WHY MARC RICH IS RICHER THAN EVER The U.S. is offering a six-figure bounty for his capture, but that's just pocket money to the fugitive commodities trader who is nearing billionaire status in Europe.

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August 1, 1988

(FORTUNE Magazine) – ONE OF AMERICA'S most-wanted white-collar fugitives is luxuriating on weekends this summer in a $9.5 million pleasure dome in Marbella, on Spain's ritzy Costa del Sol. Marc Rich, the cosmopolitan commodities trader, is positively flourishing in his European exile, scoring coup after brilliant coup in aluminum and other metals markets. He has invested a trifling portion of his huge winnings in the Moorish-modern seaside extravaganza, designed by a disciple of Frank Lloyd Wright for its previous owner, Austrian socialite Baron Hubert von Pantz. Nestled amid manicured gardens and shady Lebanon pines, the estate's three sleek houses can comfortably hold 40 guests. Rich's friends in Spain include vagabond European princes and opera superstar Placido Domingo. Visitors step into a setting worthy of Arabian Nights, dominated by spectacular views of nearby North Africa. The piece de resistance: a swimming pool set into a seaside cliff, creating the illusion that swimmers are bathing in the azure Mediterranean. His renaissance in the face of exile, legal woes, huge fines, and hostile markets is one of the wonders of world business. Five years ago Marc Rich & Co. Trading AG, his privately held firm in the Swiss hamlet of Zug, was among the world's largest commodities traders. Then came what looked like a deathblow: U.S. prosecutors accused Rich, 53, and his partner and longtime chum, Pincus ''Pinky'' Green, 54, of breaking federal oil-price regulations between 1980 and 1981 and shipping their profits to Switzerland to evade U.S. taxes. In 1984, Rich settled all charges against his U.S. subsidiary when his company pleaded guilty to tax evasion and paid the government a record $172 million. But that left open the 65-count criminal case against Rich and Green, who face potential jail terms totaling 325 years. Just before those indictments came down, the two traders fled to the cozy safety of Zug, where tax evasion is not an extraditable offense. While on one side of the Atlantic the U.S. Internal Revenue Service stands ready to pay up to $500,000 for information leading to Rich's capture, on the other this brilliant trader openly flaunts his ever-increasing wealth. Estimates of his net worth reach as high as $750 million. With offices in 35 countries and a trading volume of more than $13 billion a year, his firm ranks second only to Minneapolis-based Cargill among the world's diversified commodities companies. Rumor has it that Rich is enjoying his most profitable year ever, which implies earnings of roughly $300 million. Long among the world's foremost oil traders, Rich has pushed into the top ranks in grain. His biggest coup has come in the red-hot metals markets, where he has focused his energies in recent years. He is by far the world's biggest trader of metals and minerals, leading the pack in concentrates of lead, zinc, and copper ores and in alumina, the source material for aluminum. Rich is also collecting an enormous windfall as the world's largest independent producer of aluminum. Even competitors admire him. Says James Kerr, a senior trader with Australian conglomerate Elders IXL: ''In metals, it's now Marc Rich and the 40 dwarfs.'' Having spent freely to win European good will, Rich enjoys considerable freedom and even respectability. He is among Spain's busiest investors, with holdings ranging from luxury hotels in Madrid to a stake in the provincial gas company in Catalonia. Spain has embraced Rich, granting him citizenship. The broad-minded Swiss regard Rich and his vivacious wife, Denise, 44, as model citizens. Rich donates $350,000 a year to such charities as a foundation that supports impoverished Alpine dairy farmers. He is also a benefactor and a big fan of the Zug Hockey Club, a professional team that was facing bankruptcy until he came up with $150,000 a year in support. Swiss society columnists eagerly chronicle the lavish parties the Riches stage, such as the New Year's Eve bash at their St. Moritz ski house. An accomplished songwriter whose ''Frankie'' was a hit in Britain two years ago, Denise warbled her composition ''Sweet Pain of Love'' at one recent bash. In person Rich is soft-spoken and extremely shy. The lengthy interviews FORTUNE conducted with him in 1986 in Zug remain the only ones he has granted a U.S. publication. Short and slim, his narrow face framed with slicked-back hair and long, bushy sideburns, he exudes an air of dour gentility. At times his reserve drops to reveal a lively sense of humor. Once, asked where he'd been traveling lately, Rich quipped: ''Not to the U.S. That would be a one- way trip!'' He has not given up his fight to return to the U.S. a free man. His all- star legal team is headed by Leonard Garment, who made his reputation as special counsel in the Nixon White House, and Edward Bennett Williams, the Washington superlawyer. Since Rich is unwilling to spend even a short time in jail, the lawyers' goal is to get the U.S. government to drop the tax charges. Rich's attorneys argue that sending profits offshore was a perfectly legal tax strategy, not evasion, but the prosecutors apparently don't buy that reasoning. Says Martin Auerbach, a former Assistant U.S. Attorney who handled the case until September: ''Rich's U.S. subsidiary already pleaded guilty to evading taxes. That makes it extremely difficult for Rich and Green to argue that they're innocent. And it doesn't help matters that they're still fugitives.''

In business Rich is known for relentless drive and a calculating mind. Associates describe him as a ''business machine'' whose workday stretches from dawn until at least 8 p.m. As a trader Rich melds detailed knowledge of a wide range of commodities with a highly international perspective. Born in Belgium, he arrived in America in 1941 and subsequently became a U.S. citizen. He has worked in Holland, Spain, and Britain and is fluent in French, German, and Spanish. He began his career with Philipp Brothers Inc., the once dominant New York trading company that has languished in recent years. Having risen from mail room clerk to star trader of metals and oil, he quit to start his own business 14 years ago, just in time to ride the long rise in oil prices that followed OPEC's embargoes. His firm, launched with just $700,000, now boasts capital of more than $1.1 billion. Rich still personally oversees oil trading and keeps a close watch on commodities ranging from alumina to zinc. Over their 35 years of professional inseparability Rich and Green have developed a remarkable chemistry. The Brooklyn-born Green is as playful as Rich is intense. Asked once for his opinion on women's liberation, Pinky shot back: ''Never heard of it!'' While Rich charts the company's strategy, Green oversees administration as well as shipping the physical commodities. Rich has attracted a formidable team despite the taint of scandal. He pays well, offering traders annual compensation that can top $500,000, including stock in the closely held firm. ''We've made more millionaires than any company I know,'' Rich boasted in 1986. Ignoring traders' academic credentials, he gives them as much responsibility as they can handle. Teenage clerks can blossom into stars. HIS STRATEGY is that of a canny survivor. A classic commodities trader, he buys raw materials from producing countries, then delivers the cargoes to manufacturers and other customers scattered around the world. Rich is distinguished by his dogged, long-term dedication to the business and his willingness to take carefully chosen risks. Traders make most of their money when prices are rising. In bear markets, when trading can easily result in losses, many commodities companies cut back. Rich does the reverse. In bad times he often accepts tiny profit margins -- or even temporary trading losses -- in order to increase his share of a market. His reasoning is simple. The commodities business is highly cyclical. When prices finally rise, an active player can quickly earn enough to more than make up for a string of tough years. Rich sometimes accepts magnified risks by acquiring cheap production capacity when prices are depressed, a ploy that is paying off now in aluminum. The long years of market declines tested Rich's coolheaded patience. From 1980 to 1986, commodity prices

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dropped 32%. According to Swiss tax records, Rich's profits ranged from a high of around $300 million in 1980 to $6 million in 1986, the last year for which information is available. The low figure seems a pittance, since his company's capital can earn at least $70 million a year in interest. Still, Rich has emerged far stronger than his competitors. Most dramatically weakened is his alma mater and bitter rival, Philipp Brothers. The company, which changed its name to Phibro, began to falter soon after its 1981 purchase of Salomon Brothers, the securities firm. While Phibro's commodities earnings were drying up, Salomon was making unprecedented profits thanks to the bull markets for stocks and bonds. The diverging fortunes of the two businesses enabled Salomon's top executives to seize control of the parent company. They changed the name again, to Salomon Inc., in 1986 and drastically pruned Phibro's business, virtually dropping a long list of commodities, including zinc. By contrast, Rich began to expand, scooping up much of the business Phibro abandoned. During the early 1980s, the company doubled its commodities business measured in tons, though dollar volume grew only slightly as a result of falling prices. Most of the growth came in Rich's metals business, which now stands at more than $5 billion a year. The turning point came in early 1987, when metal prices started a breathtaking climb that has yet to end. Says Andrew Lager, a retired metals trader who worked for Philipp Brothers in the glory years: ''Marc Rich is having the last laugh.'' While he focused on metals, Rich wisely decided not to expand further his huge oil-trading business. Oil still accounts for more than $7 billion of Rich's trading, little of it profitable. Prices remain depressed and countries such as Nigeria, which once relied on traders to market oil, now run the crude through their own refineries or sell it directly to major oil companies. One place where Rich is apparently making money selling oil is South Africa. A United Nations boycott against South Africa, intended to protest apartheid, has forced the majors to stop shipping oil there, at least directly. That opened the door for Rich. According to a report last year by the Shipping Research Bureau, an Amsterdam-based organization that monitors the embargo, Rich supplied about 6% of South Africa's oil imports from 1979 to 1986, a trade that could be worth more than $1 billion. Up-to-date information is hard to get, but a U.N. study group spotted a tanker chartered by Rich unloading oil in Durban in 1987. Profits from the South African oil trade are probably tiny compared with the killings Rich has made in aluminum. His high-risk foray into aluminum production was vintage Rich, displaying his fabled quickness, financial clout, and matchless network of contacts, especially with Third World governments. It began with a gamble in Jamaica and ended with Rich controlling a remarkably large portion of the $30-billion-a-year global trade in aluminum ingot. In 1985, while the aluminum market was depressed, Alcoa shut down its Jamaican plant, which refined much of the island's plentiful supplies of bauxite into alumina. The export-hungry Jamaican government was desperate to reopen the plant. Alcoa agreed to lease it to the government and keep it running. But Jamaica needed to find a buyer for the output. Enter Marc Rich, who had established close ties to Jamaica over the years. Rich had learned from long experience that close relationships with resource- rich Third World countries -- and potential business partners -- can pay off in unexpected ways. This is a case in point. Jamaica's President Edward Seaga reportedly once flew into Geneva on Rich's private jet, and a $45,000 contribution from Rich helped send the Jamaican track and field team to the 1984 Olympics in Los Angeles. Between 1980 and 1985, Rich lent the debt-laden island a total of $200 million. THE PAYOFF for Rich's attentions came in the form of the white powder alumina. In early 1986 he signed a ten-year agreement to purchase most of the output of the Alcoa plant, which annually produces some 800,000 tons of alumina, a significant part of world production. The price for most of that alumina fluctuates with the market, but for the first two years of the contract Rich was able to buy 20% of the output at low fixed prices. Agreeing to buy so much alumina in the middle of a worldwide glut was enormously risky, especially since the powder must be sold quickly, before it can absorb moisture from the atmosphere. By creating a new U.S. customer for his Jamaican alumina, Rich quickly reduced his risk. During the mid-1980s, U.S. aluminum producers -- the biggest buyers of alumina -- were slashing capacity. In late 1985, the price of aluminum bottomed out at 45 cents a pound, a ten-year low, and aging U.S. smelters were burdened with higher costs, especially for energy and labor, than those of foreign competitors. Important producers such as Alcoa and Alusuisse of Switzerland were eager to sell their U.S. smelters at distress prices. Since unions and power companies were desperate to keep the plants running, the new buyers were able to negotiate reduced wages and power costs. Rich was just as glum as the U.S. producers about the market for aluminum. But he figured that with all his cheap Jamaican alumina, and reduced smelting costs in the U.S., he could make money producing aluminum even at rock-bottom prices. Spearheading the strategy was Manny Weiss, Rich's top aluminum trader in Zug. Now in his 30s, Weiss is a close friend and protege of Pinky Green. It was Weiss who did the firm's first metals deal, shortly after joining Marc Rich in 1975 as a teenage messenger in London. That year, while his boss vacationed, Weiss took charge of a telex from an East bloc country requesting zinc. He arranged the shipment, generating a fat profit. Clarendon Ltd., Rich's U.S. affiliate, carried out Weiss's master plan in aluminum. When their run-ins with the U.S. authorities began, Rich and Green sold their interests in Zug-based Clarendon for a token price to beetle-browed Alec Hackel. The loyal Hackel was a co-founder of Marc Rich & Co. and remains an active partner. Clarendon's push into aluminum production required only a tiny investment. Instead of buying smelters, Clarendon negotiated what the industry calls ''tolling'' agreements. In effect, Clarendon paid smelters to process Rich's alumina. It was up to Clarendon to supply the raw materials and sell the metal ingot. The biggest deal was with Alumax, a subsidiary of the U.S. mining giant Amax. Clarendon agreed to use up to half the capacity at Alumax's 200,000- ton-a-year plant in Mount Holly, South Carolina. Alumax in turn granted Clarendon an option, since exercised, to buy a one-quarter interest in the plant for $40 million -- a price that turned out to be a fabulous bargain. Today Clarendon takes the bulk of Mount Holly's yearly production. Clarendon also helped small-town businessmen buy distressed smelters from major producers, in return for favorable tolling deals. One example is its arrangement in The Dalles, Oregon. In 1984, Martin Marietta Corp. was preparing to bulldoze its 81,000-ton-a-year plant there, a move that promised to devastate the fragile economy of the picturesque village 80 miles east of Portland. Brett Wilcox, 35, a Portland entrepreneur, spent months trying to put together a deal to save the plant. ''We wanted to save jobs,'' says Wilcox. What he needed most was a customer. In late 1986, Clarendon signed a long-term tolling agreement for the plant's full capacity and advanced several million dollars in working capital to the group led by Wilcox, which then signed a contract to buy the smelter. ''I went to see a lot of major players,'' says Wilcox. ''Clarendon was the only company willing to take a chance on us.'' The agreement was another good one for Clarendon. Under its new management, the plant operates with 355 workers, vs. 700 in the early 1980s. The United Steel Workers agreed to reduce the base hourly wage from $12 to $10. The plant also got an initial break on power costs, thanks to a new agreement with the Bonneville Power Administration. Thus Rich was ready to make a fortune when aluminum prices began to soar in 1987. The sharp cutbacks in production collided with stronger demand to create fears of severe aluminum shortages. Prices have increased from $1,100 a ton to $2,700. With inventories practically bare, U.S. plants are profitably producing aluminum 24 hours a day, 365 days a year. Much of the world's aluminum never reaches the open market, but Rich now controls a big chunk of the portion that does. The world's top ten producers of aluminum ingot -- most of which are integrated companies that also fabricate products such as cans or home siding -- turn out roughly 70% of the free-world production of 13.5 million tons. As a group, they consume about as much ingot as they make. That leaves just four million tons of ingot up for grabs, and it is this part of the aluminum trade that Rich has come to dominate, with an amazing 30% market share. Demand for those limited supplies has become voracious. The hungriest customers are Japanese aluminum fabricators, which produce hardly any ingot of their own. Clarendon is minting money, especially on its unusual deal with Alumax's Mount Holly plant. The equity stake in the smelter gives the firm the right to produce 50,000 tons a year at an estimated cost of $1,300 a ton. Clarendon can sell that aluminum on the open market for twice as much for an estimated profit of $65 million a year. That would represent a 160% return on Clarendon's investment. PROFIT margins on Rich's ordinary tolling deals are handsome, too. As the market price of aluminum rises, Rich shares windfall profits that greatly exceed his portion of the smelter's added costs. For example, higher electricity costs indexed to aluminum prices have eaten up only 15% of the rise in price. That still could leave a profit of over $1,000 per ton, divided between Clarendon and the smelter. All this fast footwork in aluminum dazzles Rich's competitors. Says Edward Notter, head of aluminum production at Alusuisse: ''Rich will tailor a deal any way you want it. You can pay over time, pay with alumina, or he'll finance the purchase. And his flow of information is unbelievable. To keep up with the market, his traders ring up warehouses and stores that sell aluminum siding.'' Adds Dominique Arnaud, a trader for Pechiney, a French aluminum producer: ''It's almost unfair competition. In most companies, if you asked to lend money to Jamaica, they'd throw you out the window.'' The otherwise sure-footed Weiss did stumble once. When the October stock market crash briefly walloped aluminum prices, Weiss turned bearish. He sold aluminum short on the London Metal Exchange, reportedly losing at least $25 million of the firm's money when prices took off again early this year. Says one aluminum trader: "Weiss was in the doghouse for a while. He seemed to disappear for about two months." Rich has also managed to transmute zinc, a base metal, into gold. Zinc concentrates go into products as diverse as military shell casings and galvanized steel. In the $10-billion-a-year zinc business, Rich, the leading trader, has multiplied the amount of concentrates he refines or buys from 200,000 tons a year to an estimated one million tons, or roughly 10% of the world's production. As in aluminum, he followed the risky strategy of buying production companies, which in this case are mines. He owns mines in Peru and Australia and holds long-term contracts to purchase supplies across Latin America. So far zinc is another winner. Since last year the market price has risen over 40% to $1,450 a ton. In zinc and also in lead, Rich has feasted on Phibro's rich leavings. Phibro stopped trading with South Africa in 1985, after mayor Tom Bradley of Los Angeles protested Phibro's business dealings in the land of apartheid. The city banned Salomon Brothers from underwriting the city's bond issues. Rich moved in, replacing Phibro as the exclusive sales agent for South Africa's Black Mountain, one of the world's largest lead mines. He also bought Phibro's lead and zinc businesses in Peru and elsewhere for a token price. The man behind Rich's rise in base metals is the head of his London office, Felix Posen. World-weary and laconic, Posen lives outside the city in an exquisite 15th-century mansion surrounded by a moat. Nicknamed "Sir Felix" because of his imperious bearing, the German-born Posen is extraordinarily tenacious. He thinks nothing of calling associates at 3 a.m. to check on a deal. "He'd drag you out of church," says one trader who knows Posen well. Posen was also the architect of Rich's immensely profitable but suddenly very controversial business with the Soviet Union. Through its metals-trading company, Razno, the Soviet Union imports massive supplies of lead and zinc concentrates. Until the late 1970s, Razno's leading supplier had been Phibro. Then the determined Posen went after the Soviet business, persistently & courting the head of Razno's London office, Ivan Russov. An enthusiastic golfer who carried an American Express card, Russov enjoyed the capitalist good life. Posen's traders treated Russov to lunches at the Gaslight Club that sometimes stretched till midnight. BY THE early 1980s, Rich had supplanted Phibro, capturing most of the Soviet Union's lead and zinc trade. That helped produce as much as $85 million a year of gross profit for Rich's London office. When a U.S. grand jury indicted Rich in 1983, Izvestiya ran a front-page story denouncing the U.S. government for persecuting one of America's most distinguished businessmen. Today the relationship is far less cozy. The chill set in because of a recent audit of Razno, supervised by the KGB, that focused on the lead and zinc deals with Rich. Traders from other firms who helped the Soviet auditors say the investigation revealed that the Soviets paid Rich far more for lead and zinc concentrates than Rich's customers in Western Europe. Last year the Soviets reportedly forced Rich to pay $20 million to compensate for the alleged overcharging. Russov and other Razno officials disappeared from their jobs. The Soviets still buy metals from Rich, but he no longer dominates their business. Razno now carefully spreads its orders among several trading firms. After the KGB purge, former Razno bureaucrats may be languishing in Siberia. Agents of the IRS may be hatching wild plans to bring Rich to justice in the U.S. But as Rich luxuriates in the stunning profits from his many trading lines, his exile only grows plusher and more pampered with each passing day. This summer the hot Spanish sunlight shimmers reliably on the azure sea by Rich's weekend retreat. The enormously gifted fugitive from justice takes another puff on his cigar and sips his wine and decides to take a dip in his $9.5 million swimming pool. Why not?

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