

Biting the Bullet, Not the Dust: Deripaska Gives up His Aluminum Empire

By [Reuters](#)

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Oleg Deripaska (Vladislav Shatilo / RBC / TASS)

The U.S. decision to lift sanctions on Russia's Rusal, the world's top aluminum producer outside China, is widely seen as a Christmas present for the company, global consumers of its metal and the Russian stock market.

But its co-owner and founder Oleg Deripaska will have mixed feelings, as the deal means giving up control of his prized aluminum empire and then seeing it return to business as usual while he remains blacklisted alongside drug lords.

It's a challenge for Deripaska, once Russia's richest man, as he has never before sold a major asset. He started building his empire during the 1990s "aluminum wars" after the collapse of the Soviet Union, waging several battles with rivals.

Now he has to reduce his share in En+ Group to less than 45 percent from 70 percent, with no

compensation.

En+, which manages a stake in Rusal along with Deripaska's power assets, had a market value of \$8 billion a year ago but that has fallen to around \$3 billion. His property will stay blocked.

"He is not selling, he is giving away," said an industry source who knows Deripaska.

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Deripaska agreed a deal with the U.S. Treasury Department within eight months to lift sanctions — a short time for a process that could have lasted years, the source said.

"It is a super result. Hats off."

A representative of Deripaska declined to comment.

Deripaska and the largest companies in his portfolio were put on the U.S. Treasury sanctions blacklist in April. Washington said at the time that he and a number of fellow tycoons were profiting from their association with a Kremlin conducting "malign activities" around the globe.

Deripaska has described the sanctions against him as "groundless, ridiculous and absurd."

As of April, these were the toughest penalties imposed since Moscow's 2014 annexation of Crimea. However, on Wednesday the U.S. Treasury watered them down, saying it was lifting sanctions from Rusal and En+ as Deripaska would cede control.

The U.S. announcement on Rusal was the "hottest news since 2014," BCS Global Markets said in a note. "It is positive for the Russian market as a whole as it demonstrates that there is a way for sanctioned companies to avoid or remove them," it added.

Russian stock indexes were tracking oil prices lower on Thursday, but Rusal shares soared. London aluminum prices hit a 16-month low.

Losing control

The deal is subject to a 30-day review, during which the U.S. Congress may pass a joint resolution of approval or disapproval.

If approved, Deripaska will reduce his stake in En+ by passing part of it to VTB Bank, Russia's second-largest lender, and donating some shares to a charitable foundation. His stake will also be diluted when Swiss company Glencore swaps shares in Rusal for a stake in En+.

His voting rights will be limited at 35 percent. He will have up to four representatives in En+'s new board of directors, where eight more directors will be independent. Half of the board will be U.S. or British nationals.

Shareholders with family ties to him will assign their voting rights to a third party, the U.S. Treasury said.

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The mother of Deripaska's children, Polina, and her father Valentin Yumashev, who was presidential chief of staff under former Russian president Boris Yeltsin, held 6 and 1.8 percent in En+ respectively, according to a disclosure from early 2018.

"He keeps some shares. Rusal will stay in Russia but be a bit more open to the U.S.," said a source familiar with the situation.

Deripaska was not fighting on his own over the past eight months. France and Germany made a joint effort to get an extension of the deadline for sanctions as Rusal owns major assets in Europe, the source said.

Ireland said on Wednesday it had lobbied heavily for the removal of sanctions from Rusal to protect jobs at a large alumina plant.

The plan published on Wednesday was agreed a month or two ago, said another source familiar with the process. There was initial resistance from Moscow as the sides considered transferring some of Deripaska's shares to a U.S. trust.

A compromise was found later with VTB's participation, the source added: "It is the best possible deal. It is not ideal, but the best possible."

Russia has a history of defending large, strategic groups such as Rusal, which employs 62,000 people in Russia and around the globe, to prevent them falling into foreign control.

Russian President Vladimir Putin did not comment on Rusal at his annual news conference on Thursday. But the deal was probably approved by Russian officials, said Kirill Chuyko, head of research at BCS.

"It is a win... which will allow the company to work normally and Deripaska to continue working on freeing himself from sanctions," he added.

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