Conrad Black and Hollinger International: a financial oligarchy out of control

Part one

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This is the first of a two-part article detailing the findings of the Hollinger Chronicles.

A recent report has broken with tradition and excoriated one of its own, the Anglo-Canadian media tycoon Lord Conrad Black, Hollinger International's former chief executive officer and major shareholder. He is accused of looting the corporation at the expense of other shareholders.

The graphic details of the *Hollinger Chronicles*, the 513-page report published by Richard Breeden, a former head of the Securities and Exchange Commission (SEC), bring into sharp relief the scale of what it refers to as "corporate kleptocracy." It exposes—if its allegations are true—the criminal nature and relationships of the financial oligarchy that heads the corporations today and the degree to which it is out of control.

According to the report, Black packed the board of directors with his own nominees, who turned a blind eye while he robbed the company of more than $400 million, a sum equal to 95 percent of the net profits for the period 1997-2003. He called the shots and "took what he wanted." Black had a "ravenous appetite for cash," the report said. He treated it as his own personal piggy bank to fund the lavish "personal lifestyle Black and his wife [*Daily Telegraph* columnist Barbara Amiel] have chosen to lead."

Their expenses charged to Hollinger included:

Handbags for Lady Black, $2,463

Jogging attire for Lady Black, $140

Exercise equipment for Lady Black, $2,083

T Anthony Leather Ltd. Leather briefcase for Lady Black, $2,057

Opera tickets for Lord and Lady Black, $2,785

Summer drinks, $24,950

A Happy Birthday Barbara dinner party at New York's La Grenouille restaurant, $42,870

Refurbishing a Rolls Royce, $90,000

The couple used corporate donations amounting to $6.5 million over a seven-year period from Hollinger to boost their own social standing. Donations to worthy causes such as New York's Metropolitan Opera, complete with the requisite plaque alongside such other notables as Kennedy, Vanderbilt and Tully, were regularly made in the Blacks' name, not Hollinger's.

Self-enrichment was the order of the day: the company was run so as to maximise the cash it would bring to Lord Black, not in the interests of its shareholders, the report claims.

Black used every opportunity to make sure that payments were made to his own private companies, not Hollinger, through a string of "related party transactions." Not one of these $400 million payments was questioned by his docile board. The report cited a specific meeting where, "In roughly one hour, Hollinger's audit committee considered more related party payments than many companies consider in their entire existence."

Phrases such as "aggressive looting," "fiduciary abuses" and "fraudulent acts" pepper the report, which states that it knew of "few parallels to Black and Radler's [Hollinger's chief operating officer] brand of self-righteous and aggressive looting." The Breeden investigation concludes, "ethical corruption was a defining characteristic of the leadership team."

"Self-dealing, misrepresentation and other abusive and unethical practices had become so deeply ingrained in the corporate culture that they became commonplace and perhaps indistinguishable from normal every day practice for some of the key actors," it adds.

"Behind a constant stream of bombast regarding their accomplishments as self described 'proprietors,' Black and Radler made it their business to line their pockets at the expense of Hollinger almost every day, in almost every way they could devise."

The report heaps blame on the directors, notably including Richard Perle, the former US defence advisor, and other well-known financial and political figures, who failed to stop the alleged looting. It criticised the auditors, KPMG, and Torys, the Canadian law firm, which acted for both Hollinger International and Lord Black's personal equity company, Ravelston, saying that they should have warned Hollinger International but failed to do so.

The report's findings will be used as evidence in a number of civil law suits seeking redress from Black and the corporation. Hollinger International is seeking $1.25 billion in damages from Black and others. Investigations by the SEC and US Department of Justice that could lead to criminal prosecutions are still ongoing.

Lord Black has denied any wrongdoing, calling the investigation a colossal waste of money.

The systematic plundering of the corporation or "corporate kleptocracy" constitutes the most explicit demonstration that Honoré de Balzac's famous dictum—behind every great fortune, there lies a crime—has even greater validity in the 21st century.

Black comes from a prominent Canadian business family. His father was a partner in Ravelston, which was then a holding company with a controlling interest in Argus Corporation, one of Canada's largest conglomerates in the 1950s and 1960s.

In the late 1970s, Black and his brother, who had inherited their father's Ravelston shares, gained control of Argus by buying up the stock of the widows of Ravelston's two controlling shareholders at what was generally considered to be a very low, if not a fire-sale price. There were suggestions at the time that the widows had not properly understood the deal and had been swindled out of their shares. Black and his supporters claimed the charges were sour grapes on the part of rival claimants for the Ravelston-Argus crown.

Within a few years, Black had all but dismantled Argus, which had much of its holdings in old "smoke-stack" industries, through asset sell-offs and closures. Massey-Ferguson, the Canadian-based agricultural implements producer, was a case in point. Another major Argus asset was the Canadian supermarket chain, Dominion Stores. Before divesting himself of Dominion Stores some time during the 1980s, Black seized control of a purported surplus in the employee pension fund. Black's actions were vigorously opposed by the Dominion store workers. But, with the acquiescence of the courts, he was again able to get away with what many considered to a legally dubious business manoeuvre.

Black has been active in right-wing politics since early adulthood, when he was a vocal supporter of the Vietnam War. In the 1970s, he was a backroom player in Canada's Conservative Party, but it was when he gained control of Britain's Telegraph Group that he was truly able to marry his business and right-wing political interests. The *Daily Telegraph* and *Sunday Telegraph* provided him with the cash to build a global newspaper empire and a platform from which to promote Thatcherism and neo-conservative politics in general.

During the late 1980s and 1990s, Black emerged as a major patron of the right wing internationally and gathered as directors of his various companies prominent ex-politicians and right-wing ideologues including Margaret Thatcher, Henry Kissinger and Richard Perle.

In 1996, Black gained control of Southam Inc., Canada's largest newspaper chain. Two years later, he founded the *National Post*, the country's second national newspaper to compete with the *Globe and Mail*, the traditional voice of the Bay Street financial houses and the Progressive Conservative Party. The *Post* quickly emerged as the spearhead of a major campaign to shift Canada's politics sharply to the right. Black assembled an editorial staff of avid right-wingers, making the *Post* an important link between neo-conservatives in Canada and the US.

Internationally, Hollinger became the world's third-largest newspaper empire, with more than 500 titles. As well as the Telegraph Group, it included the *Chicago Sun-Times*, the *Jerusalem Post*, numerous American papers, and newspapers with more than half of all Canadian daily newspaper circulation.

Black controlled all of this, including the newspaper group's publicly listed company, Hollinger Inc., via Ravelston, Black's own private equity vehicle, which owned 78 percent of Hollinger Inc., Hollinger International's parent company. Through a complicated minority share holding, he also controlled Hollinger International.

Black revelled in his role as press baron. For him, freedom of the press meant the freedom to dictate an ultra-right editorial content for his newspapers. This was the man of whom Margaret Thatcher was reputed to have said that he was the only person ever to have made her feel like a Tory "wet." In 2000, the Conservative Party offered him a seat in the House of Lords in return for services rendered.

Black's espousal of deregulation, privatisation, and the dismantling of union rights through his worldwide chain of newspapers has helped to create the political and intellectual climate in which corporate looting—legal and otherwise—has become so prevalent.

The scandal surrounding the alleged fraud and theft at Hollinger International erupted last November. It had been brewing for some time.

Tweedy Browne, the US investment firm that owns 18 percent of Hollinger International, had accused Lord Black and his fellow directors of syphoning off millions of dollars without authorisation from the company into Ravelston to line their own pockets. They had, it claimed, overpaid themselves and failed to establish an audit committee to examine the fees paid to themselves and Ravelston. As pressure mounted, Black was forced to set up a special committee to examine the claims.

Its report, published in November 2003, found that Black and his co-directors had awarded themselves $32 million in unauthorised management payments and many million dollars more in non-compete fees to Ravelston.

Black was forced to step down as CEO of Hollinger International (although he remained as chairman), repay the $32 million and accede to the demand for a fuller investigation by Richard Breeden, whose report has just been published. Hollinger Inc., the newspaper group's parent company, announced that it would be selling its newspaper subsidiaries and postponed the publication of its quarterly financial results.

Faced with mounting claims, Black was as good as bust—he had been living beyond his means for years. His solution was to sell his shareholding in Hollinger Inc., the company that owned his *Telegraph* titles, behind Hollinger International's back. In January 2004, he announced the sale of the Telegraph Group to the UK billionaire Barclay brothers, owner of the Scotsman group of newspapers.

Hollinger was outraged as it cut across their own plans to sell off the newspapers in job lots to the highest bidders and would have closed down the Breedon investigation into the allegations relating to the payment of non-compete fees to Black's company instead of Hollinger. It secured a Delaware court order stopping the deal from going ahead in that form.

The judge, Chancellor Leo Strine, was scathing about Lord Black. He said that Black's attempt to sell his stake in Hollinger Inc.—the entity through which he owned Hollinger International—to the Barclays amounted to "self-dealing," a "cunning and calculated" attempt to keep the proceeds of a sale for himself.

To be continued