. Mirtchev and Ondeck's firm. The lawyer for the firm confirmed that it had provided $9.75 million of client services and said that, "consistent with past practices, such services were for lawful purposes." Mr. Mirtchev said he was contractually barred from discussing the transaction but said that he and his partners "rigorously abide by all of the laws and regulations of the countries in which we operate."

Meanwhile, Bush administration officials have been growing increasingly concerned about possible infiltration of Western companies and financial markets by suspected organized-crime figures with ties to the Russian government, according to administration officials, lawmakers and law-enforcement officials. In April, Attorney General Michael Mukasey, citing Russia and Central Asian nations, said that underworld figures' growing clout in energy and strategic-materials markets "may have a destabilizing effect on U.S. geopolitical interests."

The U.S. is stepping up scrutiny of visa applications by Russian businessmen suspected of criminal ties. A recent Justice Department memo said the strategy is to employ "economic, consular, and other non-law-enforcement means to target [organized crime] figures and organizations, freeze or seize their assets, and disrupt their ability to exploit U.S. banks, businesses, and strategic assets."

An interagency panel called the Committee on Foreign Investment in the United States, which looks at foreign investments for any national-security risk, has informally adopted what one official calls a "hard-look doctrine" toward any Russian attempts to invest in critical American industries. The Treasury and State departments and the National Security Council are reviewing possible economic sanctions against Russian-backed politicians and businessmen who operate in separatist enclaves of Georgia, according to administration officials.

Some argue that Washington risks overreacting if its crackdown is too broad or seems politically inspired. While the U.S. should take appropriate action "if we think someone is a crook," said Toby Gati, a senior adviser to law firm Akin Gump Strauss Hauer & Feld, "we shouldn't be playing games the Russians are better at, such as politicizing visas."

Mr. Deripaska's ceding of an interest in the German construction company and the Canadian auto-parts maker show how severely the global credit crisis is affecting the wealth of at least some of Russia's oligarchs. A recent sharp fall in Russia's stock market, which is 60% off its highs earlier this year, has been accelerated by the predicament of tycoons like Mr. Deripaska, who funded acquisitions in recent years by using stock as collateral.

Mr. Deripaska's group said it had acquired 10% of Hochtief last spring, when the construction company was trading at about three times its level today.

His Basic Element holding company also has a 25% stake in Austrian construction company Strabag SE. An official close to the situation said Mr. Deripaska had no intention of giving up that interest, stating that "there is no liquidity problem at Basic Element."

Alan Cullison contributed to this article.

(See related letter: "Letters to the Editor: Deripaska Affirms They Are Honorable" -- WSJ Oct. 22, 2008)

Document J000000020081010e4aa0002n