

THE MAN BEHIND MARC RICH

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Byline: By ERIC N. BERG

Body

It is the classic immigrant success story. Speaking only a foreign tongue, a young man flees war-torn Europe for America where, after an apprenticeship in a business run by other immigrants, he starts his own firm and becomes a multimillionaire.

It is the story of how Marc Rich - Belgian-born Jewish refugee, a low "B" student in high school and the son of a burlap bag maker - became head of one of the largest commodity trading firms in the world.

It is also a story shrouded in secrecy, and one that has begun to turn sour.

For much of his childhood, Mr. Rich did not even speak English, let alone the arcane language of commodities. Profile of Marc Rich, refugee from Nazi Europe who rose to establish Marc Rich & Co AG, \$10-billion-a year commodity trading firm; describes firm's growth and US Government investigation of what it calls 'massive tax evasion scheme' (L)Extensive Commodity Knowledge

Today, however, Mr. Rich, who is now 48 years old, speaks perfect English and Spanish as well his native French. His knowledge of commodities, gleaned from years of experience at the old-line New York-based commodity firm of Philipp Brothers, is considered unrivaled in the industry.

Largely as a result of this knowledge, the commodity trading firm Mr. Rich started in 1974, Marc Rich & Company A.G. of Zug, Switzerland, has become a \$10 billion-a-year organization considered among the most influential and successful in the industry. Indeed, the first public challenge to its reputation has been the investigation of the firm for engaging in what the United States Government calls "a massive tax evasion scheme."

For almost a year and a half, Government prosecutors have been trying to determine whether Marc Rich A.G. charged an artificially high price for oil sold to its United States subsidiary in order to reduce the subsidiary's 1980 income taxes. Led by an Assistant United States Attorney, Morris Weinberg Jr., the prosecutors have subpoenaed hundreds of thousands of Marc Rich documents, including telexes, bank statements, accounting records and interoffice correspondences.

The Rich companies have resisted the subpoenas. At first, Marc Rich A.G. officials argued that they did not have to comply because the firm is Swiss-based. Then, last Monday, they said that Marc Rich A.G. could not comply because Swiss authorities, citing that country's strict laws on corporate secrecy, had seized some of the requested papers.

Requests for Extensions

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Until recently, Federal District Judge Leonard B. Sand seemed willing to accommodate Marc Rich A.G.'s requests for extensions to deadlines for producing the papers.

But in late June, Judge Sand began to put pressure on Marc Rich for the documents. On June 29, he found the company in contempt of court and levied a \$50,000-a-day fine on Marc Rich A.G. until the subpoenaed documents had been surrendered.

On Aug. 5 it had appeared that the case was close to resolution when Marc Rich A.G. agreed to turn over the documents by the next day in return for the Government's agreement to lift a freeze on some of Marc Rich A.G.'s assets in the United States.

But the dramatic late-night airport seizure last week of two steamer trunks crammed with documents subpoenaed from Marc Rich A.G.'s domestic unit has cast fresh doubt on the firm's good will, Government prosecutors charge. They grabbed the trunks and their courier after stopping a commercial jet just before it was to take off for Switzerland.

And with reports circulating that Marc Rich A.G. may have asked the Swiss police to seize its documents, Judge Sand now appears fed up. At a hearing Monday, he threatened to shut down Marc Rich A.G.'s United States operations if the commodities firm does not deliver the papers.

\$10 Billion in Trades

The company's operations are extensive. Last year, according to competitors, Marc Rich A.G.'s 450 employees in 40 offices worldwide traded more than \$10 billion worth of commodities, including aluminum, bauxite, copper, lead, zinc, tin and crude petroleum. Its unit operating in the United States, Marc Rich & Company International Ltd., with 200 employees in New York, Chicago, Pittsburgh and Detroit, traded another \$1 billion. Considered together, the firms were second in size to only Philipp Brothers, which trades more than \$25 billion a year.

Marc Rich International was sold June 30 to Clarendon Ltd., a company that was formed for the sale and whose independence is now a key issue in Federal court.

Marc Rich has its headquarters in a steel-and-glass building in Zug, a small farming community near Zurich that is home to a number of large corporations because of its low taxes. Privately held, Marc Rich A.G. does not release financial results. But a recent magazine article estimated Mr. Rich's own net worth at \$150 million.

Mr. Rich is co-owner of Marc Rich A.G. with Pincus (Pinky) Green, who is Mr. Rich's longtime friend and business associate. Along with Marvin Davis, a Denver oilman, Mr. Rich also has a controlling interest in the 20th Century-Fox Film Corporation, which is now a private concern.

Series of Business Coups

Marc Rich A.G. attained its current size largely through a series of business coups that illustrate both the skill of its traders and the influence of Mr. Rich himself. In 1973 and 1974, for example, when Arab nations were attempting to cut off oil supplies to the United States, Marc Rich A.G. was able to purchase oil in the spot market and resell it to major United States refiners at prices double the prevailing world rate of \$12 a barrel.

In 1979, when a shutoff of Iranian crude again threatened domestic oil supplies, Marc Rich A.G. earned huge premiums - as much as \$14 a barrel, industry sources say - by supplying the Atlantic Richfield Company with Nigerian crude that the commodity trader had contracted for before the revolution in Iran.

And in early 1981, when falling tin prices threatened the economy of Malaysia, Mr. Rich demonstrated his own influence in world commodity markets. A close friend of Abdul Rahaim Aki, then the head of the Malaysian Mining Corporation, the state-owned tin company, Mr. Rich reportedly masterminded a plan to buy most of the world's tin,

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stockpile it, and inflate prices. The plan made Mr. Rich a considerable amount of money before it finally collapsed when the United States stepped up tin sales from its own stockpiles.

Throughout these dealings, Mr. Rich and his firm have remained intensely secretive. Honoring a tradition of confidentiality dating to 15th-century Venetian silver merchants, they have refused to disclose the names of customers or suppliers or details of trades. Mr. Rich, who has maintained an apartment in Manhattan and a home in Lido Beach, L.I., has left the United States for Switzerland, as has Mr. Green. Both men have refused all requests for interviews.

The secrecy surrounding Mr. Rich is nearly as total as that surrounding his business dealings. It is known that Mr. Rich emigrated to the United States from Belgium when he was about 11 years old to escape the Nazi persecution of Jews during World War II. Mr. Rich's father, David Rich, a maker of burlap and cotton bags, worked at the Melrose Bag and Burlap Company of Manhattan.

According to school records, Mr. Rich attended Forest Hills High School in Queens but later transferred to the Rhodes School, a college preparatory institution on Manhattan's Upper West Side, where he managed a low "B" average. He was president of the French club, and according to his report card, was "a purposeful, actively creative boy with a strong commitment to moving ahead."

After graduation, Mr. Rich enrolled at New York University to study marketing, but he never graduated.

He did get a job at Philipp Brothers Inc., which today is the trading arm of Phibro-Salomon Inc. When Mr. Rich began working at Philipp, the tight-knit group of German-Jewish metals traders took him under their wing and taught him their trade.

Considered a Rising Star of Firm

Mr. Rich became the protege of Ludwig Jesselson, then the chairman and chief executive of Philipp Brothers, and soon was regarded as one of the trading firm's rising stars.

"He was just an amazingly fast study," recalled one metals trader. "You'd teach him something, and he'd learn it the first time - no questions asked. He was just an astute, very knowledgeable trader."

In an industry filled with young millionaires, Mr. Rich was also known as a modest man, despite his talent for trades.

In 1973 and into 1974, Mr. Rich negotiated a series of deals that ultimately led to his departure in anger from Philipp. A co-founder of the oil-trading division at that firm, Mr. Rich had helped the firm earn millions of dollars by parlaying his contacts with Middle Eastern metals suppliers into oil contracts with countries that included Iran and Iraq. While other traders scrambled for supplies during the oil embargo, Philipp Brothers had all it needed - thanks to Mr. Rich. As a result, under Philipp Brothers' incentive program, Mr. Rich earned a bonus exceeding \$1 million.

Dispute Over Bonus

But the bonus was never paid. According to current and former Philipp Brothers employees, the firm's management said that "no single person deserved a seven-figure bonus." What is more, Mr. Rich, who had been considered next in line to succeed Mr. Jesselson, was told that he would not be getting the top spot. Incensed, Mr. Rich left Philipp Brothers to start his own firm and took a number of top traders, including Mr. Green, with him.

Since his departure, according to traders interviewed, Mr. Rich has been waging a vendetta against his former employer, instructing employees at times to take losses on trades if it meant stealing business from Philipp Brothers. Stories abound of the two firms hiring "moles" to spy on each other and of plotting to lure away each others' key traders.

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On one occasion, according to John Hughes, a principal in the London- based commodity firm of LHW Futures, Philipp Brothers urged its bankers not to provide credit to Mr. Rich's fledgling firm. But Mr. Rich, in one of his earliest coups, was able to secure a contract to supply crude oil to Atlantic Richfield. With this as collateral, he acquired the bank credit needed to build his business.

Apart from his resentment toward his former boss, however, Mr. Rich has a reputation for being a quick- thinking, aggressive trader who encourages employees to take chances.

"The secret of success in this business is to spot trends," said Gerard F. Cerchio, the president of Sun International Inc., the trading arm of the Sun Company. "Marc Rich spots trends quicker than anyone I know. He is also a bigger risk-taker than others."

Working 14-hour days in an industry where prices change from minute to minute, Mr. Rich is said to take an unusual interest in his staff, traveling often, visiting staff members in remote trading outposts to let them air their concerns.

One commodity industry executive recalled an occasion in which Mr. Rich, on a tour of his New York office, stopped to help a secretary struggling to repair a typewriter.

"He went over to see if he could help her," the executive recalled. "He is just very sensitive to the needs around him."

And, his associates say, he has maintained his modesty.

"You wouldn't know Marc Rich from a \$30,000-a-year bank executive," said Mr. Hughes, of LHW Futures. "There is nothing ostentatious about him."

Commenting on the fact that Mr. Rich wears a relatively inexpensive Seiko wristwatch, Mr. Hughes said, "He is just not a high-profile glamour boy."

Graphic

Table of Marc Rich's business network; photo of Marc Rich

Classification

Language: ENGLISH

Subject: REFUGEES (90%); SUBPOENAS (89%); WEALTHY PEOPLE (89%); TAX ENFORCEMENT (88%); FRAUD & FINANCIAL CRIME (88%); TAX LAW (88%); TAX FRAUD (88%); PUBLIC PROSECUTORS (88%); TAXES & TAXATION (88%); IMMIGRATION (78%); US FEDERAL GOVERNMENT (73%); APPRENTICESHIPS & INTERNSHIPS (73%); INVESTIGATIONS (73%); JUDGES (67%)

Company: MARC RICH & CO LTD (UK) (68%); MARC RICH & CO AG MARC RICH & CO LTD (UK) (68%)

Organization: MARC RICH & CO AG

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Industry: COMMODITIES TRADING (90%); COMMODITIES BROKERS (90%)

Geographic: NEW YORK, USA (79%); ZUG, SWITZERLAND (53%); UNITED STATES (94%); SWITZERLAND (92%); EUROPE (92%)

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