

Swedish stock market scandal implicates Soviet-linked giants

by C. Polhem from Stockholm

On Feb. 19, the nation of Sweden was hit by the surprise revelation that one of its most prominent new businessmen was not what he seemed. Refaat el-Sayed, the president of a Swedish drug and "biotechnology" company, Fermenta, had lied in his curriculum vitae, claiming to hold a doctorate in biochemistry. Investigation revealed that el-Sayed, a young Egyptian-born, naturalized Swedish citizen, does not appear to even hold a bachelors degree. This had been one of the major factors used to build a certain dynamic media image for Fermenta and el-Sayed, last year's "Swedish Businessman of the Year."

Were this simply a matter of padding a resumé, no one would be overly concerned. But, much more was involved: the largest stock market scandal in Sweden in the past 50 years. The trail of investigation leads one to the board rooms of Sweden's most famous multinational corporations. Immediate targets of investigation include Volvo and its flamboyant chairman, Pehr G. Gyllenhammer, and the empire of the Wallenberg family, specifically Electrolux Corporation.

On Dec. 29, 1985, the late Prime Minister Olof Palme had formed a special commission to investigate reports of massive "insider trading" on the Stockholm Stock Exchange. At the time, Palme stated: "We must get to the bottom of this affair."

The investigation, whose final results are due in early summer, was triggered by the so-called "Leo Affair."

According to publicly available evidence, the Leo Affair involves insider stock trading deals in which Gyllenhammer is implicated. Shares in Leo, a subsidiary of a company linked to Gyllenhammer named Sonessons, were reportedly sold to Sonessons' board members, including Chairman Eric Ovin and Gyllenhammer, at a price of 50.60 Swedish Kroner, prior to its public introduction at 75 SKr on the stock market in 1984. Later investigation revealed that Gyllenhammer was among a select insider circle which was offered prior preferential purchases. (Gyllenhammer subsequently sold his shares in Leo to a charitable cancer foundation in an apparent attempt to distance himself from the affair.)

The scandal also implicated a top official in Sweden's second largest private bank, Handelsbanken, which reportedly offered loans to insiders for purchase of Leo shares at the favored rate. Hours prior to Palme's announcement of formation of the special commission to take up the Affair,

Sonessons' chairman, Ovin, suddenly resigned.

Less than two weeks later, Gyllenhammer made financial headlines around the world by announcing a dramatic and complex merger between his Volvo group and a "hot" new growth company, Fermenta.

Gyllenhammer put his name to a deal to buy a 20% interest in the biochemical company. Under terms of the agreement, as Gyllenhammer told press, Fermenta would absorb Volvo's own holdings in the drugs and medical industry to become Sweden's largest pharmaceutical concern. Volvo had agreed to pay 220 SKr per share, or \$540 million.

Only hours after the Fermenta-Volvo deal was made public, Swedish press reported that American oil financier and long-standing Soviet intelligence operative, Dr. Armand Hammer, had offered to buy Fermenta for double the price set between Gyllenhammer and Fermenta. Predictably, the carefully planted report of the Hammer interest only served to increase stock market fever over Fermenta. Until, that is, the startling revelations that the company's principal asset, the fastest rising star of the Swedish business world, voted "Swedish Business Man of the Year" last year, was a fraud.

It turned out that his highly touted firm, far from being a futuristic innovator in the glamorous bio-engineering field, merely sold bulk antibiotics, which it obtained largely by buying up other companies.

El-Sayed was virtually unknown in Swedish business circles until he bought Fermenta in 1981. He apparently had very interesting promoters in the 1970s, however. According to public records, Electrolux, one of the multinationals of the Wallenberg group, paid el-Sayed an unspecified sum back in the 1970s, supposedly for a patent to a water purification device held by the Egyptian.

According to financial sources based in Stockholm, Fermenta grew strictly via acquisitions. el-Sayed, the largest shareholder in Fermenta, would buy up target companies by giving their owners shares in his expanded Fermenta. The method was reported to be remarkably similar to illegal chain-letter or "Ponzi" schemes.

The strangest aspect of the Leo affair is the little attention which has been paid to its Chairman, while all reports focus on el-Sayed, nominal owner of the majority of shares. Goesta Bystedt, Fermenta chairman, is also a board member and chief executive of Electrolux Corporation.

Bystedt has stayed on as chairman of Fermenta, despite the revelations. Perhaps his sudden departure would trigger far more questions than the principals were prepared to answer.

The curious Wallenberg empire

According to Stockholm sources, Electrolux moved to get rid of its Fermenta shares when the Leo Affair investigation was initiated. Fermenta's share-issuing bank, as in the Leo Affair case, was Handelsbanken, through Svenska International, Ltd. of London. Handelsbanken is the traditional bank of Gyllenhammer's Volvo empire, which in recent years has been effectively merged with the huge Wallenberg family empire.

Electrolux is notorious as an "asset stripper." It has become one of the most aggressive of a select handful of asset-stripping multinationals in recent years. When it bought up the Italian appliance maker, Zanussi, late in 1984, it immediately moved in and fired or "retired" 7,000 employees and hived off the firm's most valuable assets. It conducted a similar stripping action when it absorbed a part of the troubled West German AEG in 1982. In one AEG plant in Tubingen, Electrolux moved in in what West German press called a "nacht und nebel" operation, shipping off machines and parts and firing a major section of the workforce, despite protest from local politicians.

In mid-March, Electrolux moved into the corporate acquisition field with a hostile takeover bid to buy White Consolidated Industries of Ohio. The victim company has filed charges of massive violation of U.S. securities law against Electrolux. American business sources knowledgeable of the Electrolux situation report that the White move is another major asset-stripping operation to prop up troubled holdings elsewhere in the complex conglomerate.

Electrolux's chairman is Hans Werthen, known as a ruthless dealer in such takeovers. Werthen is the hand-picked protégé of Marcus and Jacob Wallenberg. During the last war, Jacob was in Berlin where he facilitated the transfer of vital ball bearings from the family's SKF company in Sweden to the trains and trucks of Adolf Hitler's war machine.

Werthen's Electrolux is a peculiar, joint holding company, according to informed reports. Deputy Chairman Peter Wallenberg is also deputy chairman of the family bank, Skandinaviska Enskilda Banken, the largest in Scandinavia. SE-Banken has been involved in the Russian market for decades. It is believed to be the lead bank for bids by Swedish companies on multibillion dollar construction projects under the new Soviet five-year plan.

Wallenberg is a "confidential" client of Kissinger Associates. Wallenberg is also chairman of ASEA, the nuclear, robotics, and engineering firm which was caught smuggling sensitive American computer technology and other banned equipment to Russia.

Kissinger was a consultant to Wallenberg at the time of the illegal operations. Indications are that Kissinger remains a consultant to this day. Volvo is also a client of Kissinger Associates, according to public accounts. Volvo's Pehr Gyllenhammer was one of four people who, in 1982, founded the international consulting company which bears Kissinger's name. The other two were Peter Lord Carrington, now NATO secretary-general, and Robert O. Anderson of Atlantic Richfield and the Aspen Institute.

Fermenta's Bystedt also sits on the board of the world's largest private security and "cleaning" companies, Securitas AB, the Copenhagen-based multinational owned by ISS-Securitas. Securitas runs private security for major industrial corporations around the world and controls airport services internationally from security to cleaning to maintenance. One such airport is JFK in New York. Bystedt is also on the board of SKF.

Other directors include Jacob Palmstierna, who is director of the oldest Swedish company doing business with the Soviet regime, Axel Johnson & Co. Edward L. Palmer of Citibank and Sven Olving of Volvo and LM Ericsson, the telecommunications group of the Wallenberg empire, are also among the directors of Electrolux.

Electrolux became notorious during the 1940s, when its founder, Axel Wenner-Gren, an intimate of Goering, Hitler, and Mussolini, was exposed for extensive collaboration with the Nazis internationally, including in South America.

Just the beginning

On Feb. 27, 1986, the government of Olof Palme announced that the tax on stock market sales would be doubled from 1% to 2%. The Stockholm Stock Exchange underwent an immediate collapse in share values. Volvo suffered the biggest loss, with share values collapsing by some 10% in one day. Swedish press commentaries at the time put the tax increase in the context of the rising pressures against insider trading and other abuses.

One day later, on Feb. 28, the Palme's government announced its decision to cooperate with U.S. requests to ban export of sensitive, American-made technology to the Soviet Union. The Pentagon had campaigned strongly for this with the Swedish government after the ASEA scandal and other events revealed evidence of massive illegal smuggling via a cluster of companies associated with the Gyllenhammer and Wallenberg empires in Sweden.

Three days later, on March 1, Olof Palme was gunned down on a Stockholm street.

Reports that the Fermenta Affair and the Leo Affair have been cooled down are now being planted in international press after the announcement on March 11 that Gyllenhammer would assume the bulk of the debts of el-Sayed's corporate collapse. But evidence would indicate that the scandal is just beginning.