

HUNTS STILL FIGHTING LOSSES FROM SILVER CRISIS

By Steve Coll

March 20, 1988

NEW YORK -- For the past week, appearing on a pair of black-curtained television screens propped before the jury box, Nelson Bunker Hunt has told the story of his great silver crisis, in which he managed to lose more than \$3 billion in a few days and brought the entire U.S. economy to the brink of panic.

It has been eight years since the crisis, and whatever urgency Hunt once felt about it has vanished. During excerpts from 14 days of videotaped depositions shown to a federal jury here, the portly and bespectacled Hunt, who at 62 is the scion of a great Texas oil fortune, spoke in a droning voice that suggested weariness or boredom.

Of course, a lot has happened to Bunker Hunt since the silver market collapsed on him in March 1980 -- bankruptcy cases, mounds of civil lawsuits and constant jockeying with family members over money. From the public record, Hunt appears to be slowly going broke, suffocating in a web of legal proceedings.

Denying charges that he conspired to corner the world silver market in late 1979 by hoarding half of the warehoused silver in the United States, Hunt testified last week that he and his partners bought about 220 million ounces of silver. At its peak, it was a purchase worth more than \$11 billion and was made, Hunt said, solely because it was "a good investment, a protection against inflation, a protection against the problems of the world. I thought it was going to go up."

Silver did go up for a time -- like a rocket. Perhaps fueled by massive purchases by Hunt, his brothers and several Arab business associates, the price of silver jumped more than sevenfold late in 1979, only to collapse just as quickly the following March, wiping out the Hunts and forcing the Federal Reserve to help arrange a \$1.1 billion bailout loan. Since then, far from being "a protection against the problems of the world," Hunt's silver investment has dragged him and his family into a quagmire of legal and financial difficulties.

At the least, Hunt and two of his brothers, Herbert and Lamar, have managed to lose the bulk of their enormous inheritance, which was passed on by legendary wildcatter H.L. Hunt. At the time they received it, the brothers' inheritance represented about half of one of the largest oil fortunes ever made in Texas.

Their family oil company, Dallas-based Placid Oil Co., is in the midst of a Chapter 11 bankruptcy reorganization, as are each of the Hunt brothers' trust estates. A second family business, Penrod Drilling Co., is estimated by attorneys familiar with the Hunts' finances to have a negative net worth. All told, the

brothers are in hock to a group of banks for about \$1.6 billion. About half of that debt traces to the original silver bailout loan.

The Hunt brothers may owe hundreds of millions of dollars more by the time their lawsuits are resolved. In federal court here, the brothers are being sued by Minpeco S.A., a Peruvian mining company that alleges it lost about \$100 million because the Hunts illegally conspired to manipulate the silver market. Minpeco has obtained more than \$50 million in settlement payments from other defendants in the case. Any damages won from the Hunts might be trebled under federal antitrust and racketeering statutes.

The Minpeco trial is expected to take at least three more months, perhaps longer. When the case is over, three other lawsuits that have been suspended pending its outcome will be resumed. Two of these suits parallel the Minpeco silver conspiracy charges and seek substantial damages. One is a class action case filed by investors claiming losses caused by the Hunts' alleged conspiracy, while the other is a government action brought by the Commodity Futures Trading Commission.

In addition, Bunker Hunt and his wife face a potentially enormous liability to the Internal Revenue Service, which has sued them seeking more than \$300 million in back taxes and penalties. A decision is pending in the case.

(Through a family spokesman, the Hunts declined to be interviewed for this article, citing their involvement in pending lawsuits.)

Although the Hunts have been battered by the fall in oil prices during the 1980s, most of the family's problems can be traced to the silver crisis. Bunker Hunt and his brothers deny participating in a conspiracy to inflate the price of silver by gobbling up the supply; they contend that silver prices moved up and down mainly in response to political and economic events. They ascribe their billions in losses principally to bad luck.

"It's a little bit like what happened to the U.S. stock market," Bunker Hunt testified last fall at his tax trial. "The market just took a free fall. Nobody knows why, but it happened. That's the same thing that happened to the silver market. It just happened overnight."

Government investigators and private lawyers have been trying for eight years to prove otherwise. Allegations that the Hunts participated in a sophisticated international conspiracy to corner the silver market have never been proven in a court. The CFTC spent nearly five years investigating the situation before bringing its complaint in February 1985. The Minpeco case in New York federal court marks the first time the Hunts have faced a trial over the allegations.

The Hunts are charged with forming a classic conspiracy to profit from commodity trading by cornering a market's supply. "What we intend to show is that these defendants rigged the silver market, that they

cheated, that they drove up the price of silver and they did it intentionally," Minpeco attorney Mark A. Cymrot told the jury during opening statements.

"What these people did was take enormous amounts of this {silver} bullion out of these warehouses, they virtually bought up these warehouses and left nothing ... for other traders who needed it and who had to bid higher and higher and higher, and that's why the price of silver starts going up to the ceiling," Cymrot said.

Named as coconspirators with the Hunts are two Arab businessmen involved in the international horse racing business, in which Bunker Hunt was active until this year, when he raised a record \$46 million by auctioning off his breeding stock. One of the Arabs named in the case is Mahmoud Fustok, a Saudi Arabian with worldwide real estate holdings and whose sister is married to the Saudi crown prince. The other is Naji Nahas, a Lebanese entrepreneur who owns thoroughbred horses and a Volkswagen factory in Brazil.

The Hunt brothers, led by Bunker Hunt, are alleged to have met with Fustok, Nahas and other silver speculators in exotic locations during 1979 to plot the takeover of the world silver market. The evidence against them, while voluminous, is essentially circumstantial: At the same time the Hunts and the Arabs were meeting, they were all buying huge amounts of silver. The Hunts say they never discussed any specific plans for silver purchases at the meetings. "There's no conspiracy and they will not prove one because there wasn't one," said Paul J. Curran, the Hunts' attorney in the Minpeco case.

The unprecedented amount of the group's silver buying, however, became highly visible late in 1979. Fustok and Nahas contributed to market perceptions of a growing silver shortage by transporting tons of bullion in armored trucks from New York warehouses to John F. Kennedy International Airport, where it was loaded on Boeing 747s bound for Switzerland.

The silver bubble burst suddenly in March. In his testimony about the collapse at his tax trial, Bunker Hunt brushed off the devastation that ensued as the price of an ounce of silver fell from its peak of about \$53 to under \$15 in 30 days. "I was out in California at the health place, the Golden Door, trying to improve my health, and they called me up one day and said they didn't know whether or not I had been reading the paper, but the silver market had been dropping and very sharply ... and we were getting short on money," Hunt recalled. "So I said, 'Well, I guess I better not worry too much about my health, I'll just come and we will see if we can try to get it worked out.' "

In the end, the crisis required the personal intervention of former Fed chairman Paul A. Volcker as losses by the Hunts threatened to topple several major Wall Street brokerages. A group of banks was enlisted to lend the brothers \$1.1 billion, accepting Placid Oil assets as collateral.

When oil prices were high, the Hunts managed to pay down some of their Placid debt and they also expanded into the oil-equipment business through Penrod, borrowing heavily. But when oil prices collapsed during the spring of 1986, Placid was forced into seeking protection from its creditors under the bankruptcy law, and Penrod teetered under the weight of its debt.

The Hunts responded to these financial and legal pressures by fighting back. In an unusual lawsuit, they accused their bankers of deliberately lending them too much money as part of a conspiracy to seize the Hunts' rich oil assets. The banks, led by troubled First RepublicBank of Dallas and New York-based Manufacturers Hanover Trust Co., have denied the charges. The case, in which the Hunts are seeking about \$1 billion in damages, is scheduled to reach trial in Dallas federal court in October.

In the meantime, the Hunt brothers are apparently attempting to solve their troubles by making a giant oil and gas strike in the Gulf of Mexico. Operating through Placid Oil under bankruptcy court supervision, they have leased a property known as Green Canyon No. 29 and are attempting to bring up oil from an unprecedented depth of water.

Lawyers for the Hunts concede there have been problems. This year, workers were dragging a \$4 million length of pipe along the bottom of the Gulf of Mexico toward their drilling rig. The pipe came loose from its tow and fell to the ocean floor in 1,500 feet of water. " ... You run into some glitches, and we've run into a few," said James K. Skillern, an attorney for Placid Oil. It is also the kind of luck with which the Hunts have become all too familiar lately.

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