

Citigroup spins off subsidiary to pay trader \$100 million

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Citigroup announced Friday plans to sell its energy-trading subsidiary Phibro to Occidental Petroleum, the fourth largest US energy company, by the end of 2009. The \$250 million sale appears largely designed to fulfill Citigroup's obligation to pay one energy trader, Andrew Hall, a promised \$100 million bonus.

Citi last year received \$45 billion in federal bailout money, which, unlike rivals Goldman Sachs and Morgan Stanley, it has not paid back. Citi's bonus payments are thus subject to scrutiny by the federal government's so-called pay czar, Kenneth R. Feinberg, who has power to approve the pay packages of top executives at firms receiving "exceptional" government assistance.

Last year, Citigroup paid Andrew Hall, the head of Phibro, \$98.9 million, and was slated to pay him another \$100 million this year. With the latest arrangement, Hall will still receive this bonus, but from Occidental, the firm's new owner, and not Citigroup.

The deal came after "intensive" discussions between the Citigroup and Feinberg, who indicated that a decision by Citi to pay Hall his bonus would be unacceptable, according to sources quoted in the *Wall Street Journal* and *New York Times*. The *Times* indicated that Feinberg thought that the popular outrage sparked by such a payout would be more than the White House wanted to deal with.

In response, Citigroup sold off Phibro, along with its obligations to pay Hall, at a bargain basement price. Hall's pay package now falls outside limits of Feinberg's oversight, giving the White House a cover to drop its complaints.

The *Financial Times* LEX column laughed off suggestions that the sale was motivated by anything other than Hall's pay package. "Only someone just emerging from a lengthy coma" it wrote, "would have

swallowed Citigroup's explanation for the sale of its Phibro commodities unit as 'consistent with Citi's core strategy of a client-centered business model.' Not unless that business model involves intentionally losing money."

The column continued, "The sale was all about reconciling public anger with banker pay and an ironclad contract with head trader Andrew Hall for a \$100m bonus. The sale price, said to be about Phibro's net asset value of \$250m, would have been a steal even at the height of the financial panic."

Citigroup's compensation practices in respect to Hall were dubious, to say the least. A source told the *New York Times* that 20 percent of Phibro's profits were allocated to a fund controlled directly by Hall. Moreover, there were no set rules for compensation at Phibro, leaving it up to Hall's discretion to dole out bonuses equivalent to the incomes of several thousand families.

Earlier this year, the federal government announced it would take a 36 percent equity stake in Citigroup by converting the \$25 billion in loans that it had already made into stock. This was on top of another \$20 billion that the government handed over to the company earlier last year.

After Citigroup received its \$45 billion in aid from the federal government last year, it proceeded to lavish hundreds of millions of dollars on its employees. Over 738 employees got over \$1 million in bonuses, while 143 each received between \$4 million and \$10 million, according to an investigation by the New York attorney general.

The purchase price of Hall's company was set at \$250 million, about 2.5 times Hall's income last year. But even the huge bonus paid to this one trader is not extraordinary by Wall Street standards. Ray Irani, the

CEO of the company buying Phibro, is estimated to be even wealthier than Hall. Irani received \$49.9 million last year, and has earned more than \$884.8 million over the last 16 years, according to figures cited in the *Wall Street Journal*.

Andrew Hall is—in the most technical sense—a speculator, placing complicated bets on whether the prices of oil and natural gas will go up or down. He and his fellow traders analyze the movement of prices using computers, then place rapid bets whenever they detect any unusual patterns. What he does is of no use to anybody except wealthy investors—while contributing to the spikes in energy prices that drive millions around the world into destitution. For this he is paid fourteen thousand times the average person’s income.

In yet another example of the financial aristocracy gorging itself it was recently announced that Ken Lewis, the ousted CEO of Bank of America—which was given a \$45 billion government bailout—is slated to receive a retirement package amounting to \$68.8 million, including a \$53.2 million pension fund. Lewis will also walk away with \$81.8 million in stock and other compensation that he accumulated over his career, according to an analysis of corporate filings by an independent consulting firm.

Lewis, along with executives at the other big banks, shares much of the blame for speculative practices that produced the worst economic crisis since the 1930s.

According to the *New York Times*, “The government-appointed compensation czar, Kenneth R. Feinberg, does not have authority over any pay that was legally binding as of last February, so much of Mr. Lewis’s compensation package may go untouched.”



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