

Enemy of the State

by James Buckley



William Browder, “Enemy of the State” of Russia and author of *Red Notice: A True Story of High Finance, Murder, and One Man’s Fight for Justice* to speak at Montecito Country Club on Sunday, April 26 (photo credit: Peter Lindbergh)

“**E**nemy of the State” is the designation the Russian government has given founder and CEO of Hermitage Capital Management, William Browder. Up until November 2005 – when he was suddenly denied entry to the country and declared “a threat to national security” – Browder was the largest foreign investor in Russia. He will be speaking at the Montecito Country Club on Sunday, April 26, at 4 pm to explain how those events transpired.

First, a little history: Bill’s grandfather was the head of the American Communist Party and actually ran for U.S. president as a communist. When asked about that during a telephone call from his office in London, England, Bill explained that his grandfather’s affiliation “created the backdrop for me to rebel against my communist family and become a capitalist.”

When he graduated from business school, he looked at his options and had an epiphany: “My grandfather was the biggest communist in America,” he says, “so, I’m going to set out to be the biggest capitalist in Eastern Europe.”

He says his grandfather’s communist leanings gave him an interest in the area at a time when no one had any, and he was there in the beginning after the Berlin Wall fell. In fact, “before there were any obvious business opportunities.”

An early \$2,000 investment in a small Polish concern that turned into \$20,000 had the effect upon him of wanting to repeat the experience “over and over and over again.”

He began investing in larger companies but, understanding how corrupt things were over there, particularly in Russia, he could only search for and invest in companies on a “profit after stealing basis.”

Corruption, theft, and graft, so prevalent in Russian companies, made it difficult to invest, so he says his task was twofold: he had to 1) look for companies that were cheap and profitable on an “after-stealing basis,” and 2) try to stop the stealing by exposing it.

And, that’s where the trouble started. By 2005, his investigations and exposures began to rub up against people with close relationships to Putin, who was the company owner’s ally and business partner.

After being expelled, he began to sell the securities in his portfolios – all of which were acquired on the Russian stock market – as quickly as he could. Within six months, most of his investments had been zeroed out and the proceeds removed from Russia.

“When the Russians turn on you,” Browder observes, “they can be vicious. But, they’re not very competent. It took them eighteen months to try to steal all our stuff, and by then everything was out.”

Eighteen months after being expelled, his offices were raided in Moscow, along with his law firm’s offices. Browder had a lease that hadn’t expired and kept the office open with one secretary in case the situation changed, which it didn’t.

“What we did have,” he explains, “was all the empty investment companies’ documents, which were registered at the law firm we used.” Using the documents seized by the police in June of 2007, a small group of Russians, including a high-ranking official at the tax collection bureau, altered the documents, naming themselves as “owners” and applied for a \$230-million rebate of the money Browder’s companies had paid in “taxes” earlier on.

“They applied for [the rebate] on the 23rd of December,” Browder says, “and it was approved and paid out one day later. It was the largest tax refund in the history of Russia.”

In the aftermath, Browder was tried and convicted of tax evasion and his lawyer, Sergei Magnitsky, was imprisoned. An attempt – unsuccessful – was made to put Browder on Interpol’s “Wanted” list. Although he was living somewhat safely in London, Magnitsky was beaten and finally died after nearly a year in confinement.

Browder’s experience in Russia has been detailed in his *New York Times* best-seller *Red Notice: A True Story of High Finance, Murder, and One Man’s Fight for Justice*. At the urging of Browder, the U.S. Congress passed the Sergei Magnitsky Rule Of Law Accountability Act, which imposed visa bans and asset freezes on certain officials involved in Magnitsky’s death, and on other gross violators of human rights in Russia.

Browder is now working to add those names to what is called the U.S. OFAC (Office of Foreign Assets Control) sanctions list, which would add sanctions.

As for what’s in store for Russia, Browder isn’t optimistic. “Putin has turned it into a fascist state. He is using the same tools as various leaders used in the 1930s via nationalism and fascism. I suspect we’re going to have a very dangerous time in the future in Europe.”

Browder’s talk at the Montecito Country Club is his only event on the West Coast and is hosted by CFALA (Chartered Financial Analysts Los Angeles chapter). One hundred percent of all book sales will be donated to Montecito Rotary’s Polio Plus campaign. Tickets are \$40/person in advance or \$50/person on day of the event, if available. This occasion is hosted by the CFA Society of Los Angeles, with more info at cfala.org or (213) 613-1503, x701.