Lies, China And Putin: Solving The Mystery Of Wilbur Ross' Missing Fortune

[Dan Alexander]
Forbes Staff, Forbes, Jun 18, 2018

Anthony Kwan / Bloomberg

Secretary of Commerce Wilbur Ross

Amid President Trump's headaches confirming cabinet secretaries, from neophyte Rex Tillerson to conflict-prone Scott Pruitt to unprepared Betsy DeVos, all of whom squeezed through, Wilbur Ross was a tonic. With his blue power suit and decades of dealmaking, he had the look and the résumé of a commerce secretary. And unlike his boss, Ross promised to divest from almost all his holdings upon entering government, drawing bipartisan praise en route to an easy confirmation. "You have really made a very personal sacrifice," said Senator Richard Blumenthal, Democrat of Connecticut. "Your service has resulted in your divesting yourself of literally hundreds of millions of dollars." In November 2017, Ross confirmed in writing to the federal Office of Government Ethics that he had divested everything he promised.

But that was not true. After weeks of investigation, *Forbes* found:

- For most of last year, Ross served as secretary of commerce while maintaining stakes in companies co-owned by the Chinese government, a shipping firm tied to Vladimir Putin's inner circle, a Cypriot bank reportedly caught up in the Robert Mueller investigation and a huge player in an industry Ross is now investigating. It's hard to imagine a more radioactive portfolio for a cabinet member.
- To this day, Ross' family apparently continues to have an interest in these toxic holdings. Rather than dump them all, the commerce secretary sold some

of his interests to Goldman Sachs—and, according to Ross himself, put others in a trust for his family members. He continued to deal with China, Russia and others while evidently knowing that his family's interests were tied to those countries.

- In addition, five days before reports surfaced last fall that Ross was connected to cronies of Vladimir Putin through a shipping firm called Navigator Holdings, the secretary of commerce, who likely knew about the reporting, shorted stock in the Kremlin-linked company, positioning himself to make money on the investment when share prices dropped.
- Absurdly, maintaining all those conflicts of interest appears to be entirely legal—a reflection of ethics laws woefully unprepared for governing tycoons like Donald Trump and Wilbur Ross.
- Ross appears to have broken one law, however: submitting a sworn statement to federal officials in November saying he divested of everything he had promised he would—even though he still held more than $10 million worth of stock in financial firm Invesco, his former employer. He also continued to hold a short position in a bank called Sun Bancorp, a company he had promised to divest. The next month, Ross got rid of interests in both.

What does Ross say about all of this now? Not much. When *Forbes* asked, a month ago, what became of his holdings, he passed the message to his spokesman, who said he hoped to have an answer the next day. Five days later, he sent a one-sentence statement, promising Ross' current assets would be reflected on an annual financial disclosure, which he had not yet filed. Given two weeks to respond to a list of detailed questions, the spokesperson declined to answer most of them but underscored that Ross eventually divested of his holdings. The spokesperson also issued a statement about whether Ross had broken the law by lying to federal officials. "The secretary did not lie," he said, adding that Ross filed amended paperwork, which is currently under review by the Office of Government Ethics.

Wilbur Ross is not known for telling the truth. On a Sunday afternoon last fall, just back from a trip to Asia, Ross called *Forbes* to lie about his personal fortune. *Forbes* had listed the commerce secretary on its billionaires rankings for years, but his financial disclosure report revealed less than $700 million in assets. When pressed about the discrepancy, Ross calmly cited more than $2 billion in undisclosed assets, saying he had shifted a chunk of his fortune to a trust for his family.

Must read: "The Case Of Wilbur Ross' Phantom $2 billion"

Those billions apparently did not exist, but when six senators demanded an investigation, Ross insisted his statements contained a kernel of truth. "At the time of my conversation with the reporter, I was in the process of creating a trust as a mechanism to divest my assets in order to comply with my ethics agreement." But Ross' ethics agreement required him to divest, either by selling his assets or giving them away. Simply parking them in a trust was not enough.

Richard Blumenthal, the same senator who had previously praised the commerce secretary for his divestitures, then asked Ross to describe the structure of the trust. He did not respond. That opacity, combined with the fact that the Office of Government Ethics never publicly released documents showing that Ross complied with his promises to divest, created a cloud of mystery surrounding Ross' assets. Ethics watchdogs wrote damning reports, journalists speculated on whether the secretary of commerce still owned stakes in conflict-producing entities, and a Fox News commentator demanded that Trump fire Ross.

The whole time, Ross' explanation of what happened with those assets was buried in a document sitting in the Office of Government Ethics. Perhaps because it showed an apparent legal violation by the commerce secretary, ethics officials never signed off on the filing, even though they received it five months ago. And since they did not stamp their approval, it was never released to the public. Until now.

According to the filing, Ross divested most of his holdings on October 25, the last possible day he could get rid of them. He sold his "limited partner interests"—generally cash put in a firm's funds and later invested into various companies—to an "independent third party." *Forbes* confirmed the buyer was funds managed by Goldman Sachs. But he dumped the "general partner interests"—which can also contain investments in various companies and typically give the owner an additional share of future profits in the fund—into a trust in which neither he nor his wife have an interest, according to the filing. Lately, Ross' old funds have performed so poorly that it is not clear whether those general partner interests will ever kick off serious cash. But if the value of the companies they hold suddenly improves, then the beneficiaries of the trust could reap millions of dollars. If the funds have already paid out some portion of profits, and the investments continue to underperform, the beneficiaries may even be required to pay back some money—a possible reason why the commerce secretary put those interests in a trust. Representatives for Ross did not answer questions about the exact structure of the trust.

The ethics filing does not say who its beneficiaries are, but Ross apparently let that slip in his October phone call to *Forbes*, the only known occasion that he has ever publicly discussed a trust that he used to comply with his ethics agreement. "I am not the beneficiary," he said when asked about the trust. "That's the point. This is set up for children and things like that." Was anyone outside of Ross' own family a beneficiary? "No," he said.

So according to Ross, he complied with his ethics agreement in part by handing assets over to his own family members, which technically counts as a divestiture, but left the Ross family with a handful of interests alongside the same motley actors that Secretary Ross is supposed to be getting tough with.

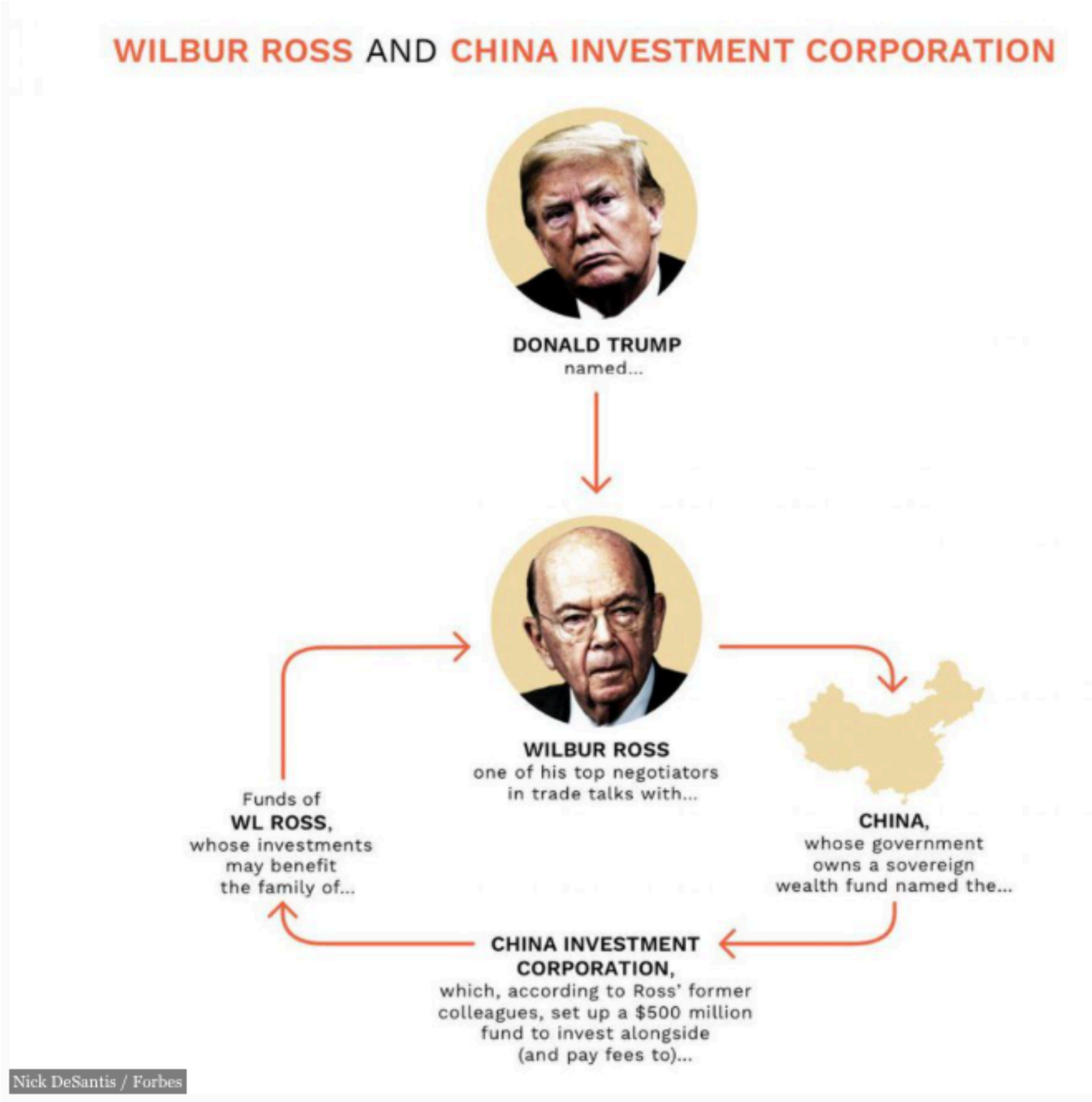
Ross' key responsibility right now: serving as one of Trump's top lieutenants in the ongoing trade war between the two largest economies in the world, the United States and China. Long before Ross entered the U.S. government, he was already doing business alongside the Chinese government, directing $100 million of his investors' money into a 2009 initial public offering for a wind-power producer called Longyuan Power.

It wasn't the sort of investment that Ross' firm, bankruptcy specialist WL Ross, was known for. In business terms, an IPO is about as far away from bankruptcy as you can get. But according to four former WL Ross employees, Ross' main reason for investing in Longyuan Power was not earning a return. "That investment was made solely to curry favor with the Chinese and a big state Chinese investment fund," says one of Ross' former colleagues.

Specifically, Ross hoped to entice a sovereign wealth fund named China Investment Corp. into dumping money in another fund of his, according to the former employees. The more the state entity put in the later fund, the more Ross could collect in fees and incentives. It appeared to be a strategic play: Ross could bet other people's money on a questionable IPO now to grab more money for himself down the road. Ultimately, the future secretary of commerce raised $500 million from the Chinese fund, according to two of the former colleagues. The investment in Longyuan Power dropped from $100 million to $90 million before WL Ross sold it. In a statement, a spokesperson for Ross called the allegations surrounding Longyuan Power "silly and untrue."

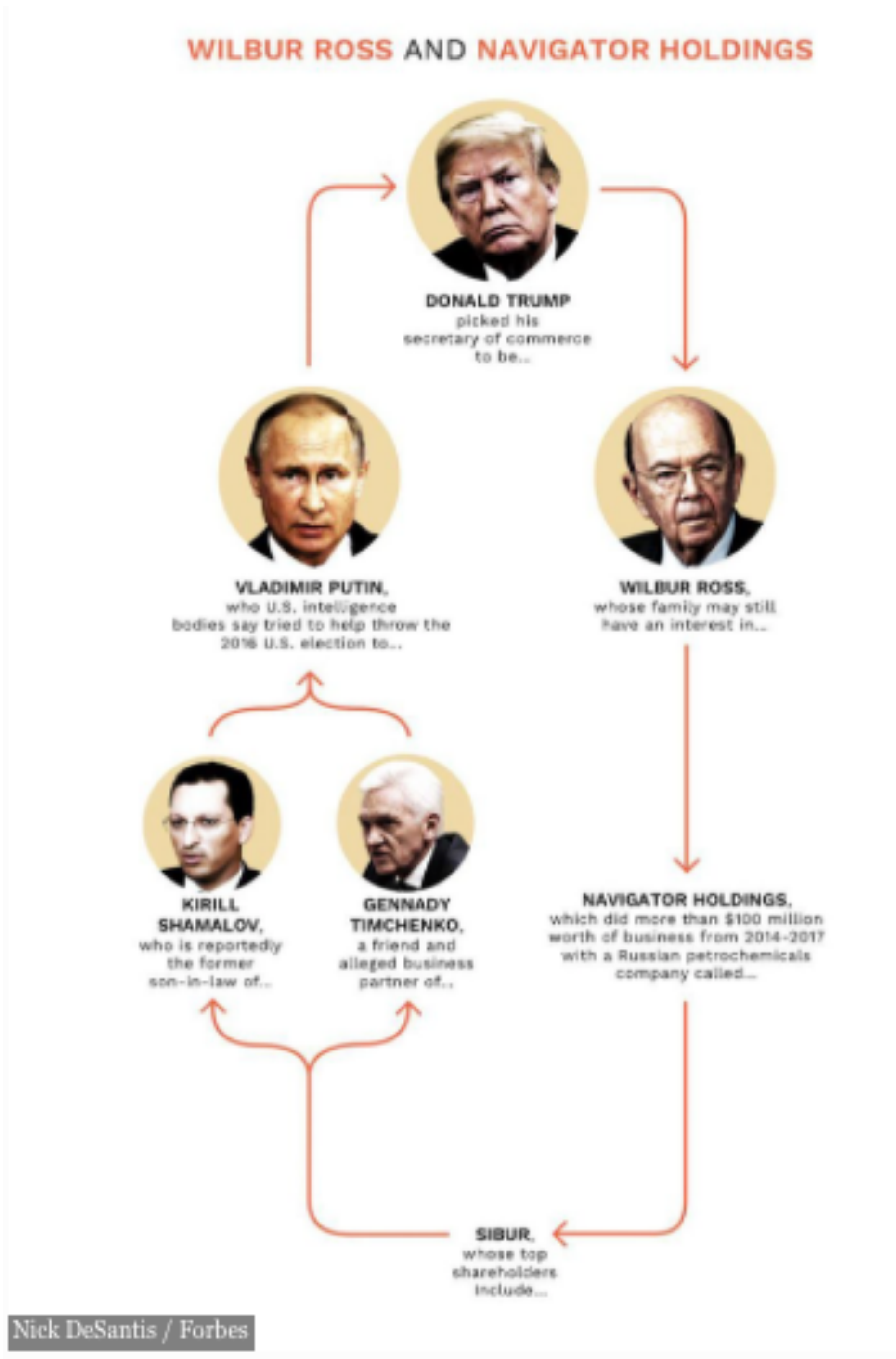
Armed with cash from the Chinese, Ross dumped millions into Diamond S Shipping, which owns 45 vessels around the world, making him business partners with the Chinese government. Despite that connection, Ross initially told the Office of Government Ethics that he planned to hold on to his stake in the business. That prompted questions during his confirmation hearing about how Ross' interest in the shipping business might overlap with his responsibilities as a member of the cabinet. Despite internal WL Ross documents that note how globalization, the bogeyman in virtually all Trump administration trade negotiations, drives the success of Diamond S Shipping, Ross brushed off the concerns. "The research we've done suggests that there has never been a shipping case come before the Department of Commerce," he told the senators. He did not mention that his business partner in the venture was the Chinese government. In November, a spokesman for Ross told the Center for Public Integrity that the secretary of commerce voluntarily divested from Diamond S Shipping. But in "divesting," Ross apparently handed over an interest in the business to his family.

The ties between the Ross family and the Chinese government go deeper. In September 2017, one of the investments Ross still personally held, Luxembourg-based International Automotive Components Group, closed a new joint venture. As part of the deal, WL Ross funds took a 30% interest alongside a state-owned company named Shanghai Shenda and got roughly $300 million in cash. The same month, top Chinese officials hosted trade talks with none other than Wilbur Ross.



Two months later, a collection of international journalists were picking apart the Paradise Papers—a trove of documents showing relationships between some of the wealthiest people in the world and offshore entities they controlled. One of the most stunning findings of their investigation: The U.S. secretary of commerce still held a stake in a shipping firm named Navigator Holdings, which linked Ross to some of Vladimir Putin's closest allies.

But according to Ross' filings, he had already divested of funds that held Navigator stock a few days earlier, on October 25. Six days later, he opened a short position against the company. That meant that if shares of Navigator plummeted on the Paradise Papers news, Ross could presumably cash out with a gain. Navigator stock did not plummet immediately after the news hit, but it did trickle down 4% over the ensuing 11 days before Ross exited his short position, seemingly with a profit.



His family still appears to have an interest in Navigator, along with the Bank of Cyprus, another Russia-tied company. In 2014, after a successful bet on the beaten-down Bank of Ireland, where Ross was a board member, he turned his sights to the Cypriot institution, which had purchased Russia's ninth-largest bank for nearly $600 million in 2008. Ross joined the board of directors as vice chairman, a role he shared with Vladimir Strzhalkovskiy, who reportedly served alongside Vladimir Putin in the KGB and later became the Russian president's deputy minister of economic development. More troubling to Ross' colleagues, the Cypriot economy was in shambles, and it would require a miracle to turn the bank around. “He wanted to be on the board of another international bank again, and he loved flying around on Invesco's plane,” says one former colleague. “He may have deluded himself that it was really a good idea." It wasn't. Cyprus struggled to recover from the recession, and former WL Ross employees say the bank likely did not produce the sorts of returns that the Bank of Ireland had.

Another bad idea: apparently saddling his family with an interest in the Bank of Cyprus. The largest shareholder at the bank is a company connected to Russian billionaire Viktor Vekselberg, whom Ross once hosted in his office around 2014, according to a former colleague of the commerce secretary. When Vekselberg came to the New York area earlier this year, he got a different kind of welcome: Agents working with Robert Mueller, who is investigating Russian attempts to interfere in the 2016 presidential election, reportedly stopped him at the airport for questioning. It turns out, a company that once described itself as the U.S. affiliate of Vekselberg's firm apparently pumped more than half a million dollars into an entity controlled by Trump lawyer Michael Cohen shortly after the president took office.

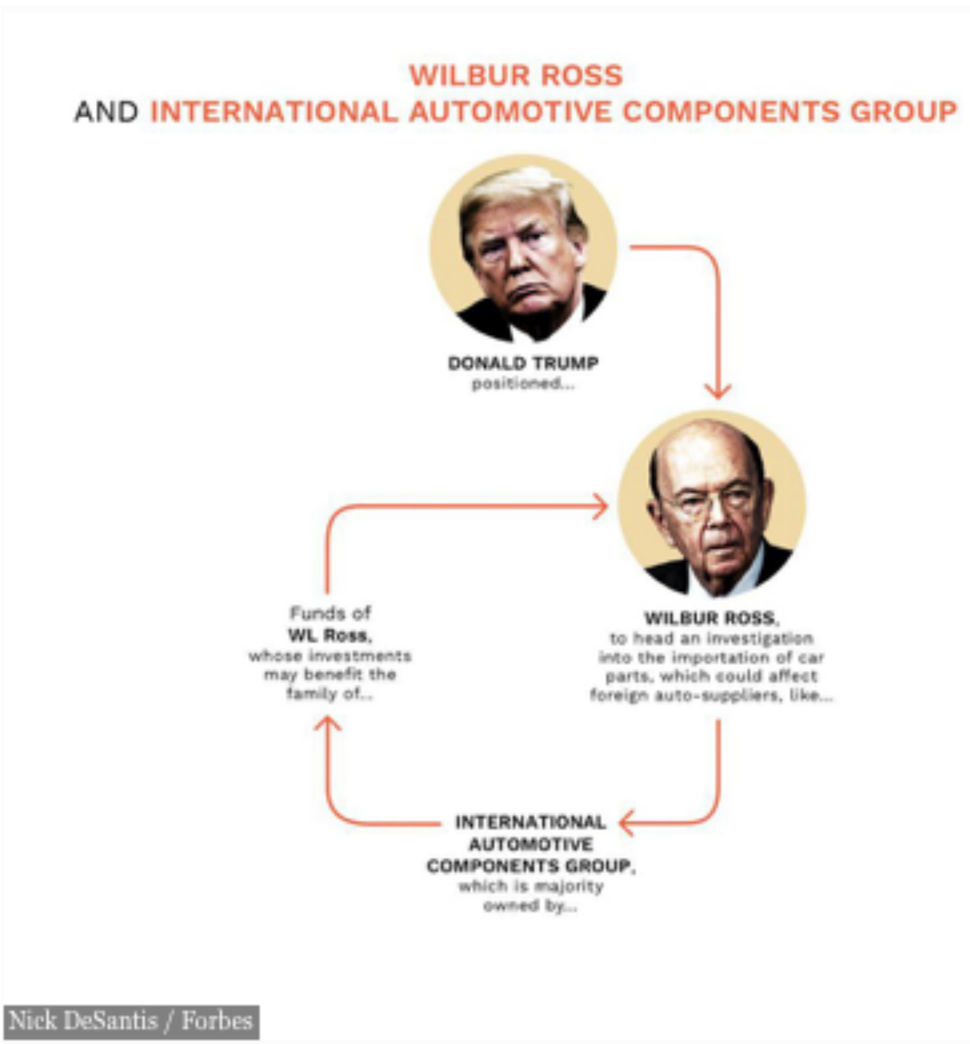
Most of the former WL Ross employees who spoke with *Forbes* do not think the secretary of commerce had anything to do with the Cohen payments or Russian interference. But given all the attention around Trump and Russia, why would Ross have anything to do with the bank? Says one person who worked alongside the secretary of commerce for years: “It just smells very bad.”

Nick DeSantis / Forbes

Late last month, the president made the kind of announcement that would generate headlines for days in more mundane times but barely registers in the age of Trump. He was considering launching an investigation into imports of auto parts, citing "national security" concerns. And to lead the effort, he wanted the man who knew something about the car business, Wilbur Ross.

Before he was secretary of commerce, Ross rolled up a series of companies into International Automotive Components Group, which claims to be the world's third-largest maker of interior car parts, with 50 manufacturing facilities in 20 countries and a head office in Luxembourg. Depending on how it performs in the coming years, the car parts giant is one of many companies that could presumably leave Ross' family with a windfall.

It's an ethical nightmare. Ross, the person in charge of the investigation, could theoretically overlook issues related to International Automotive Components Group. Or he could tweak his findings and go after rivals. It's also entirely legal, since Ross complied with the government's lax requirements for divestiture, according to his filing. That won't stop outsiders from wondering whether Ross is acting in the best interests of the country or his family. It's a question that extends to China, Russia and everywhere else WL Ross' shipping fleet does business. And it's one the secretary of commerce, whose family would still have hundreds of millions of dollars if it completely forfeited those interests, opened himself up to.



With additional reporting by Deniz Çam.