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# Inside Ira Rennert's dirtiest businesses

Epic pollution at his La Oroya refinery in Peru have put the reclusive billionaire and his business practices in the spotlight.

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In 2004, a public health expert in Missouri named Fernando Serrano got a call from an archbishop in Peru. High up in the Andes, a metals refinery was spewing pollution that coated the factory town of La Oroya. The archbishop wanted Mr. Serrano to assess the damage.

Mr. Serrano, a professor at Jesuit institution Saint Louis University, flew to the Peruvian capital of Lima and took the long, winding road five hours east and 12,000 feet up to the town whose soil had turned too acidic for plants to grow. He tested La Oroya's ground, air and water, and took blood samples from some of its 35,000 residents. The results took his breath away: The town was not only laden with arsenic, antimony and cadmium, but an estimated 97% of the children between ages six and 12 had elevated levels of lead in their blood—levels four times higher than amounts considered dangerous in the U.S.



Getty Images

**THE BILLIONAIRE NEXT DOOR:** Ira Rennert's overseas troubles may be coming home to roost.

"The numbers were off-the-charts high," Mr. Serrano recalled. "The town had a big problem."

Today, the mess in La Oroya is causing big trouble for the refinery's New York-based owner, Ira Rennert, an industrialist who has amassed a \$5.9 billion fortune from owning some of the world's dirtiest businesses.

Mr. Rennert has scrapped with environmental regulators and activists for decades and always emerged largely unscathed. But his problems in faraway Peru are beginning to cut close: His La Oroya refinery, which generated some 50% of his business empire's earnings last decade, now lies dormant. An angry customer has pushed it into an involuntary bankruptcy proceeding in Peru and persuaded a local prosecutor to open a criminal investigation. Mr. Rennert's foes in South America are also taking their fight to the U.S., with federal judges in New York and St. Louis recently allowing them to gather evidence here.

"Ira Rennert's problems are coming home to him," said Michael Hugo, a Boston lawyer who represents a group of children in La Oroya. "He won't be able to hide from this mess."

## THE TOP POLLUTER IN THE U.S.

Mr. Rennert is one of the nation's most reclusive billionaires. With a Wall Street career dating back to 1956, he doesn't appear to have ever sat down for an interview about his businesses, and neither he nor his media representatives would comment for this article. Indeed, Mr. Rennert never generated much attention until the late 1990s, when he began building a 43,000-square-foot mansion in the Hamptons that was constructed over the strenuous objections of such illustrious neighbors as the author Kurt Vonnegut. It is believed to be the largest private residence in the nation and is said to boast 29 bedrooms, 39 bathrooms and a synagogue.

Renco Group, his Rockefeller Center-headquartered conglomerate, owns the La Oroya refinery, as well as the only magnesium mine in the U.S., the largest lead refinery in the U.S., and steel mills in Ohio, Maryland and West Virginia. It also owns an auto-parts maker, a military-vehicle manufacturer and a jewelry retailer. With 20,000 employees, Renco generated an estimated \$6 billion in revenues last year.

It's no surprise that Renco companies produce a lot of pollution because many are in heavy industry. But they have a long history of being among the worst offenders in their fields.

Mr. Rennert's Utah-based magnesium company contaminated the area next to the Great Salt Lake for years. The Justice Department, in 2001, described it as "number one on the EPA's toxic release inventory"—i.e., the nation's top polluter.

The lead refinery Mr. Rennert owns near St. Louis, in Herculaneum, Mo., emitted so many toxins it had to buy out 160 homes in the past decade. The refinery is to be closed in 2013, and a Renco subsidiary last year agreed to pay a \$7 million penalty and spend \$65 million on cleanup to settle alleged federal pollution-law violations.

Mr. Rennert has also stripped his companies of resources. Consider the case of WCI Steel, which he bought out of bankruptcy in 1988. The company issued \$300 million in junk bonds in 1996 and immediately paid Mr. Rennert a \$108 million dividend, according to its annual report. Two years later, an outfit that served as WCI's holding company handed Mr. Rennert a \$100 million dividend after issuing \$120 million in bonds. Finally, in 2006, with WCI in bankruptcy again, Mr. Rennert was sued by the company for allegedly taking out another \$17 million in cash in the four years before its Chapter 11 filing in 2003.

Also in 1996, Mr. Rennert extracted \$98 million from his magnesium concern after its parent company issued \$150 million in bonds. The federal government bluntly described the transfer in a 2001 lawsuit as part of a "pattern of activity engaged in by Rennert ... to make the debtor incorporation insolvent and defraud its creditors, including the United States." (Renco and Mr. Rennert denied the allegation, and the case is still pending.) When the feds fined his magnesium company \$900 million for violating environmental laws, Mr. Rennert put it in bankruptcy and transferred its assets to a new entity he controlled.

Going back to his first big deal, the 1976 acquisition of a sewing machine manufacturer, Mr. Rennert has been a master at turning around distressed companies and then cashing out. He bought the bankrupt Humvee military-vehicle maker AM General for \$133 million in 1992, the same year the company began selling Hummers to civilians. He then sold a 70% stake in 2004 to Ron Perelman for \$935 million.

After losing control of WCI Steel in bankruptcy court five years ago, Mr. Rennert got the last laugh earlier this year when he bought back three mills for \$1.2 billion, about half the price a Russian company had paid to acquire them.

"Apart from being a smart businessman, I remember being taken by his ability to communicate with the shop floor," said G. Christopher Meyer, a lawyer who worked on the WCI bankruptcy. "Not many others can cross the bridge from the management suite to the factory."

Donald Drapkin, a former top adviser to Mr. Perelman, recalls seeing Mr. Rennert vacationing with his children at the exclusive Hôtel du Cap-Eden-Roc on the French Riviera, where villas cost around \$10,000 per night and, for years,

payment was accepted only in cash.

"He's a nice guy. Religious. A real homebody," Mr. Drapkin said.

In recent years, Mr. Rennert seems to have tried to take Renco Group further out of view. He stopped issuing junk bonds, a type of financing he'd used since the 1980s as a client of Michael Milken, and switched to bank loans. That meant less public disclosure, and Wall Street lost interest in him.

"We haven't followed the company for years," said Standard & Poor's analyst Thomas Watters. "Renco is really off the radar screen."

Renco could flash brightly on Wall Street screens if his antagonists in Peru get their way. Mr. Rennert's problems there date back to 1997, when he bought a metals refinery, Doe Run Peru, from the Peruvian government for \$250 million. At first it seemed like a classic Rennert move: Buy something no one else wanted (he is believed to have been the only bidder), boost performance and then sell for a big profit. The Peru operation also complemented the U.S. lead refinery he'd bought a few years earlier. Even better, the La Oroya site could refine precious metals such as gold and silver, in addition to base ones such as lead and zinc.

At first, business boomed: Production at La Oroya increased by about 30%, stoked by the decade's commodities boom. A regulatory filing shows that Doe Run Peru generated \$560 million in revenue in 2004. That means it accounted for a third of Renco's total \$1.6 billion in revenues that year, according to data contained in a 2005 government lawsuit on the magnesium matter.

Yet around 2007, a dispute arose over who would clean up the mess left by the La Oroya refinery, which dates back to 1922. The agreement was that Doe Run Peru would take on the pollution it produced while the Peruvian government was responsible for past contamination. Arguments soon broke out over whose mess was whose.

"Sometimes it's easy to figure out who put contaminants in the air, ground or water," public health expert Mr. Serrano explained. "Sometimes it's not."

## **THRUST INTO BANKRUPTCY COURT**

Doe Run Peru said in a U.S. court that it had spent around \$300 million modernizing the refinery and cleaning up the town, but repeatedly asked the government to give it more time to comply with changing environmental regulations. While the company said it needed extensions as the government upped its demands, pressure began growing on Peruvian leaders to force Doe Run Peru to live up to its commitments, Mr. Serrano said.

Then came the global market crash. Doe Run Peru defaulted on \$30 million worth of obligations, banks withdrew their credit lines, and, in 2009, management shut down the refinery, according to U.S. court filings, costing 3,000 people their jobs. Consorcio Minero, a customer and creditor, last year thrust Doe Run Peru into involuntary bankruptcy proceedings, alleging that a merger arranged by the refinery's owner with another Doe Run subsidiary wrongfully deprived the company of \$125 million, leaving it undercapitalized.

A Peruvian prosecutor opened a criminal investigation at Consorcio Minero's request earlier this year. In a U.S. court filing last month, Doe Run Peru said allegations that financial transactions left the company undercapitalized are "false."

Meanwhile, last month a federal judge in Manhattan granted Consorcio Minero's request to subpoena Renco officials. In September, a federal judge in St. Louis did the same.

Mr. Rennert has fired back by having Renco file an international arbitration proceeding against the Peruvian government for allegedly violating a U.S.-Peru trade agreement, and creating "a hostile investment environment ... [that has] prevented Doe Run Peru from securing new financing necessary to resume operations of the complex."

Damages sought: \$800 million.

While the refinery's fate is tied up in court, Mr. Rennert is blocked from doing what he does best: selling his holdings at a hefty profit. Richard Fuller, president of the Blacksmith Institute, a New York-based nonprofit that helps clean up polluted sites, said he believes La Oroya could be worth \$1 billion to another large mining company.

"I'm sure Rennert's plan was to clean up the place, then flip it for a lot of money," Mr. Fuller said. "As it stands now, he's stuck with it."

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