

Capitalism In A Cold Climate

The story of Trans World's aluminum empire is filled with bribes, shell companies, profiteers, and more than a few corpses. Then again, in today's Russia, that's pretty much par for the course.

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(FORTUNE Magazine) – If the Russian aluminum industry had a face, it would look like Lev Chernoy's: corrugated, pockmarked, insulated from the outside world by a metal detector and an army of armed guards. Crippled by polio as a boy, Lev, at 45, still walks with a severe limp and a leg that curls and swings; his eyes are blue coin slots, his hair slicked onto his forehead in a Transylvanian triangle. He's wearing a black suit and smoking a Cohiba.

"Am I scared of the mafia?" asks Chernoy, smiling. "If I tell you no, it won't be the truth. If I say yes, it's not true either."

In that single, opaque statement, Chernoy has summed up post-Soviet Russia. Since the Soviet Union imploded in 1991, a struggle has unfolded between the half-formed, often conflicted democratic impulses of the Russian people and the centuries-old criminal subculture that holds an unspoken share of power there. The West greeted the rise of parliamentary democracy in Russia with great enthusiasm--and with grand promises of aid and investment--but the country's trajectory in recent years has left little cause for optimism. Now even many of Russia's elected officials are describing the place as a kleptocracy, its social, political, and economic institutions so rife with organized crime that the hardiest souls have all but given up hope. Those Western companies that invested in the Russian economy in the early part of the decade have for the most part either paid dearly for their error or been obliged to make compromises they would never have envisioned.

"Very often the most likely to succeed in these stormy oceans are not the picture-perfect, clean-shaved, deep-tanned, well-built, and fashionably attired yachtsmen under the immaculate white sails," says Lev, reading from a prepared statement, "but unpleasant-looking ugly skippers in command of a pirate ship. One should not be appalled. These are the laws of initial capital acquisition, applicable everywhere."

This is the story of how those laws were applied by Trans World, an enterprise launched by the Reuben brothers, David of London and Simon of Monaco, in the early 1990s. With the help of two Russians--Lev Chernoy and his brother Michael--the Reubens built a Rockefeller-style vertical empire in the former Soviet Union in a few short years. In 1996, Trans World was hailed as the world's third-largest producer of aluminum, after Alcoa and Alcan. (Russia is the world's No. 2 producer of the metal.) Trans World's scope was so vast yet so invisible that it was called "a state within a state," with hundreds of constantly shifting shell companies and tentacles reaching from the Siberian steppe to the shores of Cyprus, the Bahamas, the Cayman Islands, and ultimately the U.S., where 30% of the empire's aluminum was sold. There the "winged metal," as it's known, was used in rockets, satellites, car wheels, aircraft panels, and myriad household products. Trans World also amassed huge holdings in steel, chrome, coal, and many other raw materials.

The Reubens' time in the sun was brief. By 1998 they had lost control of nearly half their kingdom to former partners. Government investigations in at least seven nations--along with hundreds of mostly foreign media stories critical of Trans World--were threatening to take away the rest. Cutting their losses, the Reubens sold most of their remaining Russian assets a few months ago.

It was late last year, in the twilight of Trans World's reign in the former Soviet Union, that the Reubens gave FORTUNE a most unusual opportunity: They would grant interviews and throw open their offices to the magazine in exchange for an honest appraisal--in print--of their past business practices. It was a bold proposition, and the subtext couldn't have been clearer: Given their uncertain future, the Reubens desperately needed options. Both men are now billionaires, yet their reputation is hardly that of "yachtsmen under the immaculate white sails." Indeed, in Russia their whole industry sails under a black flag. Aluminum is "one of the biggest arms of the Russian mob," according to Frank Cilluffo, who runs a task force on Russian crime at the Center for Strategic and International Studies in Washington. In order to stay in business--especially if, as the Reubens say, they want to move into operations in the U.S. and elsewhere in the West--Trans World needed to get clean. The Reubens' hope was that a FORTUNE article would do the trick. Similarly, they signed up Kroll Associates, the world's largest investigative firm, to scrutinize "every aspect of our business," says David, in the hope that a positive report would be made public.

It is partly that unorthodox, confessional relationship that makes the following story so unusual. Depending on the day, their moods, and their ability to recall what they'd last said, the Reubens and their associates took a dizzying number of positions about their business and what they'd done to make it thrive. On the one hand, the Reubens' openness was careful and selective in the extreme; on the other, they sometimes seemed to forget that FORTUNE was there as an outside observer and not as a Trans World employee. In the course of nearly 100 hours of interviews, the Reubens and the Chernoy's contradicted one another so often as to be nearly unintelligible. Ironically, their attempt at glasnost, while it generated no smoking gun, has ultimately only underscored the dirtiness of the world they moved in--and will likely spur law enforcement agencies to redouble efforts to finish them off. At least that's FORTUNE's conclusion, especially after our investigation traced large sums moving from Trans World to firms at the heart of three big money-laundering scandals that have dominated headlines in recent months: the Bank of New York case, the Kremlin-Mabetex kickback probe, and the collapse of YBM Magnex, a Pennsylvania public company launched by Russian mobsters that was shut down by the feds last year. (See box for details.) As for Kroll, the agency won't confirm it, but a positive report seems unlikely.

In the end, though, Trans World's story is about much more than the rise and fall of a tawdry business empire. It is a vivid illustration of how Russia's criminal class has dismantled the promise of the post-Soviet era. It is a case study in why most Western companies did well to steer clear of doing business there.

TOLLING FOR DOLLARS

Who are the Reubens? The early record is sketchy. We know that the brothers were born in Bombay and raised by their Iraqi-born mother and grandmother after their parents separated. As poor teenagers, like so many ambitious kids in postcolonial India, the brothers made their way to London, where they landed briefly in a Jewish shelter. Simon eventually went into the rug trade and scraped together enough money to buy his first pieces of real estate (his extensive holdings now include chunks of London's Mayfair district). David spent his early years trading in scrap metal, later co-managing a Soviet metals-trading venture with Merrill Lynch--and eventually laying the groundwork for Trans World by founding his own company in 1977.

The brothers have always shared everything. When they're not yelling at each other, they finish each other's sentences, locking together like two parts of the same greased machine. Even their daily lives are synchronized. Simon is officially a Monaco resident but works mostly in Geneva, where he keeps careful logs of the days he can legally spend in London, David's home. The men also have homes on the French Riviera; David has a third in Florida (though he is a Briton, his wife and children are U.S. citizens). For tax purposes, David doesn't appear as a director or owner of any of their hundreds of shell companies. All roads, at least technically, lead to Simon.

Trans World's London offices look more like a parking garage than the trading headquarters of a global empire. During recent visits by FORTUNE, a manic David Reuben raced from room to room, bellowing demands at cowering lieutenants. It's an incestuous world, with people fighting in different languages, ganging up on one another, making up again, and doing deals--sometimes in the space of minutes. The chaos is fueled by suspicion, and even David Reuben doesn't fully trust one of his high-level comrades, working at a desk nearby. "Everyone questions everyone's loyalty," whispers one insider. "It's a real whorehouse."

The scene is no less bizarre in Geneva, the financial heart of Trans World, where Simon, too, has made screaming the standard mode of operation. "Simon, David, and Lev are, as we say in Russia, *chelovek nastroeniia*--people of mood," says Simon's trusted deputy, Alexander Bushaev, who serves as the liaison between the eastern and western arms of Trans World's businesses. "Their decisions are dependent on the mood of the moment. They'll decide something today and reverse themselves tomorrow, even when they're not in a hurry to decide. All of them like shouting. In the States, it would be seen as abusive." A second insider notes that Simon "tears strips off people's bodies daily." The Reubens, he adds, "are very kind, decent people, other than the way they deal with money. They'd just as soon cut someone's balls off as give them a raise."

When the Soviet Union fell, its entire military-driven aluminum industry collapsed with it. David Reuben says he had built Trans World into one of the largest aluminum traders in Russia by that time, and he seized the opportunity to expand into the void. It wasn't long before Simon was enlisted in the project as well.

Of course, Russia was even then a fairly lawless society, with overlapping business rules, rampant corruption, lax or naive regulators, and state-appointed factory bosses who suddenly found themselves *de facto* capitalists--and in dire need of cash. Then as now, a foreigner soon learned that these stormy seas were far more navigable if he had a local partner to help. As David tells it, not long after he opened his Moscow office, in 1992, a man with a heavy cane limped through the door. In the pre-perestroika shadow economy, Lev Chernoy had become a big trader in timber and fish, among other things. "Lev said that only those with money can solve everything," recalls David. "He said, 'Fly with me.' I said I didn't have enough shirts. He said, 'So we'll clean them.' And off we went."

Lev soon introduced David to his older brother, Michael, now 48, who proved a valuable asset to the fledgling enterprise. Michael, who speaks no English and spells his name "Cherney," had dealt in metals and enjoyed great "connections" in the ports, railways, and raw materials plants where the Reubens would grow Trans World. A partnership was born; the agreement, however, was never put in writing. "Business in Russia was not being done like in the West, with contracts," explains David today. "In Russia, hundreds of millions of dollars were going forward and backward by word of mouth." (Of Trans World's four principals, only Michael Cherney wasn't interviewed face to face by FORTUNE. Instead, he responded to selected questions faxed to him in Israel. "I do not possess any exclusive information on the so-called Russian mafia," he wrote. "Sorry to disappoint you." As for questions about bribes, murder, or money laundering, they "have nothing to do with me.... My hobby, as I would put it in words, is as follows: Help to good, honest people... I love books, prefer detective stories.")

It didn't take long for the Reubens and Chernoy to strike lucrative deals in Russia's largest smelters as well as in raw materials refineries in Ukraine and Kazakhstan. Trans World built 300 railcars and a port facility in Siberia's far east to unload alumina--the chief ingredient in aluminum--brought in from Australia. In essence, the Reubens were patching up the links between the various republics that had disintegrated with the Soviet Union. Only now Trans World, rather than a central planning committee, was running the show. "We were helping build the infrastructure of Russia, literally," says David. "We succeeded where the Alcoas and the other majors were too afraid to take the first risks." (For Alcoa's contrary view, see box.)

Profits literally poured in. "In the West, we were lucky to see a 1% return as traders, or \$5 a ton in profits," David explains. "Here I saw the possibility of earning \$200 a ton. This greed made us take the risk."

That extraordinary return was a function of a system known as "tolling," which was formalized by the Russian authorities and spread throughout the aluminum industry after 1992. Tolling provided a financial incentive to entrepreneurs to revive the foundering aluminum sector by giving them the right to essentially rent factories: They imported raw materials from abroad (tax-free), processed them into aluminum, and then shipped the metal overseas (also tax-free). The plants received a small fee--enough to keep a low-paid, oversized work force off the dole and free of revolutionary zeal--while the entrepreneurs (in this case the Reubens and Chernoy) raked in profits that ranged as high as \$500 per ton for aluminum selling for about \$1,500 on the world market. Says Simon: "If you can't make 40% on your money in Russia, you're a fool."

Tolling was intended to be a temporary fix, but it became an addiction the country has yet to kick. That's partly because tolling had another, hidden benefit: Those fat profits fueled a stream of kickbacks across the industry and into the highest levels of government.

Starting in 1993, with privatization sweeping across the ex-Soviet republics, the Reubens and Chernoy moved aggressively to lock in their tolling deals--and to keep out any would-be competitors who might try to muscle in--by snapping up newly issued shares in the plants where they operated. They bought 66% of Bratsk, the world's largest aluminum factory, in Siberia; in an effort to build loyalty, they lent money so that the plant's management could buy up the remaining third. With some variations, the process was repeated across the region, with Lev serving as a sort of Uber-manager, shuttling between Moscow and the facilities in Siberia, Ukraine, and Kazakhstan, and Michael making the necessary introductions in the ports, railways, and raw materials plants. "In almost all the plants, the group had most of the tolling," says Simon.

The Reubens were locking up the industry like a couple of 19th-century American robber barons--and personally pulling down hundreds of millions a year. The task of protecting that fortune fell to Simon, a gifted architect of corporate opacity if ever there was one.

"I don't seek any tax advice from experts," boasts Simon from his Geneva redoubt. "I can't read a computer screen and never use a calculator. It's all in my head and by hand." Simon's global web, set up to avoid taxes, has baffled investigators for years. For starters, there are more companies than employees: Some 200 entities were created in the West and nearly 100 more by his Russian associates. Shells within shells within shells--constantly shifting, many with similar names--in places like Cyprus, the Bahamas, the Cayman Islands, the Isle of Man. In 1999, a Virgin Islands shell (Landal Worldwide) seems to have been at the pyramid's apex. Below that, at various times: Trans World Group Inc.; Trans-World Group PLC; Trans-World Metals International; Trans-World Metals SA; TWM Holdings; TWM Trading; Transmet; Landal SAM; etc. The Reubens had a private bank in Western Samoa, a second in Moscow, a third in the Bahamas, a bank holding shell in Bermuda, and various accounts at nonrelated Swiss, German, and U.S. banks such as Bank of New York. The layers just go on and on, an optical illusion to make M.C. Escher scratch his head. "Simon loves the complexity," says one Trans World insider. "He'd set up three companies just to pay his rent."

THE ALUMINUM WARS HEAT UP

To grasp the size of the Krasnoyarsk smelter, imagine 24 football fields strung together in sulfurous darkness. This lone facility, named after Siberia's largest region and city and built to feed the Soviet war machine, feels like some industrial prototype that has been transported across centuries: The fumes and heat are hellacious; workers are enameled with grime. Krasnoyarsk is one of the grimmest expanses in the gray Siberian landscape, a place where snowflakes the size of human heads have been known to fall.

Between their tolling rights and their purchase of nearly 30% of Krasnoyarsk's shares, the Reubens and Lev had become a dominant force in the plant by 1994. Around this time, however, their rise to power began running into serious resistance.

But first, some context: Today it's common knowledge that the Russian government and the old Communist Party nomenklatura are tied in with the thousands of criminal gangs now operating in Russia--gangs run by hundreds of individual bosses and which, according to Western intelligence agencies, have morphed into some 200 global conglomerates. We also know that the structure and character of these organizations is radically different from the traditional Italian mafia as we understand it--much more fluid, less hierarchical, and far more ruthless. (And far more mobile: According to Raymond Kerr, who runs the FBI's Russian mob squad in New York, "Our contacts with foreign law enforcement agencies are off the charts.")

But back in 1994 it was still a shock to hear no less a figure than Russian President Boris Yeltsin--who later faced allegations of serious corruption himself--publicly refer to his country as the "superpower of crime" and the "biggest mafia state in the world." Sure enough, Trans World soon found itself swept up in a swirl of charges and countercharges involving alleged criminal acts. In the spring of that year, both Lev and his brother fled to Israel, as did Michael's old friend Anton Malevsky, whom Russia's Interior Minister would later peg as a "leader" of the Izmailovo crime family, one of the country's oldest, biggest, and most vicious groups. Lev and Michael settled a few hundred feet apart, in villas outside Tel Aviv. Though Lev continued to oversee operations from abroad, it was more than four years before he returned to Russia. Michael never did. (Malevsky was later deported, and Israel is now preparing to boot Michael as well.)

Lev, like some Tolstoyan consumptive, blames his departure for the Holy Land on a serious "illness" for which his doctor suggested a "change of climate." (Lev's second brother, David, who lives near Brighton Beach, Brooklyn, thinks different: "Michael and Lev were afraid of arrest, although they did nothing wrong," he says.) Whatever the Chernoy's motives, that fall Trans World received a second blow: The manager at the Krasnoyarsk plant suddenly declared that nearly 20% of Trans World's stock in the plant had been bought improperly--and without further ado, he simply refused to recognize it as a legal holding.

That act triggered headlines all over the world, whipping up the worst fears of foreign investors who were already sensing that Russia's move to a market economy would be more problematic than first advertised. And while the share erasure was by no means the end of the Reubens--their other holdings continued to funnel millions into Simon's labyrinth--it temporarily loosened their stranglehold on Krasnoyarsk, and represented the first real challenge to the power they and the Chernoy's had been consolidating for two years.

The plant manager's assertion, in turn, dragged Trans World into an ongoing government inquiry into the theft of more than \$100 million from Russia's central bank by a number of separate criminal groups during the early 1990s. That a theft occurred is not in dispute, nor is the fact that the Chernoy's ended up with a piece of the stolen money and used it to partially fund Trans World's startup phase in 1992. (At Krasnoyarsk, FORTUNE has concluded, it helped fund the initial deals that brought raw materials into the plant.) The inquiry's objective was to determine whether the Chernoy's knew the funds were indeed stolen.

As we'll see, that probe ebbed and flowed over the years to follow. (The plant manager himself was later implicated in the affair.) In the meantime--with the profits from tolling as fat as ever and the gangs' rivalries intensifying--what came to be known as the "aluminum wars" began in earnest. Within weeks of the Krasnoyarsk share erasure, a government supervisor for the metals sector died in a suspicious car crash. So did Alexander Borisov, who had been involved with Lev in the central bank case. In March 1995 two private eyes in Israel were indicted for plotting to kill Michael Cherney

and his pal Anton Malevsky. (The assassins were equipped with a silenced pistol and a \$100,000 contract.) A month later Vadim Yafyasov was sprayed with gunfire just weeks after being named a deputy director at the Krasnoyarsk plant. Not long after Yafyasov's funeral, the throat of Oleg Kantor, a banker with close business ties to the plant, was cut. As one Russian newspaper remarked, "The recarving of the local aluminum market has been going on to the accompaniment of machine guns."

The central bank inquiry soon evolved into full-blown hearings at the Duma, Russia's parliament. The star witness in May 1995: Felix Lvov, who represented AIOC, the largest U.S. metals trader in Russia and Trans World's chief competitor for the tolling business at Krasnoyarsk. (In essence, Lvov was to AIOC what Lev Chernoy was to the Reubens.) Under oath, Lvov spoke harshly about his rival, even as a government report circulating at the hearing stated that Trans World operated legally. Three months later, Lvov was abducted at Moscow's airport by two men identifying themselves as federal intelligence officers; his body was found the next day on the side of a road, pumped full of bullets.

The loss of Lvov was too much for AIOC; by May 1996 the firm was bankrupt, and Trans World had emerged triumphant. A month later it announced it was the third-largest aluminum producer in the world. Reliable figures don't exist, but it appears that Trans World (with its various nominees and associates) was responsible for half of Russia's aluminum output, which remains the country's chief export after oil and gas. The empire also produced 20% of Russia's steel and a huge chunk of its coal and coke, and had become Russia's largest private customer of the railways. In neighboring Kazakhstan, Trans World's holdings in steel, iron, chrome, and alumina generated 20% of that country's gross revenues. David says his entire operation—comprising big stakes in as many as 20 plants—was selling \$6 billion a year in goods by 1997. "We could have been the single biggest industrial group in the world," he exclaims, eyes bugging. "We had the trucks, our own ports, our own shipping, and most of the [imported] raw material supply. Our competitors had to go elsewhere."

THE MELTDOWN

Yeltsin's own government estimated by 1997 that two-thirds of the Russian economy was under the sway of crime syndicates. The nation's Interior Ministry, for its part, concluded that the mob was penetrating the state's police and justice agencies. Directors of Western intelligence agencies developed irrefutable evidence that the syndicates enjoyed the protection of the ruling oligarchy that had consolidated its power under Yeltsin, and a crush of international law enforcement now began trying to untangle Trans World.

In Switzerland, Michael was briefly arrested and interrogated as a suspect in an organized crime case. (A probe there against him is still under way.) In England, Operation Copperfield (perhaps named for David Reuben) led British intelligence agents to connect the Chernoy to Vyacheslav Ivankov, the jailed "godfather" of the American arm of the Russian mafia. The agents found that 25% of the phone calls from Trans World's London offices went to apparent mob figures involved in money laundering, drugs, and gem smuggling. (David: "I would be grateful if you could get them to give you a single phone number, because it must be a mistake." The Brits: No comment.) In Russia, one government investigator linked the Chernoy to the cycling of funds from drugs and car thefts through retail stores and on to London, but complained that the scale of the scheme was too vast to grasp, according to the Copperfield report. The Russian Interior Minister, without a money-laundering law to back him up, asked the FBI for help.

Joel Bartow, a former FBI agent who specialized in Russian mob cases, spent nearly four years in the mid-1990s trying to indict Michael Chernoy for laundering but says, "Money laundering is a difficult charge to prove on someone who is not a U.S. citizen." Bartow says he dug up evidence of "false bills of lading" and "phantom contracts" involving some of Michael's oil deals. "Lev and Michael were moving money for people, and they were taking 10%," he explains. "They knew how to move it, and they weren't asking where the money came from and didn't care where it was going. They were moving it for corrupt politicians, for people who were committing fraud, and for people who didn't want to pay taxes."

Russia's new Interior Minister, Anatoly Kulikov, announced publicly in 1997 that he was intensifying the investigation of Lev and his associates in the central bank caper. The minister also linked the aluminum trade to the Izmailovo gang, which he claimed was being led from Israel by Michael's friend Malevsky. And he announced that "almost all" the deals in the Krasnoyarsk and Bratsk plants were controlled by mobsters. Four days later, journalist Vadim Birukov was found dead in his garage, his body badly beaten, his mouth taped. Birukov's *Business in Russia* was the first independent magazine to expose organized crime's role in aluminum in any detail, and he had attacked the Chernoy mercilessly. The culprits were never found.

Hemmed in by hostile competitors on one side and Minister Kulikov on the other, David Reuben was growing desperate. In an attempt to clean up Trans World's reputation (an attempt that foreshadowed his hiring of Kroll and his halfhearted cooperation with FORTUNE), he met voluntarily with the FBI and hosted a dinner for reporters in New York. "Let them look into the cupboards and inspect the skeletons," he told the Financial Times. "We are confident that we have maintained the highest business standards," echoed a Trans World press release in early 1997. In open letters to American and Russian leaders in major American newspapers, Reuben attacked the Interior Minister for trying to "steal our company." Kulikov struck back with his own open letter, which blasted tolling deals that "condemn tens of thousands" of workers to poverty. "Mafia-like structures are monopolizing and destroying the market," he wrote. "Large capital does not want to deal either with dirty money or dirty people."

The Reubens clearly needed high-powered help, and they found it in Mickey Kantor, the former U.S. Commerce Secretary, and his law firm, Mayer Brown & Platt, which received \$5 million for its services. The lawyers enlisted IGI, the investigative agency that President Clinton used during the Monica Lewinsky affair. The IGI investigator assigned to the case—Terrence Burke, an ex-CIA agent and former acting head of the Drug Enforcement Administration—met with Michael Chernoy and various government officials. A top U.S. embassy staffer in Moscow said the U.S. believed Trans World was "an indirect beneficiary of laundered funds," according to a 1997 Mayer Brown report. The news given to Burke by the FBI was even worse: It believed Michael himself was an organized crime figure.

Burke recommended that the Reubens sever their ties with Michael, and in 1997, Simon reveals to FORTUNE, they did exactly that, giving him about \$400 million just to go away. Lev, who remained with Trans World and continued to run the show from Israel, says the payoff was "almost all the profit" earned overall by the Chernoy half of the partnership.

But if the Reubens thought they could buy peace, they miscalculated. Instead, civil war broke out. Michael, feeling underpaid and humiliated after all he'd done for Trans World, proceeded to plot revenge on his brother and the Reubens. At his villa in Israel later that year, he assembled a group of Trans World's plant managers (as well as Malevsky, according to one Trans World insider) to lay the groundwork for a coup. In the end, it proved easy enough: Lev's relations with the managers had been deteriorating since he left Russia, and some of them controlled blocks of stock that had been parked in their names as a way for Trans World to skirt Russia's antimonopoly laws. It didn't take much prodding from Michael to induce the managers to combine their shares with his; by year's end Trans World had lost control of half its empire.

Amid this general retreat, Trans World briefly regained some old ground. Toward the end of 1997, it was invited back into the Krasnoyarsk plant. Apparently the bloody anarchy that had set in during the aluminum wars had proved too much for subsequent management and, with no other likely candidates, the Reubens became the default choice.

The overall outlook was not good, however. By 1998 a frustrated Russian populace had seized on Trans World as the emblem of rapacious foreign capital. The Reubens' rivals goaded this anger by touring the country to decry the practice of tolling and the damage such carpetbaggers had done to the state. Two bombs exploded at a plant Trans World was preparing to buy into (an official there described it as "just an act of routine revenge"), while the local press assaulted Trans World as a "great feudal empire" and a "colonial scheme." ("L'chaim with a British accent," scowled one newspaper. "Dodgy entrepreneurs of Israeli/British/Bombay extraction," screamed another. "Our people who built all these smelters...did not intend the profits from them to accumulate outside our fatherland!") Some Duma members demanded an end to tolling, even as a special unit from three federal agencies was formed to target Trans World.

Then came another brief reprieve. In March 1998, Yeltsin fired the Reubens' nemesis Kulikov, and two weeks later the new Interior Minister dismissed Lev as a criminal target in the central bank caper inquiry. Michael had been cleared a few months earlier. His health "improving," Lev packed his bags and moved back to Russia by early 1999 to try to hold the crumbling empire together. He was too late. He'd become a magnet for bad press, and the Reubens by that point had hired Kroll and were preparing to cut Lev loose as well, in the hope that they could then sell their assets to a Western buyer.

But the walls were closing in fast. The Reubens' ex-managers, backed by Michael, had obtained control of several raw materials refineries and were preparing to cut off supplies to Trans World's smelters. On a second front, the head of the nation's energy monopoly was threatening to bankrupt the smelters by demanding payment of hundreds of millions of dollars in "back debts." (Somehow the plants had enjoyed cut-rate power for years.) The Reubens realized they had no choice but to sell quickly. In February they and Lev unloaded their biggest assets for \$500 million to a group connected with Sibneft, one of Russia's largest oil companies. The Reubens took one half; Lev was promised the other.

In a final twist that underlines just how sordid the entire Russian business scene is, the Sibneft group then proceeded to ally itself with Michael Cherney and the leading rebel plant manager--creating, in effect, a single cartel controlling about 75% of Russia's aluminum industry. So much for fostering competition. So much for "cleaning up" Russia's dirtiest business. Michael, it seems, not only got his \$400 million and the privilege of staying in the game--he got the last laugh on everyone.

As the story above makes clear, there is no shortage of accusations against the Reubens and the Chernoy's. But the reality behind those accusations is a slippery thing. Did the Trans World crew actually do anything wrong, apart from greasing the wheels of commerce in a world that wouldn't have moved for them if they'd refused? The answer is necessarily fragmentary. Nevertheless, with the Reubens looking west to the American market, some of those fragments bear close examination.

UNTANGLING A WORLDWIDE WEB

Of course, the very form of Trans World implies deception. The Reubens' trusty lieutenant, Alexander Bushaev, in a moment of misguided candor, says as much: "Most of the [Trans World] business in Russia is a bit on the edge, tax-wise.... At one time there were more than 100 Russian companies [and] some companies had hundreds of contracts. Not all were profitable or had real activity. But they [Lev and his Moscow team] weren't keeping documents. You wouldn't find a signed invoice.... If Kroll wants all the answers, it will take forever." (A Trans World lawyer says he told Kroll last January that most of the Russian databases were destroyed for fear of tax raids.)

By conceding some wrongdoing--what his brother calls "warts"--in the course of being interviewed for this article, David clearly hoped that he might shape it into something positive on balance. In that spirit, he admitted to FORTUNE that Trans World had paid bribes to journalists, and went on to describe how, in many other cases, "to legitimize bribes, companies were created and invoices sent for commissions or transactions."

But that admission doesn't begin to explain an organization through which, FORTUNE has learned, more than \$20 billion flowed in 1997 alone. Nor does it excuse the fact that Trans World cannot adequately account for more than 600 payments--totaling nearly \$1 billion, to more than 100 entities--that were made from 1993 to 1999.

Clearly, Trans World has more to hide than a few warts. For years, for example, the Reubens publicly disavowed the true role of the Chernoy's in the business. Through the Mayer Brown report, the Reubens insisted that Lev had "no direct interest," while Michael had "no commission, partnership, or other arrangement" with them or even Lev. A year later, a top Trans World executive told Kommersant--then Russia's most respected newspaper--that Lev was a "consultant" to Trans World and that "we have never had any connections with Michael Cherney." Even today, the Reubens and Lev say that Michael simply introduced them to sources of raw materials and transportation.

In fact, both Chernoy's played a pivotal role from the start, as the Reubens admitted during the course of their discussions with FORTUNE. That role was so pivotal, in fact, that Michael's contribution was deemed to be worth \$400 million by the time he was sent away, and Lev claimed half of the \$500 million in proceeds from the selloff to the Sibneft crew earlier this year. Even one of the Reubens' own private investigators, Burke, concluded that Michael made an "initial financial investment" in the empire.

But it remains unclear to this day exactly how Trans World financed its start in Russia. David Reuben insists that he and

Simon put up their own money for the launch, but they have produced no records showing they were the source of any initial financing. Which brings us back to that oft-mentioned central bank caper. At its core, the scam involved multilayered deals wherein dollar-ruble conversions and false letters of credit delivered government money--through Russian banks--to a number of companies, including Trans World. In the middle of the transactions sat two similar-sounding entities: Trans-CIS Commodities, run by Lev and formed with the help of David Reuben, and Trans Commodities, a firm based in New York in which Michael was a 50% partner. (Michael's partner in Trans Commodities was an American emigre named Semyon "Sam" Kislin, later named in an FBI report as an associate of a now imprisoned Russian "godfather," and whose nephew, according to Joel Bartow, eventually went to work as Michael Cherney's right-hand man. Kislin has since become a member of the Economic Development Board in New York City as well as a big donor to Bill Clinton, Al Gore, and Rudolph Giuliani. He denies any links to either the mob or Trans World.)

When the Chernoyes were cleared of suspicion in the central bank case, it was because the Interior Ministry had concluded that while a group of organized crime figures was behind the scams, and while the Chernoyes obviously benefited from them, there was no proof the Chernoyes knew the money was stolen. That decision, as we know, not only paved the way for Lev's return to Russia to try (unsuccessfully, it turned out) to salvage the Trans World empire--it also derailed an investigation that could have destroyed Trans World's operations throughout Russia.

Lev was cleared, in part, by the testimony of a Krasnoyarsk manager named Gennady Druzhinin. Imagine FORTUNE's surprise, then, when we discovered via bank records that Trans World had earlier paid Druzhinin a cool million dollars--during the period when Trans World had supposedly been pushed out of Krasnoyarsk. Whether this new information will reignite the case remains to be seen.

THE BLOOD OF THE BULL

David Reuben has long held that the Krasnoyarsk murders took place in the "vacuum" created by Trans World's absence. He insists that Trans World's relationship with the plant had "totally ended" between late 1994, when its shares were erased, and late 1997, when the Reubens returned. Nevertheless, accusations that Trans World underwrote the Krasnoyarsk hits have swirled around Russia for years. It always seemed odd, after all, that nobody connected with Trans World was ever on the wrong end of the violence. And it's certainly understandable that, having lost their piece of the very profitable plant, the Reubens would want it back. As even Terry Burke, their IGI investigator, points out, three of the dead men worked for firms that had "taken on the role" previously played by Lev.

"The word on the street" was that Lev had "put those contracts" out on the victims, says Joel Bartow, the ex-FBI agent. "But nobody has ever proven that." Lev denies any involvement with the murders, but two of those victims, Borisov and Yafyasov, were killed just months after the central bank investigation began--Yafyasov shortly after he testified that Lev was connected to another firm, Mirabel, at the heart of one of the scams. (Conveniently for anyone who might have been implicated, some of the rap was pinned on Borisov and Yafyasov after they were killed.) Lev has always denied any association with Mirabel, but Simon Reuben tells FORTUNE (not understanding the context of the question) that he believes Mirabel "was managed by one of the Chernoyes." And if that weren't a surprising enough connection, FORTUNE has discovered, through bank records, that the Reubens made three payments totaling more than \$1 million in 1996 to Anatoly "The Bull" Bykov, then widely considered to be the godfather of the local mafia in Krasnoyarsk. A second reputed Siberian crime lord--arrested recently in Greece--is accused of more than ten assassinations, many of them during the aluminum wars of the mid-1990s, that he says were ordered by Bykov.

Several months ago, Lev told FORTUNE that "I have no connections whatsoever with Mr. Bykov." Yet at Krasnoyarsk, during the Reubens' exile, Bykov somehow rose from being the plant's security chief to become a full board member by 1996, the year he received the Trans World payments. Not long after that, he emerged as the plant's chairman--and soon enough, the Reubens were back. "We paid to the personal account of this guy," laughs Trans World's Bushaev, also unaware of the implications of what he was telling FORTUNE on the record. "That's a good reason to come back."

After a six-month global manhunt in 1999, Bykov was captured in Hungary just as he was preparing to fly to the U.S. A month ago, he was moved to a cell in Russia, where he faces murder and money-laundering charges. "I always say, 'Don't dig a grave for somebody,'" Bykov once told a TV audience. "You may fall in it yourself." Now Lev will have to answer the \$1 million question: Did Trans World subsidize the killings or just the reputed killer? For the Reubens, who cut the checks--but swear ignorance--the questions are also disturbing. (Lev's deputies are calling the payments "commissions" for raw materials.)

A ROOF OF ONE'S OWN

Several years ago, the Moscow Times struck the Reubens' biggest aluminum plants from its stock index of top Russian companies, stating that the smelters' mobbed-up reputation had scared off investors. "Trans World has made aluminum a no-touch product in the secondary trading market," explains James Fenkner, chief strategist for Troika Dialogue, Russia's largest investment house. "That thing [Trans World] is so untransparent. There hasn't been much investment. The government wasn't getting much tax. The profits were just being harvested. It was so bad that it just couldn't get any worse. This kind of situation cannot occur in a real state."

So how did it occur? The Russian press has accused former Deputy Premier Oleg Soskovets--the most powerful official under Yeltsin until mid-1996--of providing a krysha (protected roof) for Trans World. The historical links were certainly there: Soskovets once ran a metals plant, and his deputy there went on to work for Michael Cherney (at Trans Commodities, the entity involved in the central bank case) and then rose to become one of Trans World's most powerful executives. In 1997, Russia's only independent TV station claimed that Trans World issued credit cards in Switzerland to Soskovets and his son--a common method of making payoffs in the new Russia. FORTUNE has confirmed that the cards were canceled a day after the expose aired, but no link to Trans World was ever found.

"Soskovets helped Trans World take control of the plants," insists Sergei Markov, who directs the Institute of Political Studies in Moscow. "What I believe he got in return was money for his political ambitions. Soskovets was close to becoming the Prime Minister." One of Yeltsin's first moves, however, on winning reelection in mid-1996, was to fire Soskovets. "The deal with Yeltsin was that Soskovets would retire, not have any political ambitions, and not be put in jail," claims Markov, adding that proving any of this "would be very difficult."

Another possible source of protection was ex-Sports Minister Shamil Tarpishchev, but, again, there's no proof. David Reuben concedes that Trans World funneled as much as \$2 million into sponsorship of sports events, most of it arranged through Tarpishchev, while press reports have linked the disappearance of millions from the nation's sports funds under Tarpishchev to bribery and organized crime. And soon after Yeltsin fired him in 1996, Tarpishchev was videotaped being met at Tel Aviv's airport by Michael Cherney and Anton Malevsky. "Michael was friendly with Tarpishchev, and through Tarpishchev he made connections to Soskovets," says one of Lev's aides. Were payoffs made? "You can presume [so]," says the aide. "That's the way Russia is now." Unfortunately, the men at the top of Trans World can't get their stories to match: "Our aim was for a connection to Soskovets, but it didn't happen," admits David. "We didn't succeed." But Lev says, "Neither I nor my partners made any attempts to get assistance or support from Soskovets."

MEET THE NEW BOSS

The Reubens portray the selloff of Trans World's assets as a success few Westerners have achieved. In reality, it was a fire sale. Trans World's huge stakes in the Bratsk and Krasnoyarsk plants--which account for about 60% of Russia's entire aluminum production--fetched just \$500 million, less than Bratsk's annual revenues. According to the February announcements, the buyers were a group of shareholders of Sibneft, the Russian oil giant led by controversial tycoon Boris Berezovsky and his partner Roman Abramovich. Both men are now members of the Duma and are among the most prominent of Russia's new oligarchs; both reportedly helped bankroll the campaigns of both Yeltsin and his successor, Vladimir Putin. Berezovsky has been fighting accusations of criminal activity in the Russian press for years.

The deal was done in typical Trans World style: convoluted and secretive. FORTUNE has learned that the Reubens' \$250 million was sent to them before any agreement was put in writing. Their Cyprus-based shares in the plants were transferred to a newly formed shell called Metrascope, set up by one of Lev's lawyers; Lev then passed those shares to the Sibneft people, who wired the money to a Reuben-owned bank in the Bahamas, where Metrascope had an account. Some of that money originated in the tax haven of Liechtenstein, while another piece came from an obscure bank in Vanuatu, a South Pacific nation that has been often cited as a money-laundering hub for Russian criminals--and a place where many big U.S. banks refuse to deal. "The due diligence on the source of funds remains with Metrascope, not with us," says Trans World's Bushaev. But of course, Lev created Metrascope.

Berezovsky's name doesn't appear on the contract drawn up after the fact--though Abramovich's is listed--but one of the entities that wired money for the purchase was Runicom, an offshore arm of Sibneft that reared its head last fall in the Bank of New York laundering case. (Another purchaser was a newly formed U.S. shell called West Line LLC.)

Under Russian law, Trans World may never have legally owned many of its assets to begin with. Russian anti-monopoly statutes require government approval if any single "group" owns more than 20% of a plant. For Bratsk, Trans World insiders never had that approval, FORTUNE has learned. Not long before the sale, Lev owned about 32% of the plant through two Cyprus shells, while the Reubens held 32% through two of their own. A similar problem seems to have existed at the Krasnoyarsk smelter. Interestingly, Putin's anti-monopoly office has expressed no misgivings about allowing Berezovsky and his cartel to walk off with three-quarters of the industry, and since the Sibneft crowd took over, outrage over tolling has faded to a whimper.

A POX ON MOTHER RUSSIA

In May 1999 a front-page article in Kommersant claimed that Boris Berezovsky was seeking money from Lev Chernoy in return for Kremlin access, a charge both men denied. A month later, Berezovsky announced that he wanted to buy Kommersant itself, but before he could, a newly formed New York company called American Capital announced it had already done so. At a press conference, American Capital's "owners," two unknown men of Iranian origin, declared they were not connected to any Russian businessmen; shortly thereafter, Berezovsky said he was sorry he'd lost the bid.

The episode might have been nothing more than an orderly transfer of ownership, but some days later the paper's respected editor quit, insisting Berezovsky was actually in control. Sure enough, the oligarch duly conceded that he had indeed bought the paper from American Capital. In fact, FORTUNE has learned, the Reubens had sent Lev the \$22 million for the purchase (through Morgan Stanley) and later deducted it from his Trans World profits. Just what the quid pro quo was between Boris and Lev remains unclear, but Kommersant--a consistent and irksome critic of Trans World--has since been remarkably well behaved.

It is here, in what is for contemporary Russia an almost mundane episode, that we begin to see the larger costs of the way business is now done there. Kommersant is not just a property, after all, but an institution, one of the few that had been willing to challenge the country's criminal culture. Now it is in the pocket of Berezovsky, a man widely believed to be the kleptocrat-in-chief (though, as he reminded a tame Ted Koppel not long ago in an interview on ABC's Nightline, he has never been convicted of anything).

That Lev and Berezovsky could buy Kommersant is a mighty fitting symbol for a place that seems beyond the help of a free press anyway. Similarly, whatever the Reubens' transgressions may be, they represent only one outbreak of an infection that has all but consumed the country. From one business to the next, from caviar to coal, Russia has made itself repellent to those who might have rejuvenated it. How it will recover now is anybody's guess.

David Reuben likes to say that Trans World "saved" the aluminum industry, the only major sector in Russia to increase production (up 7%) since 1989. At the height of their power, in 1997, the Reubens maintain that they had about \$400 million "invested" in those plants. Russia's Economics Ministry puts that figure closer to zero. In truth, Trans World systematically starved one of the ex-Soviet region's few viable industries, breathing just enough oxygen into the plants to keep its own tolling racket alive, while the aging facilities were largely left to wither. A 1997 audited report for Bratsk shows a net loss on nearly \$600 million of sales for the world's largest aluminum smelter. The Reubens' internal records for the same year show that Trans World and the plant's management made a profit of nearly \$200 million.

Likewise, the Reubens and Chernoy got control of one of Russia's largest steel plants in 1995 and by 1997 were draining off about \$300 million a year. When a group of U.S. investors, including George Soros, announced they had bought nearly 50% of the stock, the new investors were denied a board seat and the right to see the steel plant's trading contracts, despite court decisions in their favor. And no wonder: The plant's pretax profits had shrunk from about \$480 million in 1995 to just \$40 million the following year, despite a strengthening steel market. At one annual meeting,

bodyguards outnumbered shareholders. Lawyers were asked to check their guns at the door.

Things weren't much better in Kazakhstan, where the government confiscated the Reubens' assets after accusing them of having "materially damaged" its plants. And after the Reubens systematically bled one of their refineries in Ukraine, a member of Parliament announced that Trans World "has no place in Ukraine."

In short, the Reubens came, they took, they left. The human cost of this profiteering is easy enough to identify—one need look no further than the men on the floor at Krasnoyarsk or Trans World's other plants. Those workers receive, at best, about \$300 per month. That's what the Reubens earn in interest every minute, assuming their \$2 billion fortune is invested conservatively (and legally). When Trans World was in control of Sayansk--Russia's third-largest smelter--employees likened the place to a "concentration camp," while the local mayor cried to a newspaper that "my heart breaks when I see the workers boarding trains to go to the smelter." After the plant broke free from Trans World in 1997, its profits improved nearly 600%, while commercial expenses were cut in half, according to a study by Russia's top accounting office.

Meanwhile, Bratsk and Krasnoyarsk "remain the worst polluters in the industry," says Dr. Horst Peters, whose VAW Aluminum-Technologie supplies cutting-edge equipment to Russian plants. "They [Trans World] have done nearly nothing to introduce available new technologies, and they don't follow Russian pollution laws." The city of Krasnoyarsk is overwhelmed by cancer and respiratory ailments, a subject Peters has broached with David Reuben. "He says it's not his issue," says Peters. "He has no moral problems about it, nor do the Chernobyls."

Today, in their thirst for absolution from the West--in their quest, more specifically, to bring their billions here and set up shop--the Reubens are contrite. "We lost our way in Russia," David concedes, when asked if Lev was given too much independence. Or as Simon puts it, "David and I are a bit naive sometimes. In the early days, nobody monitored payments [requested by Lev] on a one-by-one basis. We just had a global view on what our profits should be." Their own former investigator, Terry Burke, puts a different spin on their naivete: "They were using the same managerial shield that prompted Vice President Bush to nod off during the Iran-Contra talks."

Nevertheless, the Reubens remain adamant that their intentions were honorable, that they have never knowingly been involved with mafia figures of any stripe, that they were a source of light in a Russia increasingly beset by darkness. As far as they are concerned, their admitted peccadilloes were the cost of doing business in a place where most people were willing to do far worse. "I was the only Westerner who succeeded in a place that's like a toilet," says David bitterly. "And you always come out of a toilet with a smell.... The biggest mistake that Russia made was in not making heroes out of us. They should have used us as a flag."

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David and Simon Reuben: Update and Clarification

By The editors of FORTUNE

July 12, 2004

(FORTUNE Magazine) – It has been four years since FORTUNE published "Capitalism in a Cold Climate" (June 12, 2000), a lengthy report chronicling the efforts of two brothers, David and Simon Reuben, to build a business empire in the former Soviet Union.

Starting in the early 1990s--with David in London and Simon in Geneva--the Reubens built a giant, vertically integrated company that produced and traded aluminum. With the help of two Russians, Lev Chernoy and his brother Michael, the Reubens' company, Trans World, grew to a point where, in 1996, it was hailed as the world's third-largest producer, behind Alcoa and Alcan. By 1999, however, the Reuben brothers had lost control of most of their manufacturing facilities in the former Soviet Union to former associates, employees, or partners in Russia. By focusing on the rise and fall of Trans World, FORTUNE attempted not only to tell the company's story but also to illuminate the lawless business culture that had developed in post-Soviet Russia.

The back story of this tangled tale was unusual. As we explained at the time, with their reputations tarnished by various charges and countercharges arising out of the fierce--and sometimes deadly--business battles going on in Russia, the Reubens hired Kroll Associates, the world's largest investigative firm, to review Trans World's entire operation and business practices. As part of the process, Jules Kroll, the company's founder and chairman, in turn, suggested that the Reubens offer FORTUNE unprecedented access to them and their associates at offices in Western Europe and the former Soviet Union.

After months of reporting and more than 100 hours of taped interviews with the Reubens and others, FORTUNE concluded that as far as the Reuben brothers and Trans World were concerned, there was "no smoking gun." The article, however, pointed to possible links between Trans World and firms at the heart of three international money-laundering scandals and concluded that those links, among other things, would probably spur law enforcement agencies in many nations "to redouble efforts to finish them off." The article also said that it seemed "unlikely" that Kroll would issue a positive report.

So how did those predictions pan out? Not as we forecast. In December 2000, about six months after the FORTUNE article appeared, Kroll Associates issued a report that gave the Reubens and Trans World a clean bill of health. FORTUNE has seen the report, which focused entirely on six metal-trading companies, based in London, Geneva, Bermuda, and Nassau. It concluded that Kroll had found "no evidence of money laundering, or any other illegal activity" in these operations. In a separate letter Jules Kroll added that the article's "negative inferences and conclusions concerning the Reubens and their businesses ... were not supported" by his investigation and that "given what has transpired since June of 2000, FORTUNE could not publish the story that it did today."

Meanwhile, the prosecutor's office in Dusseldorf notified the Reubens in August 2001 that it had terminated its probe into alleged money laundering. In a subsequent letter to Trans World's attorneys, the Dusseldorf prosecutor wrote, "I hereby

confirm expressly that there is no remaining suspicion of money laundering or any other criminal actions."

Although Kroll's positive report and the apparent absence of active investigations in Germany or elsewhere appear to exonerate the Reuben brothers, they don't address many of the issues raised in the FORTUNE article. Significantly, the Kroll report doesn't discuss an essential part of the story--Trans World's efforts first to build and then to unwind its aluminum-manufacturing business in the former Soviet Union. Nor did it explore the complex business and financial relationships in Russia between the Reubens and Lev and Michael Chernoy.

Jules Kroll says that his firm's report doesn't refer to the Chernoy's "because the relevant records in Russia that Kroll needed weren't in the possession of the Reubens and weren't made available to the investigators despite repeated attempts to examine them." It was with that relationship in mind, however, that Steven Rucker, the Kroll executive who headed up the firm's probe while FORTUNE was reporting its story, had told us shortly before our article's publication that he did not think Kroll could issue a positive report that would benefit the Reubens.

Today the Reubens say that while Michael was close to "dubious individuals" in Russia, he and Lev had split over Michael's relationships with those individuals. Additionally, the Reubens are currently pursuing criminal proceedings against Michael and others in Switzerland.

We should note one other development since our piece was published. In June 2001, claiming that the FORTUNE article had damaged the Reubens and Trans World, the brothers and their firm sued the article's writer, Richard Behar, and FORTUNE's parent, Time Inc., for libel in a London court. Time Inc. and its employee, Mr. Behar, denied any liability.

In the case, the Reubens complained that the FORTUNE article suggested that they had been complicit in murders at aluminum plants in the former Soviet Union. FORTUNE did not claim and does not claim that the Reubens were responsible for any murders and did not intend to imply that in the article. Nor does it believe that its article in fact implied that. The case was set for trial Oct. 4, but it has now been resolved on amicable terms.

After selling all the assets from their Russian investments, which made them billionaires, the Reuben brothers have continued to be active purchasers of prestigious properties in the London real estate market. In 2003 they also decided to turn their attention to mergers and acquisitions and venture capital opportunities. They have forged partnerships with West Coast Capital and Halifax Bank of Scotland; acquired a significant stake in the rail cargo company Ermewa, in partnership with the French national railway; and recently bought a controlling stake in one of Britain's largest property groups, Chelsfield PLC. Other partners in the enterprise include the Halifax Bank of Scotland, Multiplex, the Olayan family, and the Bank of East Asia. In addition, the Reuben brothers have endowed their own foundation, dedicated to education and health-care issues, with \$100 million.

--The editors of FORTUNE