INLAND EMPIRE PUBLIC LANDS COUNCIL

TRANSITIONS

In Search of Sustainable Forests and Diversified Economies in America's Northwest

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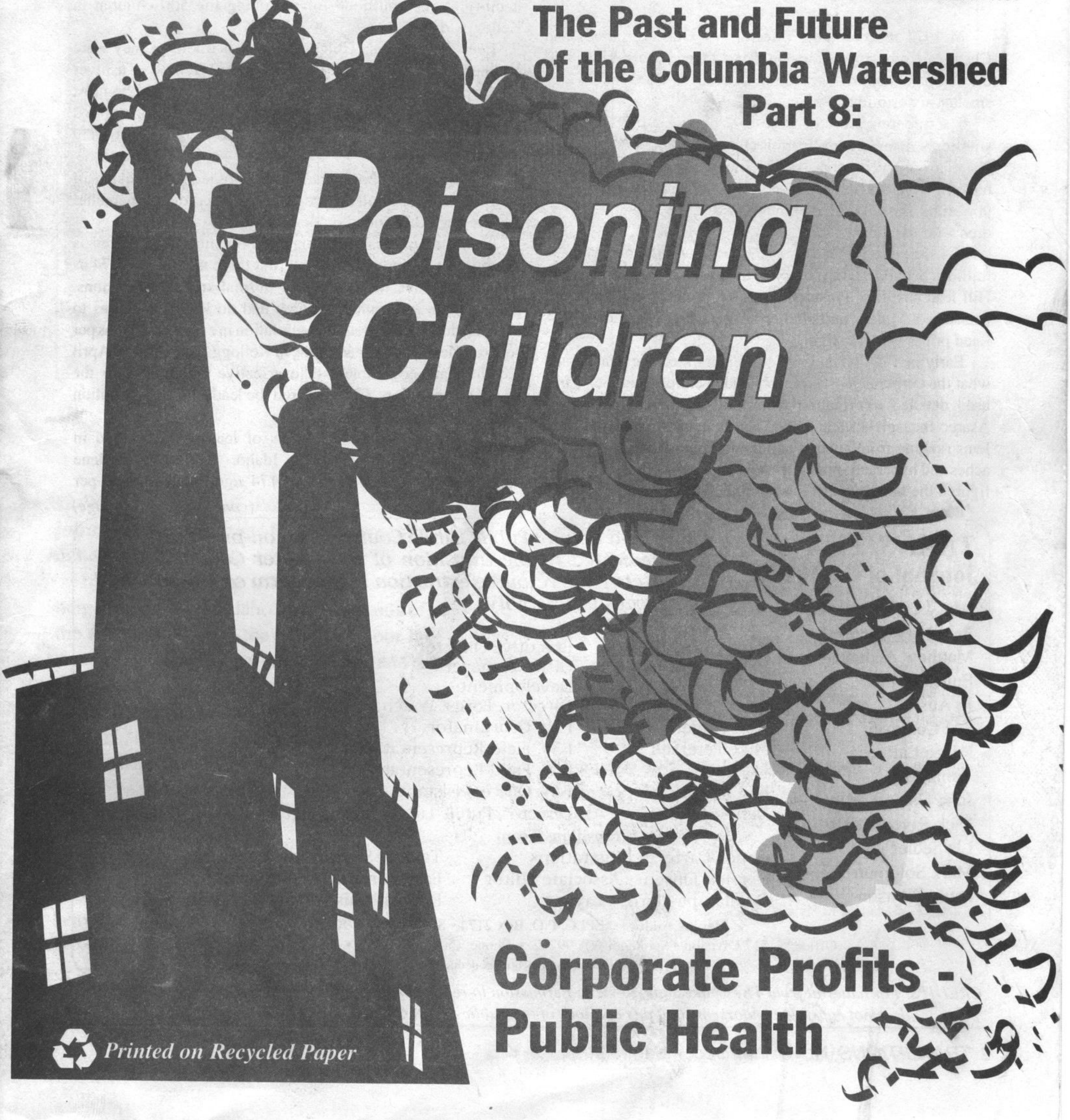
The Past and Future of the Columbia Watershed Part 8:

Poisoning Children



Corporate Profits - Public Health

Printed on Recycled Paper

Editorial

What else lies buried in Bunker Hill's mess?

Robie Russell, former regional administrator of the Environmental Protection Agency and native Idahoan, has a lot of explaining to do following release of the EPA inspector general's report charging that he obstructed cleanup of the Bunker Hill smelter site at Kellogg.

And he's not the only one.

According to the detailed report released Monday, Russell intimidated his subordinates in the EPA's Seattle office away from taking steps to require containment and cleanup of several serious threats to public health at the Bunker Hill site. That intimidation and obstruction continued until subordinates secretly attracted another federal agency, the Agency for Toxic Substances and Disease Registry, to the site.

After that agency reported directly to EPA Director William Reilly the gravity of Bunker Hill's continuing threat to the community surrounding Kellogg, the EPA finally began to do something about it. And Russell, who was reappointed to his post in 1989, abruptly resigned.

Russell said Monday the report's main finding is "wholly untrue."

That's a start. Now let us hear his version of the story—in its entirety.

Let us also hear from the following:

•Idaho industrialists Harry Magnuson, Duane Hagadone, Jack Simplot, Jack Kendrick and any other officials of the Bunker Limited Partnership who bought the Bunker Hill property and then allegedly profited from Russell's actions and their own repeated obstruction of government inspections. According to the report, they not only temporarily avoided the costs of stopgap measures to lessen the direct threat to the people of the Silver Valley, but also used the time to siphon their Bunker Hill assets into newly formed corporations, making it harder to recover them for later cleanup cost reimbursement.

Will that save them, and cost taxpayers, millions of dollars?

•Sen. James McClure, Russell's patron who helped him land his job in 1986 and retain it in 1989. McClure has praised Russell for the "balance" he brought to the position.

By that, does McClure mean balancing Bunker Hill's Superfund cleanup costs on the backs of federal taxpayers, rather than on the wealthy Republican donors who profited from the mess?

•Idaho Gov. Cecil Andrus, who has received and continues to receive substantial campaign contributions from both the sellers and buyers of the Bunker Hill property. The report outlines a January 1988 meeting during which Russell, other EPA employees and Bunker Limited officials allegedly discussed in the presence of "an assistant to the governor of Idaho" how enforcement at Bunker Hill might hurt the value of a stock offering the company was conducting.

What was Andrus' involvement, if any, in that meeting, and in any other activities affecting the Bunker Hill cleanup?

You can't read the inspector general's 18-page report without getting angry at the actions it outlines and the questions it raises. Every Idahoan, and every federal taxpayer, deserves to know if those actions are correctly relayed and what the answers to those questions are.

And they are waiting.—J.F.

Lewiston Morning Tribune
February 28, 1990

Chapter 3
Gulf USA Corporation

Editorial

Cleaning up or clearing out?

What if a crime were committed — a poisoning, say. Children were poisoned, scores of them.

No one died, but their lives were changed in sad and strange ways. This crime happened years ago. No one has been punished; what would punishment do to restore the fullness of life to those children?

To this day, much of the poison sits silently on the hills and in the gullies where it drifted all those years ago. By now the mastermind behind the poisoning would prefer to forget any of this ever happened. He has paid a good sum so far, to remove the worst of the poison, but little compared with the vast amounts that the king's men are demanding.

Now we learn that our mastermind is scheming to go adventuring in distant lands.

No fairytale, this. Instead, it's a horror story that brands Idaho's Silver Valley as one of the most contaminated residential sites in the United States, and earns Gulf Resources and Chemical Corp. ranking among the corporate cutthroats of our century.

Two revelations this summer raise fears that Gulf may try to gut the Silver Valley all over again.

Last week, it was reported that the Boston-based company is making its second attempt in two years to move its assets offshore. Last year it was Bermuda, now it's New Zealand. The federal government put the kibosh on Bermuda, but Gulf's legal beagles have done a better job with the New Zealand escape route. It's a clean plan, says Allan Bakalian, an attorney for the Environmental Protection Agency.

What Bakalian and others, including the Silver Valley's mining companies, fear is that Gulf's assets—an estimated $200 million—will be safe, hidden behind New Zealand's policy of no reciprocity with U.S. courts.

Mind you, Gulf has paid about $8 million so far for heavy metals cleanup. The firm is reported to have paid nearly 90 percent of the latest $3 million sum which the EPA demanded this summer from Gulf and the mining companies which EPA is holding partially accountable. Sounds law-abiding enough. What makes us suspicious enough to think they won't continue?

Let's backtrack to early July when a federal judge unsealed the records from the Yoss vs. Bunker Hill lawsuit, which was settled in 1982. Gruesome notes from a Gulf vice president show the company calculated the cost, per child, of lead poisoning. The company even inquired of a Silver Valley physician as to the level of lead present in local children.

Gulf, those documents show, placed profit over all that is holy. Life and health and the future of the miners' community.

Now this company has discovered a legal route out of the country. That makes us nervous.

The people who truly ought to be nervous are again the people of the Silver Valley. For if Gulf does get away the $100 million cleanup total will fall to the Silver Valley's mining companies. Yes, those same mines that are struggling to make it while silver has been stuck, interminably, shoulder-high to the $5 mark.

If those mining companies have to shell out the entire $100 million, as they could under Superfund law, that would be another crime against the Silver Valley.

August 19, 1990.

Andrus fears company will dodge cleanup bill

By Steve Massey
Staff writer

Idaho Gov. Cecil Andrus on Thursday asked the federal government to block any attempts by Gulf Resources and Chemical Corp. to dodge environmental cleanup obligations at a defunct Kellogg smelter site.

Andrus, in a letter to EPA Administrator William K. Reilly, voiced concern about Gulf's attempts to acquire properties overseas, depleting its cash reserves in the United States.

"I have grave concerns over Gulf's transferring its assets to avoid paying its share of the cleanup for this environmental degradation in my state," Andrus' letter states.

Gulf, along with several other mine owners and the Union Pacific Railroad Co., has been named as one of the "potentially responsible parties" for an estimated $100 million cleanup bill at the defunct Bunker Hill mine and smelter complex.

Last week, Gulf conceded that it was attempting a hostile takeover of an Australian mining company. But Gulf vice president and counsel Lawrence Mehl denied that the move was intended to deplete the company's American assets and, as a result, its ability to pay for cleanup at Bunker Hill.

Neither Andrus nor Mehl could be reached Thursday.

However, Andrus spokesman Scott Peyron said the governor wants to assure the people of Idaho that Gulf has the necessary resources to repair environmental damage at Bunker Hill.

The 21-square-mile area has been polluted by decades of lead mining and smelting operations. EPA has designated cleanup at Bunker Hill a national priority under laws commonly referred to as Superfund.

An EPA spokesman last week said that Gulf, so far, has cooperated with efforts to mitigate environmental damage at Bunker Hill. However, the agency is closely watching Gulf's moves to acquire Arimco, N.L. of Sydney, Australia.

In his letter, Andrus states that Gulf has been "shifting assets to New Zealand," despite an agreement with the U.S. Department of Justice to leave $185 million in the United States to pay for cleanup at Superfund sites that include Bunker Hill.

Gulf more than a year ago began acquiring commercial property in New Zealand.

Gulf's cash assets as of September 1991 were $36 million; its acquisition of Arimco reportedly would cost in excess of $30 million.

Andrus stated in his letter that Gulf "may initiate some further action by the end of this calendar year to further reduce or eliminate its ability to live up to its corporate responsibility to pay its environmental debts."

Firm's troubles cast doubt on Bunker cleanup

Head of Gulf USA ousted to prevent bankruptcy filing

By Steve Massey
Staff writer

The company largely responsible for a multimillion dollar cleanup at the Bunker Hill Superfund site is struggling to stay solvent after its top officers were ousted to block a bankruptcy filing.

Shareholders voted to replace the chief executive and operating officers of Gulf USA Corp. Friday after they released a statement declaring the company insolvent and saying a bankruptcy filing was imminent.

A new chief operating officer on Monday worked to diffuse that dire forecast, saying Gulf remains committed to meeting its obligations at Bunker Hill.

But a bankruptcy still may be filed to buy the company time to pay off investors, he said.

"I don't anticipate that Gulf's financial situation will have any effect on the cleanup at that site," said Bill Horn, who became Gulf's chief operating officer after Friday's hostile change of control. Horn holds the same position at Nycal Corp., a company that owns 44 percent of Gulf. Both companies have headquarters in Washington, D.C.

The fight for control of Gulf has state and federal officials nervous. The government wants to be sure that industry pays for widespread mine and smelting pollution in the 21-square-mile Superfund site centered at Kellogg.

"Certainly we're concerned that they (Gulf) remain viable and fully participate in the cleanup," said Robert Hanson, a Superfund project supervisor for the Idaho Division of Environmental Quality. Hanson declined further comment, saying that Gulf, the federal Environmental Protection Agency and several other companies considered liable for cleanup at Bunker Hill are negotiating a payment plan.

Idaho budget director Chuck Moss —who also advises Gov. Cecil Andrus on Superfund matters—said Gulf has indicated any bankruptcy would set aside cleanup money.

"There is some concern about the apparent uncertainty as to the exact structure of Gulf's management and the exact status of the bankruptcy," Moss said. He said the state believes that Gulf's reorganization plans would "divide up assets in a way" that satisfies EPA and its legal enforcer, the U.S. Department of Justice.

An EPA project manager for Bunker Hill, Beth Feeley, said environmental work continued at the site Monday. "I don't see any diminishing efforts," she said. "We've had no official indication that things are changing. '

None of several Gulf officers removed at the special shareholders meeting last week could be reached. Horn said current managers obtained a restraining order from a judge, forbidding past officers from commencing the bankruptcy. However, court hearings regarding a legal dispute over who controls Gulf are scheduled to take place this week, according to Horn.

Gulf is among more than a dozen companies considered liable to clean up or stabilize mining waste at the defunct Bunker Hill mine and smelter complex. Smelters there spewed lead and other contaminants throughout parts of the Silver Valley, ravaging the now-barren hillsides around Kellogg, Pinehurst and Smelterville.

"If Gulf isn't going to do it, it's kind of difficult . . . to get the others to commit to it."

BARBARA MILLER,
Idaho Citizens' Network

Gulf is expected to pay the lion's share of effort through a Kellogg subsidiary, Pintlar Corp.

Pintlar president Trey Harbert declined to comment on the Gulf matter, but stressed that work remains in progress.

According to sources familiar with the company and documents filed with the federal Securities and Exchange Commission, Gulf is immersed in a sea of debt and is uncertain about its future.

The company has deferred dividend payments on preferred stock and defaulted on bond issues. Last Friday, Gulf also announced a realignment in its board of directors, handing corporate reigns to William J. Scharffenberger, an industry turnaround expert credited with salvaging Wheeling-Pittsburg Steel Corp. from bankruptcy.

Scharffenberger now is Gulf's chairman, president and chief executive officer.

"He is a turnaround specialist who has successfully transformed Wheeling-Pittsburg and other financially distressed companies into profitable enterprises," Gulf said.

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Gulf deal leaves little for Bunker Hill waste cleanup

By Steve Massey
Staff writer

A federal government settlement with Gulf USA Corp. leaves taxpayers footing a mammoth bill for cleanup at the Bunker Hill Superfund site.

In particular, Idaho taxpayers will be asked to pay the state's share of cleanup costs. The

site, contaminated with mine and smelter waste, covers 21 square miles and includes the town of Kellogg.

"It certainly seems to indicate that the Bunker Hill cleanup will not be paid for by the companies that polluted the Silver Valley, but by taxpayers," said Scott Peyron, an aide to Idaho Gov. Cecil Andrus.

A proposed Gulf bankruptcy settlement, reported in The Spokesman-Review earlier this week, gives federal environmental claims less than $20 million from Gulf. More money may come from pending lawsuits. The company once had $160 million in its coffers, but diverted the money overseas as its liabilities skyrocketed.

Today, costs to clean decades of heavy metals pollution at Bunker Hill exceed $100 million.

State Budget Director Chuck Moss said Idaho may end up paying $12 million or so at Bunker Hill. Added to that could be millions more for maintenance of the property after it is cleaned.

"The major costs are going to be taxpayer costs," Moss said. "There will be a budget request to the next Legislature for at least $7 million "

The effect on state taxpayers will be more direct than federal taxpayers. Idaho will have to find a way to pay for its share of the cleanup. But the federal portion will come out of Superfund, a trust paid for by chemical and petroleum producers, Moss said.

Before Gulf was forced into bankruptcy last year, Andrus warned the Department of Justice that the company was diverting money overseas. In fact, Gulf has since admitted that former officers embezzled millions.

Justice department attorneys, in Coeur d'Alene this week for a bankruptcy hearing, declined to explain the government's apparent willingness to settle for so little money. The entire settlement has not been made public, nor has it yet been approved by the bankruptcy court.

Because Gulf's coffers were raided by insiders, Moss said the federal government may have gotten as much as it could in the bankruptcy.

Gulf attorneys earlier this week said the reorganization plan may be unveiled in a couple of months.

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Gulf's financial ability to purge pollutants from the Bunker Hill site is crucial, because other liable companies have shown reluctance to participate in Gulf's absence.

Idaho and EPA now are negotiating with the companies and are expected to reach a cleanup payment plan before the end of the year.

"Direct responsibility for the pollution has been accepted by Gulf, while the other 12 or 13 (companies) want to limit their costs and participation in the cleanup," said Barbara Miller of the Idaho Citizens' Network, a grass-roots watchdog group monitoring progress at Bunker Hill. "If Gulf isn't going to do it, it's kind of difficult for EPA to get the others to commit to it."

However, other mining concerns involved in cleanup negotiations insist they are not dodging responsibility. In fact, Hecla Mining Co. of Coeur d'Alene said the financial conditions of other companies at the bargaining table have no bearing on Hecla's cleanup stance.

"We will continue to negotiate in good faith with EPA and the state of Idaho," Hecla spokesman Bill Booth said in a written statement. "We hope that before too much longer, full-scale cleanup can begin. To date, far too much has been spent on endless studies and legal fees."

Gulf USA traces funds to Swiss bank

Angry pensioners told millions diverted abroad

By Steve Massey
Staff writer

Bankrupt Gulf USA Corp. on Monday surprised a group of angry pensioners, saying millions in company funds may have been diverted from a subsidiary and hidden in Swiss bank accounts.

Although the company cannot prove that former executives illegally siphoned funds from Gulf's New Zealand subsidiaries in 1989 and 1990, missing money has been traced to secret accounts, the company's attorney said.

"We're investigating whether monies were taken illegally from New Zealand subsidiaries," said Gulf general counsel William Russell. "Because of Swiss banking laws, we can't yet say whether those accounts were held by past officers or directors . . . but we think there's a good chance."

Regardless, the revelation of the missing money deals a blow to thousands of Inland Northwest pensioners who are worried that the company will not be able to fulfill its obligations to them. Gulf owes more than $100 million to retirees, a massive Superfund cleanup in Shoshone County and other creditors.

Russell spoke in Coeur d'Alene at a first meeting of creditors—a court-ordered hearing that gives them a chance to question a bankrupt firm. About 80 pensioners family members and attorneys representing other creditors attended the meeting. Pensioners met with their attorneys in Kellogg later in the day.

Gulf and its subsidiary, Pintlar Corp., operated the Bunker Hill mine and smelter complex in Kellogg until the early 1980s. The company was forced into bankruptcy last year by the pensioners and the U.S. Department of Justice.

Pintlar and Gulf together owe more than $150 million, including:

- $75 million to bondholders.
- Between $30 million and $80 million to more than 2,000 pensioners in North Idaho and Spokane. Most live in the Silver Valley.
- A portion of the $100 million cleanup cost at the Bunker Hill Superfund site. The cleanup is being administered by the federal Environmental Protection Agency.

However angered, pensioners attending the Coeur d'Alene meeting weren't concerned with any secret misdeeds of Gulf's former managers. They just wanted to know whether their pension payments and medical coverage would continue.

"For 27 years and one month, I was one of the people that produced the assets of this company," said retiree Pete Piekarski of Kellogg. "I invested quite a hunk of money over those years from my paycheck so that I would have these benefits."

Gulf late last week announced plans to sell off a coal subsidiary and settle some insurance claims to raise more than $3 million. The money, according to the company, will cover ongoing expenses through the end of the year, including pension and medical payments.

But pensioners sought—and did not get—assurance from Gulf that their benefits were safe indefinitely.

"If you add up all the hundreds of millions of dollars that each claimant puts forward . . . obviously there isn't enough money," said William Purcell, Gulf's president and chief executive officer. ". . . You (pensioners) certainly have been held in a pretty high priority position."

Gulf owns 91 percent of Gulf Resources Pacific Limited, a publicly traded real estate firm in New Zealand. The value of that holding is estimated between $34 million and $45 million, according to bankruptcy court records.

The money allegedly misappropriated in New Zealand supposedly was wrested from a predecessor to a subsidiary of Gulf Resources Pacific Limited.

Holdings in that company, by far, are Gulf's largest asset aside from several possible insurance claims covering environmental damage.

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Bunker files for bankruptcy, lays off 60

By Steve Massey
Staff writer

KELLOGG—Bunker Hill Mining Co. has filed for federal bankruptcy protection and laid off 60 employees in the face of mounting debt and low base metal prices.

The company filed for Chapter 11 bankruptcy protection late Thursday in Boise, then announced Friday that layoffs would go into effect immediately. The remaining 160 Bunker Hill employees were told their pay will be cut 10 percent.

Mining industry analysts did not show surprise when informed of Bunker Hill's bankruptcy filing. However, Joe Rosta of CPM Group Ltd. in New York City said the company's problems don't necessarily suggest other struggling mining companies will appear soon in bankruptcy court.

"I just haven't heard of any other base metal operations in that kind of trouble," Rosta said. "This could well be an isolated incident."

Most Bunker Hill miners had been bracing themselves for such a dose of bad news. Bunker Hill has announced two layoffs in as many months, and the company's financial woes are widely known.

"This is a necessity. We all knew it was coming," said Chuck Longley, a shaft repairman. "We kind of have to accept it."

Jim Minser, a surveyor who has worked off and on at the Bunker Hill mine since 1980, said he's optimistic that miners eventually will be asked to return to work. Minser and other miners acted upbeat Friday afternoon, just after company president Alan Richardson explained the bankruptcy and layoff plans.

The mine has assets no bankruptcy court can take away, Minser said. "It's a good mine. The rock is here and somebody will mine it, eventually."

Bunker Hill in recent months has been the target of

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However, Gulf Resources Pacific Limited is not a cash cow for pensioners and other creditors, Purcell said. "We're not able to get any cash from that company at this time."

Gulf also has told creditors that it may get substantial funds for Bunker Hill cleanup from policies held with Lloyd's of London and several U.S. firms. But Lloyd's and the other carriers are fighting Gulf's claims.

Money allegedly misappropriated during Gulf's move into New Zealand also could be retrieved through so-called "crime policies" which cover the illegal taking of money from the company, Russell said.

"The transactions are highly secret and difficult to trace," he told pensioners. Gulf also is investigating other alleged mismanagement by former insiders, Russell said.

Russell declined to name officers who allegedly mismanaged funds. However, shareholder lawsuits and a securities fraud investigation in New Zealand during the past three years have focused on former chief executive David Rowland.

Rowland was accused, but not proven, to have billed Gulf exorbitant sums to support a lavish lifestyle in Monaco. Gulf officials still believe Rowland is in Monaco or Britain, but reportedly have not contacted him.

Gulf merely confirmed Monday what pensioners, the EPA and Idaho officials have feared for years: that company assets were being diverted overseas in the late 1980s and 1990, a time when debts were mounting.

"It appears that this company has squandered a great deal of money over the last decade," said Stephen Berzon, a San Francisco attorney representing retiree medical benefits recipients. "We will support present management's attempts to get back some of that money."

In 1989, the U.S. Department of Justice thwarted Gulf's efforts to dissolve and reorganize in Bermuda. That also was the year Gulf began purchasing property and stock in New Zealand, spreading fear among pensioners and the government that the company was looking to dodge its obligations.

Just three months ago, Idaho Gov. Cecil Andrus blasted the U.S. Justice Department for sitting idle while Gulf funneled its money overseas.

Andrus could not be reached Monday.

January 1, 1994.

Ex-Gulf executives accused of looting

Millions wasted, suit alleges

By Steve Massey
Staff writer

Two former Gulf USA Corp. officers allegedly squandered millions on speculative investments such as New Zealand real estate, a Scottish castle and sunken treasure, according to a lawsuit filed this week.

In a complaint filed in U.S. Bankruptcy Court in Boise by Gulf, several past officers and directors—many of whom reside in exotic overseas locales—are accused of looting a $175 million nest egg between 1989 and 1992.

Assets were blundered away despite enormous debts to Inland Northwest pensioners the federal government and corporate bondholders, the lawsuit alleges.

Gulf was forced into bankruptcy by creditors last year. The company lists assets of $73 million, with liabilities exceeding $152 million.

While the company's lawsuit gives ample reason why Gulf is missing tens of millions of dollars, it offers no odds at recovering the money. Insurance companies that sold "crime policies" to Gulf may be liable for some of the losses, the company has said.

Former chief executives David J. Rowland and Graham F. Lacey—with the help or acquiescence of other officers and directors —spearheaded a three-year spending spree on shady investments, exorbitant expense accounts and management fees, Gulf's lawsuit states.

Gulf, which operated the Bunker Hill lead and zinc mine at Kellogg until 1981, owes pension and medical benefits to more than 2,000 North Idaho and Spokane retirees. It also is liable for most of a $100 million Superfund cleanup at Bunker Hill.

In its lawsuit, Gulf claims to have been the victim of systematic efforts to hide assets from creditors, including retirees and the federal government. Gulf seeks to recover money improperly spent. It has sued 16 former insiders, two companies and a Swiss bank—accusing various parties of fraud, corporate waste, civil conspiracy and misrepresentation.

"Obviously, we are trying to accomplish redress of an enormous wrong," said Joshua Angel, Gulf's bankruptcy attorney.

Neither the company nor creditors said what amounts of money realistically can be recovered from insurance companies or individuals. But there is widespread concern among pensioners that they will not receive all of their benefits.

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legal complaints from its creditors. Worse yet, investors have been hard to court, since the mine lies on one of the nation's largest Superfund sites.

A month ago, Bunker Hill's overdue tax bill was a sore spot among Shoshone County residents. Environmentalists fueled that concern by speculating that Bunker Hill might be attempting to escape Superfund cleanup liability by giving back control of its property to the county.

The bankruptcy filing has brought renewed accusations that Bunker Hill is looking for a way out of its Superfund liability.

"This could possibly have an effect on the resources available for cleanup," said Allan Bakalian, assistant regional counsel to the Environmental Protection Agency in Seattle. "We will be examining its (bankruptcy filing) position to see what we can do to preserve our claim."

The EPA has named Bunker Limited Partners, operators of the mine, as "potentially responsible parties" for cleanup at the 21-acre smelter and mining complex."

Despite the bankruptcy filing, the mine will remain open and produce roughly 1,800 tons of ore per day—about 20 percent less than average daily production before Friday's layoffs.

Richardson said Bunker Hill will continue to court European investors. About $10 million is needed to modernize the mine, reducing its production costs. In the meantime, he said "an immediate infusion" of working capital is needed to allow Bunker Hill to reorganize.

January 19, 1991.

(continued from page 61)

"I think the retirees are well-aware that there is not enough money in this company right now to pay all the claims," said Stephen Berzon, a San Francisco attorney representing retirees.

Former chief executive Rowland has an unlisted telephone number in Monte Carlo, Monaco, and could not be reached. Lacey, who lives on the Isle of Mann, in the United Kingdom also could not be reached Friday.

British financier David Kirch, who briefly was a director at Gulf last year, denied any knowledge of wrongdoing when reached at his home on the Isle of Jersey. Kirch is a majority shareholder of Nycal Corp., a company used by Lacey to acquire a controlling interest in Gulf.

Kirch said he and another Nycal shareholder successfully ousted Lacey at that company, citing concerns about expenditures. Because of this, Nycal asked Kirch to sit temporarily on Gulf's board of directors.

"There were colossal expenses that we were unhappy with" at Nycal, Kirch said.

While Kirch distanced himself from allegations Friday, he reportedly benefited from Lacey's dealings. According to a Forbes magazine profile of Lacey last year, Kirch swapped heavily leveraged real estate in Paris and the United Kingdom to a Gulf subsidiary in exchange for Nycal stock.

Although he was surprised to be named in Gulf's lawsuit, Kirch said it is appropriate for Rowland and Lacey to be scrutinized. He declined to elaborate.

In early 1989, a subsidiary of a company controlled by Rowland— Inoco, PLC—acquired a controlling interest in Gulf. The acquisition was made with the aid of a Swiss bank, Interallianz Bank Zurich, A.G. (IBZ), the lawsuit alleges.

"Rowland acquired control . . . for the purpose of using Gulf's cash and other assets for speculative and irregular investment ventures and to convert Gulf's assets for his own personal benefit," the lawsuit alleges.

Rowland's purported spending spree, according to the lawsuit, included:

•$2 million for expenses related to town houses and offices in Monaco, London and New York.

•$75 million for commercial real estate in Auckland, Christchurch and Wellington, New Zealand. The aggregate purchase price for 25 parcels was in excess of $145 million.

•A $32.9 million "loan" to a New Zealand investment company allegedly used by Rowland to divert Gulf's money out of the United States and into New Zealand.

•$32.5 million for stock in a British retailer, Storehouse PLC. The stock was acquired from a company controlled by Rowland and his family members. Gulf is a natural-resource company; therefore, the retail acquisition ran contrary to its normal course of business. The deal allegedly let Rowland bail a family trust out of its stake in Storehouse.

In addition, in 1990 and 1991, Rowland ordered a Gulf subsidiary to invest in more than 50 stock trades. The Swiss bank, IBZ, allegedly conspired with Rowland to carry out the trades, which lost $6 million.

In connection with the New Zealand property purchases, Rowland and affiliates allegedly set up fictitious companies which were paid "finder's fees." The fictitious companies enabled Rowland and his associates to pay themselves several million dollars in fraudulent fees, the lawsuit claims.

Lawrence Mehl, who served as Gulf's corporate counsel under Rowland's leadership and is named in the lawsuit, denies any knowledge of the alleged looting.

"I made every effort to ensure that everything was done the right way and was done legally," Mehl said in a telephone interview from Boston. He declined further comment.

Mehl was among Gulf officers who assured Silver Valley residents in 1991 that the company was not trying to hide its assets overseas to escape liabilities in Idaho.

In mid-1991, Nycal acquired a controlling interest in Gulf. Lacey, who at that time was Nycal's chief executive officer, was named chief executive at Gulf.

According to the lawsuit, Rowland conspired to buy an industrial site in the United Kingdom for $11.5 million with Gulf's money. More than $3 million in assets were stripped from the site, which then was resold to a Gulf subsidiary for $16 million.

Apparently dissatisfied with an $8 million profit, Rowland and associates—aided by Lacey—bought the industrial property back with Nycal shares valued at less than $4 million the lawsuit states.

Lacey also is accused in the lawsuit of using associates and other companies to charge $2 million in management fees, expenses and other payments to Gulf.

He allegedly arranged for a $900,000 loan from Gulf to a Nycal director.

Details of mismanagement at Gulf have angered the U.S. Department of Justice and the federal Environmental Protection Agency, charged with oversight at the Bunker Hill Superfund site. Because it is unclear how much, if any, money can be retrieved, Gulf's cleanup role is uncertain.

Two former officers have reached settlements with Gulf. Those agreements are expected to be reviewed by the Bankruptcy Court at a hearing in Coeur d'Alene next month.

"Obviously, we hope to recover some of the monies lost to these activities," said Ted Yackulic, EPA's regional counsel in Seattle.

Gulf USA traces funds to Swiss bank

Angry pensioners told millions diverted abroad

By Steve Massey
Staff writer

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But pensioners sought—and did not get—assurance from Gulf that their benefits were safe indefinitely.

"If you add up all the hundreds of millions of dollars that each claimant puts forward . . . obviously there isn't enough money," said William Purcell, Gulf's president and chief executive officer. ". . . You (pensioners) certainly have been held in a pretty high priority position."

Gulf owns 91 percent of Gulf Resources Pacific Limited, a publicly traded real estate firm in New Zealand. The value of that holding is estimated between $34 million and $45 million, according to bankruptcy court records.

The money allegedly misappropriated in New Zealand supposedly was wrested from a predecessor to a subsidiary of Gulf Resources Pacific Limited.

Holdings in that company, by far, are Gulf's largest asset aside from several possible insurance claims covering environmental damage.

(continued on next page)

Chapter 4
EPA and the Justice Department

Editorial

Gulf USA investigation justified, long overdue

Bunker Hill retiree Pete Pikarski says he doesn't know if hell exists, but if it does, he'd like to think there's a warm place in it for some ex-officers of Gulf USA Corp., who have been accused of looting funds set aside for pensions, insurance premiums and Superfund cleanup.

Millions of dollars allegedly were mismanaged through speculative investments in New Zealand real estate, a Scottish castle and sunken treasure. Gulf is suing the former officials for the return of the money.

Pikarski's frustration is understandable and justified. "It's hard for any of us to comprehend what they did to us because we couldn't do that to someone else in good conscience," he said.

Idaho's congressional delegation and House Speaker Tom Foley must insist that the U.S. Department of Justice and other agencies do whatever is possible to avenge and protect the aging and often ailing pensioners, the most vulnerable group of Gulf creditors.

Even before the foxes gained entry to the henhouse, there wasn't enough money to go around. Gulf—with assets of $73 million and liabilities of more than $152 million—also is liable for most of a $100 million Superfund cleanup at Bunker Hill.

The retirees feel betrayed by their congressional representatives for not protecting them five years ago, when strong evidence existed that Gulf officials were trying to run from their obligations.

In 1989, the corporation attempted to dissolve itself and reorganize in Bermuda, a tactic that could have insulated Gulf from U.S. courts. But the Environmental Protection Agency blocked the move. Later that year, Gulf's management began shifting nearly all the corporation's assets, formerly in cash and U.S. resource holdings, to New Zealand and possibly beyond the jurisdiction of U.S. courts.

Now, angry pensioners have learned that millions in company funds may have been diverted from a subsidiary and hidden in Swiss bank accounts.

Pikarski, 77, can only hope his health holds while the lawyers battle over Gulf assets. His small Bunker Hill pension, Social Security, debt-free home, wood stove and large garden enable him to maintain his independence.

Others aren't so lucky and will be at the mercy of public assistance indigency programs if Gulf's medical benefits end. They paid for those benefits and deserve better from the company that slowly poisoned them and their children.

February 2, 1994.

Editorial

Wallets out, suckers: Bunker Hill bill is due

The bill for the federal government's playing possum while the Bunker Hill smelter's former owners siphoned away money that should have been used to clean up their poisonous legacy is coming due. But it isn't just federal taxpayers who will be stuck with it; Idahoans get to pay a full 10 percent on their own.

Chuck Moss, budget director for Gov. Cecil Andrus, says he is adding $7 million to a budget request that will go to legislators next January. That money would cover part of the state's obligation under the federal Superfund law, he says.

But, Moss admits, "I think it will be a tough sell. "

It should be. At one time, Gulf Resources and Chemical Corp., the Houston-based former owner that abandoned Bunker Hill, had more than enough money to clean up its own mess. But the Environmental Protection Agency's Seattle staff sat on its hands as the money vaporized, purportedly into bad foreign investments but, according to one attorney for the company's bankrupt descendant, more likely into Swiss bank accounts. At last report, Gulf's former chairman, David Rowland, was nursing his wounds at his home in Monte Carlo, Monaco.

No one in the federal government has yet been required to answer for that. And it appears that no one will.

Meanwhile, the people responsible for that negligence can continue ordering the Bunker Hill cleanup project knowing that, under the Superfund law, someone will pay. That someone is the Silver Valley's remaining mining industry, which has agreed to undertake part of the cleanup, and the taxpayer, who will pay once if living in the 49 other states and twice if living in Idaho.

It isn't as if Idaho can walk away from this project, however. Doing that would permit Bunker Hill's contamination of the Kellogg community to continue for decades after it deliberately poisoned children by running its smelter without its pollution control equipment.

State government cannot let that happen. However much legislators dislike charging their constituents for this fiasco, they would be irresponsible to reject putting up the state's 10 percent share.

And they and most of their constituents can still take comfort in the fact that they do not top Gulf Resources' sucker list. That distinction goes to the Bunker Hill pensioners, whose future health and retirement benefits are worth about as much as the EPA's record for accountability.—J.F.

Lewiston Tribune
August 2, 1994

Gulf insurers balk at paying claims

By Steve Massey
Staff writer

Insurance carriers who sold policies protecting Gulf USA Corp. officers from fraud claims are balking.

So-called directors and officers liability insurance is being tapped to pay into Gulf's bankruptcy estate. Millions of dollars in payments to Gulf's creditors — including Inland Northwest pensioners—could hinge on whether the insurance policies are found to be valid.

Two carriers sued Gulf's former officers in Delaware last week, asking a judge to excuse the insurance companies from paying the claims.

Bankrupt Gulf owes millions to the pensioners, the Bunker Hill Superfund cleanup and corporate bondholders. Earlier this year, Gulf revealed that several past officers allegedly diverted millions of dollars overseas, either stowing it away in Swiss bank accounts or wasting it on lousy investments.

As a result, Gulf sued those officers and tried to cash in on so-called crime insurance policies.

Fidelity and Casualty Co. and The Continental Insurance Co. argue that those policies do not apply. Clauses in the policies state that claims were intended to help stockholders or other individuals who are hurt by corporate fraud.

Gulf can't commit fraud and then because of a change in management, try to pursue claims from insurance carriers, the lawsuit states.

Neither the insurance carriers nor Gulfs attorneys could be reached on Monday.

In a related matter, two former Gulf officers have been dropped from the list of those being sued for fraudulently diverting funds to New Zealand. David Angelicchio, a former chief executive said he suspected Gulf's real estate dealings in New Zealand were suspicious, but could find no proof of wrongdoing.

Angeliccio settled with Gulf, paying back $75,000 out of a $300,000 severance package he received when he was fired.

Another former officer, Albert Hawk settled by paying back $60,000 out of a $105,000 severance package.

Bankruptcy Judge Alfred Hagan approved those settlements earlier this month

April 19, 1994.

Gulf settlement proposal may not help basin

By Steve Massey
Staff writer

COEUR d'ALENE — Gulf USA Corp. on Thursday unveiled a $14.2 million settlement with insurance carriers for policies covering environmental damage to the Coeur d'Alene River Basin.

A federal judge approved the settlement at a bankruptcy court hearing in Coeur d'Alene. But it's unclear whether the money will be used to clean up pollutants in the basin, primarily those within the Bunker Hill Superfund site in Kellogg.

Gulf operated the Bunker Hill mine and smelter complex until 1981. The company was forced into bankruptcy a year ago. It now owes pension and medical benefits to more than 2,000 North Idaho and Spokane retirees. The company also is liable for most of a $100 million Superfund cleanup at Bunker Hill.

In the complex agreement approved Thursday, Gulf struck a deal with several Lloyd's of London syndicates, settling legal disputes over environmental coverage. Policies held by Gulf dated back to the 1950s and, according to Gulf, covered remediation costs at Bunker Hill.

Lloyd's of London is famous worldwide for insuring everything from the Titanic to rock stars and jumbo jets. Its managers have been blamed for gross incompetence by causing investor losses linked to Hurricane Hugo and the Exxon Valdez oil spill.

The Lloyd's of London affiliates—several companies referred to collectively in the Gulf settle-

(continued on next page)

Editorial

The miners pay while smelter owners skate

Here's a new definition of lopsidedness from Idaho's Silver Valley. Four mining companies will spend between $30 million and $40 million to help clean up decades' accumulation of pollutants around the former Bunker Hill smelter at Kellogg. What the actual operators of the smelter will spend is anyone's guess.

That isn't because the federal Superfund cleanup agreement unveiled to community residents' Wednesday night is unfairly written. It's because the former owners were unfairly permitted to skip out on their responsibilities.

The agreement calls for ASARCO, Hecla Mining Co., Sunshine Mining Co. and Coeur d'Alene Mines Corp. to pay the $30 million to $40 million for replacement of lead-contaminated dirt in residential yards around the smelter site and to clean up other areas as well. But the bill for the smelter property itself and other unpopulated areas, estimated at about $60 million, is to go to Gulf USA Corp., the descendant of me Houston-based Gulf Resources and Chemical Corp. that owned and operated the Bunker Hill mine and smelter.

Trouble is, Gulf USA inherited all the liabilities but little of the cash of its forebear. And liabilities that include pensions to former Bunker Hill workers as well as environmental cleanup have driven the company into bankruptcy.

Although Gulf could have easily paid its share of the cleanup costs at the time it closed the smelter and threw 2,000 Idahoans out of work, bungling by the federal government enabled company officers to strip it nearly clean before the bill came due. The Spokesman-Review reported Friday the company is selling marginal coal properties to raise some $3 million for pensioners and retrieving another $500,000 in severance payments given to executives ousted last year.

That's peanuts, of course, especially compared to the $160 million Gov. Cecil Andrus says Gulf had in assets when the state began pleading with the feds to turn on the deep freeze.

The news Kellogg residents received the other night must make them grateful they still have so many good corporate neighbors. But it must also leave them wondering, after being so plundered by the wheeler-dealers who operated Gulf Resources, what they ever did to deserve so much help by the federal government. —J.F.

Lewiston Morning Tribune
January 9, 1994

(continued from page 68)
ment as Hort and Cos. —denied any obligation to cover Gulf's pollution.

Some of those insurance companies now are insolvent.

"It may be that some of the (affiliates) in Lloyd's of London may not be liquid. . . so we may not be able to get the full $14 million," said Gulf attorney Randall Peterman.

Peterman said money recovered in the settlement likely will remain untouched until Gulf and the U.S. Department of Justice can agree on its use.

If Gulf cannot recover at least $13 million through its settlement, the deal can be scrapped, and lawsuits against insurance carriers continued.

November 4, 1994.

Gulf hit with two claims exceeding $1 billion

Government, tribe seek funds for mine damage

By Steve Massey
Staff writer

The federal government on Monday filed a $1.1 billion claim against Gulf USA Corp., saying the bankrupt firm is liable for repairing widespread damage to the Coeur d'Alene River Basin.

Also on Monday, the Coeur d'Alene Tribe filed a $1.39 billion claim against Gulf. Citing similar environmental damage, the tribe seeks additional compensation for spiritual, cultural and subsistence losses suffered when its ancestral lands were polluted.

It seems impossible for either claim to be paid in full. Gulf, insolvent for months, doesn't have the money.

In both claims, the price tag exceeds by ten times the amount of money Gulf is expected to have available for all of its creditors, including thousands of Inland Northwest pensioners.

And that's a best-case scenario. Much of Gulf's money is tied up in overseas assets whose value is uncertain.

Gulf operated the defunct Bunker Hill mine and smelter complex until the early 1980s.

Lead and other pollution spewed from that complex is blamed for fouling water, poisoning wildlife and posing human health risks far away. A path of pollution stretches west from Kellogg to Lake Coeur d'Alene.

"The damages have gone far beyond the Bunker Hill site," said Nick Ceto, a Superfund project manager.

Gulfs bankruptcy attorneys did not return phone calls Monday afternoon.

In documents filed in bankruptcy court, the U.S. Department of Justice said Gulf owes the government millions for past and future cleanup costs. The company also must compensate the public for land uses that have been lost because of pollution. Such uses include recreation and logging.

Included in the government's claim against Gulf are costs associated with cleaning up a lead smelter at Harbor Island, Wash., near Seattle.

Here's a breakdown of the government's claim:

•$106 million in past and future cleanup costs at Bunker Hill and Harbor Island.

•$658 million to restore natural resources ruined by mine and smelter pollution throughout the Coeur d'Alene Basin.

•$400 million to compensate for lost resource uses such as aesthetic values, fishing, camping, hunting and timber production.

The federal government is among many creditors fighting for a piece of Gulf's remaining assets. Pensioners and corporate bondholders claim to be owed about $60 million and $80 million, respectively.

Creditors—with perhaps the exception of pensioners —do not expect their claims to be paid in full. It's standard practice in bankruptcy for creditors to state the maximum amount they could possibly be owed—not the sum they're likely to receive.

Bankruptcy law requires claims to be separated into classes. Each creditor group or class is then assigned a payment priority.

Bob Bostwick, a spokesman for the Coeur d'Alene Tribe, said the site of its claim may at least help the public understand the magnitude of environmental damage to the Coeur d'Alene Basin.

"Any money the tribe gets, if it ,gets any, goes to restoration," Bostwick said. "But this claim was filed (in part) ... to provide some sort of perspective to the non-Indian public what this means to the tribe."

Sources familiar with Gulf's bankruptcy have shrugged off the size of claims by the government and the tribe. The company's only valuable assets are its ownership in a New Zealand real estate holding company and commercial property in Pennsylvania.

Values of those two assets, by most measures, are less than $100 million.

"We're dealing with a finite pie," said Ford Elsaesser, a Sandpoint attorney representing corporate bondholders.

Stephen Berzon, a San Francisco attorney representing Bunker Hill pensioners, said the government claims should not be paid at the expense of retirees.

"The size of the government's claim does not change what the retirees are entitled to," Berzon said. "In our opinion, the retirees should come first not last.

Several mining companies, not just Gulf, are blamed for contributing to pollution in the basin.

However, Gulf once had a $175 million nest egg reserved for cleanup at Bunker Hill. The company recently disclosed that former managers allegedly diverted millions overseas between 1989 and 1992.

The firm now is suing former officers and directors to retrieve some of that money.

Spokesman-Review, 4-12-94 (Spokane, WA)

Editorial

Bunker Hill's fleecing of Idaho isn't over yet

First, the people who used to own the Bunker Hill company plundered Idaho. They poisoned Kellogg children as they highgraded the Kellogg mine, and then walked away, leaving more than 2,000 people out of work.

Then, they plundered their own company, Gulf Resources and Chemical Corp. (now Gulf USA Corp.). They stripped it nearly clean, leaving many of the same workers they earlier abandoned to wonder whether their guarantee of medical benefits is worth the paper it's written on, and federal taxpayers to wonder whether they will be stuck with mammoth Bunker Hill cleanup costs. Money that didn't go into golden parachutes for Gulf Resources' former officers—now living the high life as nearby as Hayden Lake—went into attempts to start over elsewhere, first in the Bahamas and later in New Zealand.

And now, as Gulf USA reports few assets aside from New Zealand real estate and hovers near bankruptcy, Environmental Protection Agency attorney Ted Yakulic says, "There's really no point in armchair quarterbacking."

The hell there isn't. Something went very wrong between the Seattle office of the EPA and the Justice Department during the decade since the Bunker Hill smelter was shut down, and someone should find out what it was. Even after the government identified Gulf Resources as a party potentially responsible for the Superfund cleanup of Kellogg's piles of pollutants, the plunder continued.

As Idaho Gov. Cecil Andrus tells it. "We tried to get the Justice Department to clamp down on them, to tie up their assets so they would not be depleted. The federal government, frankly, turned a deaf ear to us. ...We watched assets be depleted from $160 million to what is almost negligible now."

Andrus has good reason to complain. His state wasn't just played for a patsy by the slickers at Gulf Resources' Houston headquarters; it is now obliged to pay 10 cents for every dollar the feds spend on the Bunker Hill cleanup and cannot reclaim from those who made the mess.

Idaho's share could run to $10 million or more.

That kind of money could not only pay for the education of a large number of Idaho schoolkids, it could pay for some pretty fancy quarterbacking — and not just of the armchair variety.

So let's schedule the kickoff. If the people of Idaho are going to have their pockets picked in this escapade, the least they should get in return is to see the game. —J.F.

Lewiston Morning Tribune
October 25, 1994

POISONING CHILDREN

By John Osborn

[Turn to pages 20 - 111 for related articles]

In 1974 the corporate directors of Gulf Resources and Chemical Company of Houston, Texas faced a decision: Should the company continue operating a damaged Bunker Hill lead smelter in north Idaho?

The dilemma arose because in September, 1973, the lead smelter's primary pollution control device, called the "baghouse," had burned. If Gulf continued operations it would have to vent lead-contaminated smoke directly into the air, poisoning surrounding communities and the vulnerable children who lived there.

But the price for lead was on the rise: Gulf stood to make millions of dollars if the company did not shut down the Bunker Hill lead smelter. President Nixon's price controls had just been lifted. Miners' and smelter workers' wages remained low. Lead prices were rocketing.

Early in 1974 when Gulf's directors met, they calculated what the corporate cost for each leaded child would be. They used detailed information from El Paso, Texas, where an Asarco Inc. smelter had leaded children, causing health problems ranging from anemia and mental retardation to stomach aches and hyperactivity. Gulf's vice president Frank Woodruff figured the liability: "El Paso—200 children—$5 to $10,000 per kid," according to the record. Gulf's directors estimated the liability at "6-7 million" for poisoning the 500 children in Kellogg, Idaho.

Even prior to this, Gulf's directors had known they were putting an Idaho community at risk. In 1972 Gulf asked a Silver Valley physician to check Kellogg children's lead levels: most were elevated. Gulf's response was to begin moving salaried employees out of harm's way. Wage workers, in contrast, were never warned.

The corporate "bottom line" determined the decision of Gulf's directors: Gulf would continue operating the smelter and poison the surrounding communities.

The communities of Kellogg and Smelterville suffered as much lead contamination in the first three months of 1974 as they would have in 20 years of normal smelter operations. Idaho's state government (which had no lead regulations to enforce) documented lead accumulation in excess of 30 tons per square mile over one year's time in Kellogg. But not until April did the state government take effective action to stop the smelter's operation. Gulf repaired the lead smelter's pollution control devices.

By August the highest levels of lead ever recorded in humans were being recorded in Idaho. A little girl, Arlene Yoss, had blood lead levels of 174 *ug*/dl (micrograms per

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TRANSITIONS
Journal of the IEPLC

The Inland Empire Public Lands Council is a non-profit organization dedicated to the transition of the greater Columbia River ecosystem from resource extraction to long term community and biological sustainability.

Mailing Address: IEPLC, P.O. Box 2174 • Spokane, WA 99210
Office: S. 517 Division • Spokane, WA 99202 • Phone: (509) 838-4912 • Fax: (509) 838-5155

deciliter, with 10 *ug* being the current threshold of concern); her sister Edie, 122; and her brother Ray, 111. In 1977 the Yosses and another family sued Gulf Resources for $20 million. In 1981 the families settled for $6.5 - $8.8 million, depending on how long the children lived. Later other children joined the original families in seeking damages from Gulf, bringing the total estimated cost of the settlement to about $30 million. The court records were then sealed from the public — later to be opened in 1990 by Judge Ryan.

In 1981 Gulf closed the Bunker Hill smelter, Idaho's largest employer, putting nearly 2,200 employees out of work and devastating the local economy. Gulf earned more than $88 million in tax credits through the 1981 tax reform.

In 1982 Gulf sold the Bunker Hill properties for $9.8 million to Bunker Limited Partnership of Jack Kendrick, J.R. Simplot, Harry Magnuson, and Duane Hagadone. Bunker LTD dismantled and sold parts of the Bunker Hill complex: in 1987 more than 4 miles of lead-contaminated railroad ties and rails were removed. What Bunker LTD did with the salvaged materials is unknown, but it was speculated that railroad ties were sold to unsuspecting families in nearby Spokane for landscaping.

Bunker Limited Partnership had help from Idaho's political establishment. James McClure, former U.S. Senator and current lobbyist in Washington, D.C., for mining companies, helped secure the appointment of Robie Russell as EPA's regional administrator in 1986 and 1989. With Russell at EPA, Bunker LTD transferred assets elsewhere to avoid liability. Russell thwarted his EPA staff. The EPA staff then secretly contacted the ATSDR (Agency for Toxic Substances and Disease Registry). ATSDR took the steps to protect human health. Russell's actions were documented in a 1990 report by EPA's inspector general. Immediately prior to the report's release Russell abruptly resigned.

Bunker LTD was not alone in trying to dodge cleanup costs. Gulf also worked to transfer assets. In 1989 Gulf's move to Bermuda was blocked by EPA and the Dept. of Justice (DOJ). EPA and DOJ failed, however, to block subsequent Gulf efforts at transferring assets out of the United States. Gulf corporate officials, led by David Rowland and Graham F. Lacey, were later accused of systematically looting $175 million between 1989 and 1992. Gulf left behind enormous debts to pensioners in Idaho and Washington, debts for the cleanup, and debts to bondholders. As a result of bankruptcy proceedings ending in 1994, pensioners lost 25 percent of their medical benefits. Most of Gulf's cleanup costs, estimated at $100 million, will now fall to taxpayers in Idaho and nationally.

The cleanup is underway. In 1982 EPA created the nation's second largest Superfund site, a "box" covering 21 square miles and 7 river miles — a small fraction of the contaminated Spokane-Coeur d'Alene watershed. In 1985 Superfund cleanup projects began and continue today. In 1991, in part because of the failure to clean up the larger Spokane-Coeur d'Alene watershed outside the "box," the Coeur d'Alene Tribe sued 8 mining companies, Union Pacific Railroad, and the State of Idaho.

There is good news: The children's blood lead levels have dropped dramatically since 1974 due largely to closing the smelter, removing soil from yards, and teaching parents how to limit exposure. In 1994 blood lead levels sampled inside the Superfund "box" were the lowest since testing began in 1974. Still, 17 percent of the 416 children tested had levels above 10 *ug*/dl. The figure is up compared with data from 1993 when 14.8 percent of those tested were above the 10 *ug* mark. Outside the Superfund "box," data on children's lead levels are unavailable.

Resource extraction is giving way to tourism in Idaho's Silver Valley. Some of America's richest and most dramatic mining, forest, and railroad history occurred in Idaho's Silver Valley, and this potentially lucrative history is now "mined" by a growing recreation trade. Towering above the Bunker Hill complex is Silver Mountain where skiers now ride a state-of-the-art gondola (funded in part by local taxpayers and by McClure's $6.4 million addition to the Forest Service 1987 appropriations bill).

And what of the future of the cleanup effort in one of the world's most contaminated watersheds? For a society more comfortable with "quick fixes," the long-term commitment needed to restore the Spokane-Coeur d'Alene watershed is a challenge. Yet failure to clean up will continue to result in significant impacts on the health of humans, wildlife and fish, and the region's economy.

Recognizing this, the state of Idaho under recently-retired Cecil Andrus worked with the Coeur d'Alene Indian Tribe to develop a proposal that combined (1) funding with (2) an institutional framework for the long-term cleanup. Both former Speaker Tom Foley and Rep. Larry LaRocco committed themselves publicly to cleaning up the watershed.

Today Andrus, Foley, and LaRocco are gone from political power. But the heavy metal problems remain — compounded in the Spokane-Coeur d'Alene watershed by massive overcutting of forests. Elections in 1994 may have changed political decision-makers, but they did not erase the huge environmental deficits that have been accumulating here during the past century. Political leadership and courage is needed now more than ever.

CEO says Gulf officials plotting rip-off

British insiders are accused of scheming to make millions manipulating the company's bankruptcy reorganization

By Steve Massey
Staff writer

Bankrupt Gulf USA Corp.'s top officer says the firm is overstating debts and undervaluing real estate, scheming to defraud the public and its creditors.

William Purcell, Gulf's chief executive officer, has disclosed to the U.S. Department of Justice that his company is being run by insiders and lawyers looking to line their own pockets.

"I feel the present board of Gulf is not acting properly and is not meeting its fiduciary obligations. "

William Purcell, Gulf CEO

Confidential letters from Purcell to the Justice Department, obtained by The Spokesman-Review, suggest that British insiders are plotting to make millions by manipulating the company's bankruptcy reorganization plan.

"I feel the present board of Gulf is not acting properly and is not meeting its fiduciary obligations," wrote Purcell, who was suspended without pay earlier this week by Gulf's board of directors.

Because of Purcell's allegations, a federal judge this week ordered an examination of Gulfs business dealings.

Gulf operated the infamous Bunker Hill mine and smelter complex in Kellogg until the early 1980s, polluting the Coeur d'Alene River Basin with high doses of lead and other toxic metals.

The company now owes more than $100 million for environmental cleanup. It owes another $70 million to bondholders, and more than $30 million to Inland Northwest retirees for pension and medical benefits.

Most of the retirees live in North Idaho and Spokane.

The court-appointed examiner will search out whether "any persons engaged in illegal or improper conduct," according to an order written by U.S. bankruptcy Judge Alfred C. Hagan this week.

Confidential letters from Purcell to the Justice Department, the Coeur d'Alene Tribe and attorneys for corporate bondholders were attached to documents filed in federal court on Thursday.

Gulf's bankruptcy lawyers said they will not fight an independent examination of company financial records.

"We really don't have any objection . . . but the timing is bad, because we're at a critical point in getting the (reorganization) plan done," said attorney Randall Peterman of Boise. "We want to see the examiner do his job quickly and efficiently."

Peterman had not seen Purcell's letters and would not comment on whether allegations of fraud and mismanagement are appropriate.

Purcell detailed a pattern of unusual activity spearheaded by British financier William "Willi" Stern and his friend, Jay Miller, who is Gulf's chairman. Stern is a majority shareholder and CEO at Nycal Corp., which owns a controlling interest in Gulf.

Gulf's primary liabilities are its environmental obligations and ongoing retiree medical benefits. The company's only significant assets are New Zealand real estate.

Gulf proposes to reorganize its debts by seeking outside investors and selling off property. But investors interested in such a deal so far are hardly outsiders.

Associates of current board members plan to buy a controlling interest in the property for pennies on the dollar. According to Purcell, Gulf has grossly understated the value of the New Zealand property.

For example, British financier David Kirsch reportedly is interested in putting $9 million into a reorganized Gulf. Kirsch controls Nycal along with Stern and

(continued on next page)

Gulf, Hagadone settle legal dispute

Deal resolves claims over Bunker Hill sale

By Steve Massey
Staff writer

COEUR d'ALENE—Gulf Resources and Chemical Corp. and North Idaho businessman Duane Hagadone have settled a legal dispute centered around the purchase of the Bunker Hill mine complex nearly a decade ago.

"All claims against Duane (Hagadone) have been settled," said Larry Mehl, Gulf vice president and general counsel.

Hagadone did not return telephone calls Thursday.

In November 1982, Gulf sold the Kellogg mine complex to the Bunker Limited Partnership—then comprised of a company controlled by Hagadone, Wallace businessman H.F. "Harry" Magnuson, a company controlled by Boise industrialist J.R. Simplot, and Kellogg mine executive Jack Kendrick.

Gulf later sued the partnership and its principals, alleging they breached terms of the sale agreement and defaulted on certain pension obligations Gulf made when it owned the mine complex. Gulf claims to be owed in excess of $52 million by the partnership and its principals. However, the partnership has filed counterclaims against Gulf.

Simplot's company, Simplot Development Corp., dropped out of Bunker Limited in 1987.

Mehl declined to specify monetary terms of the settlement with Hagadone, citing confidentiality agreements. Gulf sought slightly more than $1 million on the pension guarantees alone, Mehl said, adding that the settlement agreement addresses the alleged pension liability.

Last fall, Gulf and Simplot Development reached a $1.1 million settlement which removed the company from further litigation in the Bunker Hill matter, according to Gulf.

Second District Judge John Bengtson earlier this year ruled that Hagadone Corp. and Magnuson had guaranteed a portion of the pension amounts. But Bengtson determined that the precise amounts owed would be determined at a later trial or hearing.

Kendrick is not involved in the pension issues contained in Gulfs lawsuit.

Despite the settlement with Hagadone, Gulf's lawsuit continues to be heard before Bengtson in his Latah County courtroom. The lawsuit was bogged down in Ada County courts for three years before the Idaho Supreme Court ordered the case moved to Latah County so the proceedings would be closer to the people involved.

The mine and smelter complex acquired by Bunker Limited—currently in bankruptcy—is considered a Superfund site by the Environmental Protection Agency. Cleanup at Bunker Hill is expected to cost more than $100 million.

April 24, 1992.

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at one time was a Gulf director.

For a $9 million investment, a company controlled by Kirsch or another "plan funder" would end up owning 68 percent of Gulf's New Zealand properties, valued by Purcell at as much as $70 million. Gulf claims that its interest in Gulf Resources Pacific Ltd., which in turn owns the New Zealand real estate, is only worth $40 million.

Gulf has not pursued better offers for its plan of reorganization, even though plan funders other than Kirsch have surfaced.

Profits for Kirsch or another plan funder would be larger if Gulf's medical benefits obligations are reduced. Gulf's lawyers estimate retiree medical obligations at as much as $52 million. However, independent audits of Gulf's medical obligations show them at less than $37 million.

Purcell alleges that the retirees own lawyers are in on the scheme to inflate the amount of Gulf's retiree medical benefits.

Purcell has urged the Justice Department and other creditors to fire Gulf's bankruptcy lawyers, who have made $800,000 from the case since last October. He says the firm has "more than crossed the line as to proper legal behavior."

The Coeur d'Alene Tribe, which filed a $1 billion natural resource damage claim against Gulf, earlier this week sought to convert Gulf's case to a liquidation. The Justice Department, however, merely asked that an examiner look at Gulf's alleged misdeeds.

Judge Hagan on Wednesday approved the hiring of an examiner. At a Nov. 22 hearing in Coeur d'Alene, Hagan is expected to hear arguments from Gulf and its creditors regarding his decision.

November 11, 1994.

Blowing the stacks, and bad memories, at the Bunker Hill

By Jim Fisher

One day late in 1981, the last president of The Bunker Hill Co. held a rare news conference at company headquarters in Kellogg to discuss Bunker Hill's settlement of a lead-poisoning lawsuit against it and the pending shutdown of its mine and smelting complex. One of the least significant questions asked of Jack Kendrick was what would become of the huge smoke-stacks that had distributed smelter pollution over a wider area since they were erected only four years earlier.

They would probably have to come down, Kendrick said. And when they did, he added, that would be the end of "monuments to environmental insanity."

Today, the stacks—monuments to a different kind of environmental insanity than Kendrick meant—become history.

I don't know how many people I will rub shoulders with to watch the most dramatic step in the current Superfund cleanup of the Bunker Hill site, but I know enough about Shoshone County to be certain it will be more than a few. People there don't need much excuse for a party, and the "Blowing Our Stacks" bash they have planned for today should be a doozy.

But for most, I suspect, it will be a bittersweet affair.

By now, nearly everyone is eager to be rid of Bunker Hill's contaminated legacy, and probably any other reminders of how a distant corporation can plunder and abandon a community by remote control. But included among the crowd will be many people who spent their working lives at the mine, the lead smelter or the zinc plant. And when the stacks disappear into dust, part of them will too.

Although Bunker Hill provided the life blood for the company town from the legendary discovery of the mine by Noah Kellogg's jackass, the company's latest years were hardly covered with glory. Taken over by the Houston wheeler-dealers at Gulf Resources and Chemical Corp., "Uncle Bunker" became the kind of outfit that would deliberately poison its workers and neighbors rather than shut down after its pollution-collecting baghouse burned in late 1973. And with the kind of management that would build tall stacks to spread toxic chemicals like lead over a wider area rather than contain them in 1977.

The stacks that come down today should never have been built. Dilution is not the solution to pollution. And under normal procedures, and environmental regulations, they never would have been built.

But former Idaho Sen. James McClure saw to it that they were built anyway, under extraordinary procedures. McClure attached to federal legislation a special dispensation for the Bunker Hill smelter, allowing it to shoot its pollutants up huge stacks rather than to remove them from its discharges.

McClure might have honestly thought at the time he was ensuring the smelter's future, but he was really sealing its doom. Bunker Hill was enabled to avoid installing the costly pollution-control equipment that Asarco added at the time to its smelter at East Helena, Mont. But that only bought time for Gulf Resources to take what booty it could get from the smelter during the next few years and then abandon it. Meanwhile, East Helena kept operating, as it does today.

This is a more complete version of the Bunker Hill story than I was familiar with when I moved away from the Silver Valley in 1982. As editor of the Kellogg Evening News, I knew the afternoon the Bunker Hill shutdown was announced that my own days in the area were numbered. But I did not know how cynically the people of Kellogg had been treated by the likes of Robert H. Allen, CEO of Gulf Resources and Mexican money launderer for the 1972 Richard Nixon re-election campaign.

Only later would documents from the lead-poisoning lawsuit be released, revealing how Gulf Resources directors had coldly balanced the cost of paying for poisoning children against the cost of shutting down their Kellogg smelter, before deciding to keep it running without a baghouse.

"El Paso—200 children—\$5 to \$10,000 per kid," Vice President Frank Woodruff jotted down at the time. And he followed that with a calculation that liability for poisoning 500 Kellogg children could total \$6 million to \$7 million.

The calculations were based on a 1970 lead-poisoning incident at an Asarco lead smelter in El Paso, Texas.

Although \$6 million to \$7 million might sound like a huge liability for a business to take on voluntarily, lead prices were soaring at the time, and Bunker Hill's profits for the following year reached \$25.9 million.

The tallest of the four stacks that demolition experts will bring down at Kellogg today is the tallest one ever felled on this continent, 715 feet high. That's a big monument, all right—a monument to moral depravity as well as to environmental insanity.

Jim Fisher is a Tribune columnist and editorial writer.

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