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American Banker and Putin Ally Dealt in Access and Assets, Emails Reveal

By Reuters

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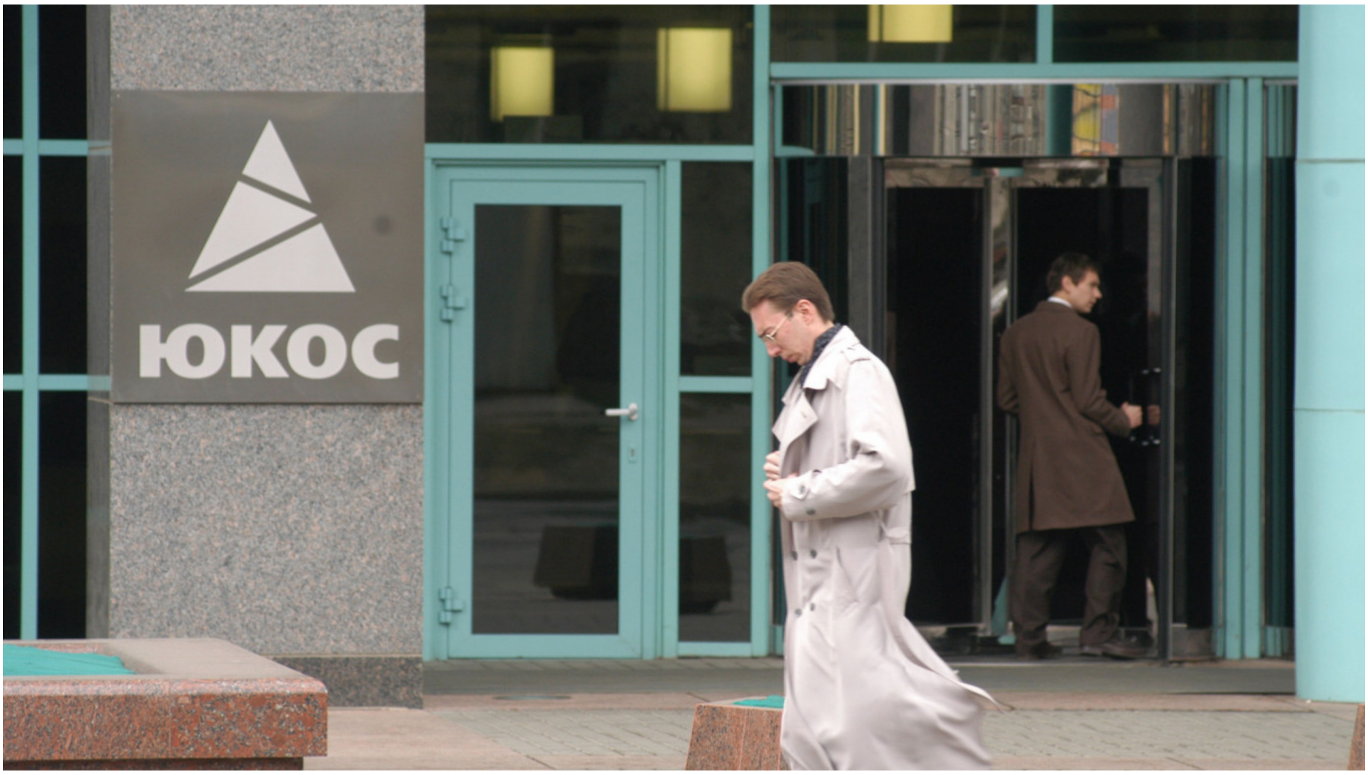

Sergei Porter / Vedomosti / TASS

A senior American banker once secretly awarded a shareholding in powerful Moscow investment bank Renaissance Capital to one of Vladimir Putin's closest friends and brokered meetings for the friend with top U.S. foreign policy officials a decade ago, emails show.

The American banker, Robert Foresman, currently vice chairman at UBS investment bank in New York, held a series of prominent roles in Moscow's financial world. He headed Dresdner Bank's investment banking operations in Russia in the early 2000s, served as Renaissance Capital's vice chairman from 2006 to 2009, and then led Barclays Capital's Russia operation until 2016. Putin's friend, Matthias Warnig, sits on the boards of several Russian state-controlled firms.

A deeply religious conservative, the blue-eyed, curly-haired U.S. banker, has said it has always been his calling to be a peacemaker between the two nuclear superpowers.

Now, a cache of Renaissance Capital emails from 2007 to 2011 reveal new details about the close relationship Foresman cultivated within Putin's circle over the years and how he leveraged these ties to win deals. The emails, which were reviewed by Reuters, also shine a light on the part played by Western bankers in the heady days of Moscow's 2007 economic boom, when the Kremlin was moving to take over ever greater swathes of the Russian economy.

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The emails were exchanged among Renaissance Capital's top executives and between the bank and its clients and business associates before ownership of the bank changed hands in 2012. They have figured in a long-running legal battle over the controversial takeover by the Russian state of Mikhail Khodorkovsky's Yukos oil firm in the mid-2000s, and are reported here for the first time.

Foresman's relationship with the Kremlin was more complicated — and more mercantile — than that of peacemaker, these emails show. They offer insight into how Foresman and his colleagues sought to help the Kremlin pull off, and profit from, its dismantlement of Yukos at a time when analysts say Moscow was seeking international legitimacy for the politically-charged process. They also show how the American banker guided Warnig around Washington foreign policy circles during the Bush and Obama administrations.

In a statement to Reuters, Foresman said he considered it inappropriate to comment on matters that may relate to proceedings before the English court — a reference to a civil lawsuit in the UK — but he refuted any suggestion of wrongdoing. Renaissance Capital's new management declined to comment.

Foresman's Moscow connections gained fresh attention recently when the banker was named in special counsel Robert Mueller's report on Russian interference in the 2016 election. According to the report, Foresman was among the many influential people who reached out to Donald Trump when the future American leader's campaign was building momentum.

In March 2016, Foresman emailed Trump's assistant inviting the presidential candidate to an international business forum in St. Petersburg, saying he'd had "an approach" from "senior Kremlin officials" about the candidate, according to the report. Foresman asked for a meeting with Trump, or with campaign manager Corey Lewandowski or "another relevant person," saying he had other issues to discuss that he felt uncomfortable discussing over "unsecure email."

In a later email, Foresman sought a meeting with one of Trump's sons, Don Jr. or Eric, to pass on information that should be "conveyed to [the candidate] personally or someone [the candidate] absolutely trusts."

The Mueller report says there wasn't any evidence that Trump's campaign team followed up on these approaches. When questioned by Mueller about these contacts, Foresman played down his ties to the Kremlin. He suggested he was merely seeking to "burnish his credentials" with the Trump team, the Mueller report says. No charges were made against Foresman.

A secret agreement

Back in 2007, Foresman was part of a small group of Renaissance Capital executives involved in drawing up a secret agreement to award an unspecified stake in Renaissance Capital, the privately owned investment bank where he was vice chairman, to close Putin associate Warnig, according to a series of emails related to the deal. The shares were awarded for "nil consideration," or without any money changing hands, the agreement showed. The emails reviewed by Reuters didn't reveal the percentage or value of the stake.

Contacted by Reuters, Foresman and Warnig declined to discuss the transaction.

Warnig served as an officer in East Germany's Stasi secret police at the same time as Putin was a KGB officer in Dresden in the late 1980s. Warnig has said they first met in the early 1990s in St. Petersburg, when Putin was that city's deputy mayor. Today Warnig is chief executive of Russia's Nord Stream 2 gas pipeline to Europe. He also sits on the boards of several Russian state-controlled firms, including oil giant Rosneft. He served for 12 years on the board of Bank Rossiya, sanctioned by the U.S. Treasury as the "personal bank" for senior Russian officials.

From 2001 to 2006, Foresman worked side by side with Warnig as head of Dresdner's investment banking arm in Moscow, while Warnig was Dresdner Bank's president for Russia.

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In the months before and after he received the Renaissance Capital stake, Warnig sought to funnel at least three Kremlin-linked deals the bank's way, Renaissance Capital emails dated between 2007 and 2009 show. In one instance, in 2007, Warnig helped broker crucial backing from Rosneft for a consortium including Renaissance Capital that was bidding for Yukos' Dutch assets in an auction. A spokesperson for Renaissance Capital said the entity that participated in the consortium was Renaissance Partners, a proprietary investment arm of Renaissance Group. Renaissance Capital and Renaissance Partners were under common control of Renaissance Group, but Renaissance Capital itself didn't participate.

The consortium went on to win the auction. But the transaction became mired in lawsuits and was blocked. Yukos executives successfully argued in a Dutch court that the Russian state had no right to sell a Dutch-incorporated company. The Dutch Supreme Court ruled earlier this year the sale was illegal.

The emails were submitted as evidence as part of that case. They have also been submitted as part of a civil fraud lawsuit filed by Yukos' former management that is due to come to trial on June 10 in the UK High Court. The suit alleges Foresman, as vice-chairman of Renaissance Capital, played a key role in paving the way for the consortium to knowingly participate in a rigged auction for the Yukos subsidiary. It alleges the foreign investors who formed the consortium stood to make enormous personal gain, and seeks tens of millions of dollars in damages.

In his statement to Reuters, Foresman said he is contesting the lawsuit vigorously.

Among the foreign bankers that joined the investor consortium with Foresman was Stephen Jennings, a tall and lanky New Zealander. Jennings founded Renaissance Capital in 1995, and the bank became a symbol of Russia's transition to a market economy. In an interview in 2005 with the Financial Times, Jennings professed hopes that Russia's economic growth under Putin would one day produce a middle class strong enough to counter any authoritarian turn.

Instead, the lawsuit alleges, Foresman and Jennings sought to benefit from Kremlin abuses of the market system and the rule of law. They acted, the suit claims, together with the two other main Western investors in the consortium: Stephen Lynch, a former U.S. Peace Corps volunteer, and Richard Deitz, the wiry founder of hedge fund VR Capital, which has offices in New York, London and Moscow.

Deitz and Jennings declined to comment for this article. Lynch didn't respond to emailed questions. A person familiar with the consortium rejected any suggestion that the auction was rigged.

A prize asset

The auction of Yukos Finance BV, a Dutch subsidiary of Khodorkovsky's oil company. was the last in a series of Yukos bankruptcy sales by the Kremlin. These sales were to pay off more than $33 billion in back-tax bills levied against Yukos by Moscow after Khodorkovsky posed a political challenge to the Kremlin and was jailed for fraud. The Yukos bankruptcy transformed Rosneft from a state-owned minnow to Russia's biggest oil company after it snapped up most of the assets. The Dutch unit was a prize: It held up to $1.5 billion in cash reserves, of which up to $650 million was net of debt. It also had a 49% stake in a strategically important Slovakian pipeline operator, Transpetrol, which later sold in 2009 for $240 million.

The bankruptcy auction took place on Aug. 15, 2007. The foreign investor consortium, acting through a Russian bidding vehicle, named Promneftstroy, won the auction for less than $310 million — well below the roughly $890 million combined value of the Yukos unit's net cash reserves and its Transpetrol stake. The consortium won after making just three bids against a rival company, Versar, which, according to Yukos, never participated in any business apart from unsuccessfully bidding in Yukos auctions. Versar ceased to exist in 2010 when it was merged into another company, Russian corporate records show.

Foresman had begun urging executives at Renaissance Capital to take part in the Yukos bankruptcy auctions earlier that year, the emails show.

In an email dated Feb. 21, 2007, Foresman wrote to three senior executives at "RC" — Renaissance Capital — pointing to the Kremlin-run Yukos asset auctions as an opportunity.

"I have reason to believe that RC, and only RC, can pull off the trade of our lives," Foresman wrote. "We could pull off something that makes us huge profit, makes top global investors very happy, materially mitigates Rosneft's litigation risk. And allows the Kremlin to show that the auction of Y assets is not rigged but rather is competitive." Rosneft's success in the auctions had raised the possibility of a legal challenge and the Kremlin was under international scrutiny over the process.

A memo drawn up by Renaissance Capital the day before the auction named the deal "Project

Surplus" and said it could net the consortium a profit of up to $340 million. The memo, seen by Reuters, indicated the Western bankers believed the auction would go in their favor.

"The opportunity to participate and be the likely winner has largely arisen due to very close relationships that certain Renaissance individuals enjoy with the Kremlin," the memo said. The Kremlin declined to comment.

The U.S. government was watching proceedings closely because of the strategic importance of the pipeline network Transpetrol operated. Foresman told an unidentified U.S. embassy official in Moscow in October that year that the consortium "had not been acting as a proxy for Rosneft" in the auction and said there was no prearranged deal with Rosneft over the Transpetrol stake, according to a diplomatic cable about the conversation later leaked by Wikileaks. Foresman didn't dispute the contents of the cable in a deposition for the UK civil lawsuit.

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But documents in the email cache and depositions of consortium members indicate that Rosneft was closely involved with the consortium in the deal. Foresman described in his deposition in November 2018 how Warnig channeled the consortium's proposal for participating in the auction to the top of Rosneft.

In the hours before the sale of the Yukos unit, the consortium reached two legal agreements with Rosneft.

In the first of those agreements, reviewed by Reuters and dated Aug. 15, 2007, Rosneft agreed to lift any legal claims the Russian oil giant had against the Dutch firm's assets.

In the second, also reviewed by Reuters and dated Aug. 15, 2007, the state oil champion agreed to delay repayment of a $60 million loan it had extended to Promneftstroy, the bidding vehicle, until the consortium arranged to sell Yukos's Slovak pipeline to a company nominated by Rosneft. A month later, the consortium agreed to sell the pipeline stake to a Cyprus-registered firm for $105 million - less than half the price it fetched two years later. An email chain leading up to the sale agreement indicates the buyer was designated by Rosneft.

In the hours after the auction, another investor in the consortium, Benjamin Heller, then a managing director at U.S. fund HBK Investments, wrote to an associate saying: "Rosneft basically controlled the auction and decided it would clear at a certain price." Heller, who isn't named as a defendant in the lawsuit, declined to comment. Rosneft didn't respond to Reuters' questions about the auction. At the time of the sale, the state oil giant denied any involvement in it.

The person familiar with the consortium said there were mistakes in Heller's email. "Rosneft didn't set the price, and there were two bidders," said this person. "The whole premise that Rosneft controlled the consortium, controlled the price and controlled the auction is not correct."

He added that at the time of the auction the consortium didn't have access to data valuing the

Transpetrol stake above $103 million — a sale price that had been discussed a year earlier. He said the consortium had reached out to both sides of the Yukos divide, agreeing to pay back outstanding loans to Yukos' former owner.

Two months later, in late 2007, the consortium's hopes of making profits began to unravel when an Amsterdam court ruled that the auction violated Dutch law, and therefore the consortium owners didn't have title to any of the assets of Yukos Finance BV.

Phantom shares

In emails dated Oct. 11, 2007, a few months after the consortium won the auction, Foresman and his colleagues at Renaissance Capital began discussing the drafting of a secret "phantom share agreement" for an unnamed "prospective new shareholder." Phantom share deals are a common arrangement under which a company promises the holder a future cash payment that is tied to the value of a notional share of stock. Among the executives discussing the award of these shares was the bank's founder, Jennings, who was the main owner at the time. He declined to comment about the transaction.

An agreement identifying Warnig as the recipient of "40,034 phantom shares" in Renaissance Capital's parent company, Renaissance Holdings Management Limited, was drawn up by the investment bank's legal counsel and sent to Foresman in an email dated Nov. 27, 2007.

An additional consultancy agreement drawn up by the legal counsel and sent to Foresman on Dec. 17, 2007, provided for paying $700,000 to an unnamed recipient for advice on "certain investment banking transactions and business development opportunities." In his November 2018 deposition for the UK civil suit, Foresman said Renaissance Capital paid consultancy fees to Warnig. He didn't specify the amount.

Foresman and the other Renaissance Capital executives sought to keep these arrangements secret, the emails show. When a RenCap employee mistakenly sent a message to Warnig's official company email address in 2007 about the shareholding, Foresman fired off an angry reply to three senior Renaissance Capital executives. "This is clearly unacceptable and I cannot believe this could happen," he said in the message, dated Dec.18, 2007. He said Warnig had immediately destroyed the message.

In a later email to the same colleagues, dated Feb. 12, 2008, Foresman stressed how Warnig had insisted the agreements remain absolutely confidential: They were to be known only by the executives at Renaissance who drew up the agreements. The email says: "Our man has signed his phantom share agreement, in his name, and also the consultancy agreement in the name of a legal entity." It went on, "He stressed the absolute confidentiality of this."

Warnig's relationships with Foresman and Renaissance Capital's founder and chairman, Jennings, were cemented over dinners and "banya" steam-bath sessions in Moscow, the emails show. And Foresman helped open doors for Warnig with U.S. ambassadors to Russia and U.S. government officials in Washington during the administrations of George W. Bush and Barack Obama.

The email cache shows, for instance, that Foresman helped set up meetings in 2009, early in Obama's presidency, for Warnig with the U.S. government's then national intelligence officer for Russia and Eurasia, Fiona Hill, as well as with Mary Warlick, then the acting deputy assistant secretary of defense for Russia, Ukraine and Eurasia. He also brokered meetings for Warnig with officials in the Department of Energy and separately in Houston with Ross Perot Jr, the U.S. billionaire. Perot declined to comment for this article. Hill and Warlick didn't respond to requests for comment.

The emails reviewed by Reuters didn't reveal what came of the meetings.

After one such visit in March 2009, Foresman indicated these meetings were to become a back channel for Putin into Washington. In one email, he wrote, "my friend briefed his Big friend on the meetings" — an apparent reference to Warnig speaking with Putin. "That person was extremely satisfied with the messages that were received and absolutely committed to improving things. He asks for a repeat performance in Q2 for which he will have my friend deliver specific messages," Foresman wrote.

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