

Sucker Play: Goldman Sachs Lost \$1.3 Billion of Libya's Money

By [Alain Sherter](#) | May 31, 2011



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[Maybe Goldman Sachs \(GS\) does do God's work](#), after all. As the housing crisis was coming to a head in 2008, the investment bank contrived to lose \$1.3 billion of Libyan dictator Col. **Moammar Gadhafi's** money in a matter of months. At which point the Goldman bankers who'd invested the money on behalf of the country's sovereign wealth fund did what any sensible financial professional would've done in their wingtips — run like hell. Reports the WSJ:

Libya was furious at Goldman over the nearly total loss of the \$1.3 billion it invested in nine equity trades and one currency transaction, people involved in the matter say. A confrontation in Tripoli between a top fund executive and two Goldman officials left the bankers so rattled that they made a panicked phone call to their bosses, these people say. Goldman arranged for a security guard to protect them before they left Libya the next day, they say.

It's no surprise that Goldman and a host of other big global banks, including **Citigroup (C)**, **JPMorgan Chase (JPM)**, Britain's **HSBC** and France's **Société Générale**, were in bed with Libya. Such institutions are used to doing business with all manner of bad guys, [from Mexican narco-terrorists](#) to African war criminals. Until recently, meanwhile, Gadhafi was considered a key U.S. asset in the Middle East and an ally in America's perpetual "war on terror." Ethics aside (which is where they're generally to found in global finance), why *shouldn't* Goldman have banked with Libya?

Goldman to Libya: How about some CDS instead?

Nor should anyone be shocked that the Libyan Investment Authority got taken for a ride, just like lots of other Goldman clients the bank steered wrong during the housing bubble. No, what's interesting here is to learn that the financial giant seems to have needed capital badly enough — even after the **Federal Reserve** had given it a clean bill of health in early 2009 — to consider hatching a screwy deal with the Libyans. After all, why else invite its state investment fund, which Gadhafi was known to use as his personal piggybank, to become one of its biggest shareholders?

That is at odds with Goldman CEO **Lloyd Blankfein's** insistence that the company was never in danger of collapsing immediately after the financial crisis erupted. As we know, of course, it took a \$5 billion injection in the firm from **Warren Buffett** in September 2008 to stem the

growing fear that Goldman was set to follow **Bear Stearns** and **Lehman Brothers** into the drink. Now it appears Goldman also wooed the Libyans for capital:

In May 2009, Goldman proposed that Libya get \$5 billion in preferred Goldman shares in return for pumping \$3.7 billion into the company, according to fund and Goldman documents. Goldman offered to pay the Libyan Investment Authority between 4 percent and 9.25 percent on the shares annually for more than 40 years, which would amount to billions of dollars more.

That could've turned out to be a sweet deal for the wealth fund, or at least a way to stem their losses. But Goldman backed out and instead tried to get Libya to invest in credit default swaps, among other transactions. By then, even saps like the Libyans were skeptical. The deal fell apart.

Moral of the story? Even brutal foreign kleptocrats can get suckered. And amen to that.

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