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U.S.-backed battery company's sale to Russian tycoon sparks anxiety

U.S. sunk millions into battery technology with military applications, but now it's in foreign hands

By [Julie Wernau](#)

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Batteries made in America for America and backed by America. That's how politicians hailed Ener1.

The company tapped the country's top scientists at Argonne National Lab in Illinois, and U.S. taxpayers pledged up to \$118 million in federal stimulus funds and \$80 million in state and local incentives to help Ener1 produce cutting-edge battery technology for electric cars and the U.S. military.

"This is about the future. And the question is which nation is going to seize the future. Some nation is going to grab it by the throat. One of the nations of the world is going to lead the world in green energy and technology," Vice President Joe Biden said in January 2011 in a speech praising federal support for Ener1 at its facility in Indiana.

That nation, it turns out, is Russia.

A little more than a year after Biden's visit to Ener1's Indiana manufacturing plant, the company's technology is owned outright by Boris Zingarevich, a Russian businessman with ties to Russian President Dmitry Medvedev, a fact that concerns some technology experts in the U.S.

Zingarevich acquired Ener1 out of bankruptcy March 30 with an agreement to infuse \$81 million in financing, giving him a sophisticated line of batteries that can power electric cars, store electricity for power grids and supply portable power for soldiers. His plans for Ener1 aren't known. A company spokesman declined to comment, saying Ener1 is privately held. Zingarevich couldn't be reached for comment.

The deal for Ener1 shows how the global economy can blur the lines between private business and national interest.

While there have been instances of Russian nationals accused of using illegal means to acquire U.S. technology, U.S. government officials said there is no law that bans transferring technology paid for by U.S. taxpayers to foreigners.

Wealthy Russians are major investors in the U.S., owning stakes in companies such as Facebook and Twitter, and Zingarevich was Ener1's largest shareholder from the beginning in 2002. Yet there is a big difference between being a shareholder and gaining control of a company.

"In a company whose ownership is connected to Medvedev, you have a golden opportunity for a military technology transfer and, perhaps, civil transfer from the U.S. to Russia at no cost," said Stephen Blank, an

expert on Russia and a research professor of national security affairs for the Strategic Studies Institute at the United States Army War College.

Under Prime Minister Vladimir Putin, Blank said, Russia has expanded efforts to obtain high-tech energy-related technology from the U.S. through both illicit and legal means as Russia tries to reduce its reliance on hydrocarbons. Russia is second only to China in trying to gain high-tech information related to military uses, energy generation and manufacturing, according to the U.S. Office of the National Counterintelligence Executive.

In the case of Ener1, neither the Department of Energy nor the Navy checked on foreign ownership before awarding the company grants and research and development contracts. The Army, which also awarded contracts, said individual employees underwent routine background checks as contractors, but scrutinizing the company's ownership structure was not part of its purview.

The Department of Energy, in an email, said it was only interested in whether the company could successfully produce and sell its batteries. The Navy said it didn't place restrictions on foreign access to the company's work on unmanned aerial vehicles, a highly sought-after technology, according to the intelligence community, or to battery technology that could be used to track U.S. military personnel.

Despite the fact that the company's Russian investment didn't worry the DOE or Pentagon, others in the U.S. government were concerned about Russian participation for some time.

Citing national security concerns, U.S. Rep. Cliff Stearns, R-Fla., chairman of the Energy and Commerce Committee's Subcommittee on Oversight and Investigations, is seeking internal documents from the White House, Department of Energy, Ener1 and its EnerDel battery unit, his office confirmed.

"There is definitely a growing concern about a foreign-controlled or owned company attempting to gain a foothold into our supply chain in the United States," said Stearns, whose subcommittee held a hearing March 27 about such threats. "We need to make sure the federal government isn't an unwitting accomplice to the theft of our own national secrets by providing them with multimillion-dollar government grants," he said in a statement, referring to battery technology produced in concert with U.S. scientists.

The U.S. has been leery of foreign control of U.S. energy companies in the past. In 2005, a bid by a Chinese government-owned firm to purchase Unocal, then the ninth-largest U.S. oil and gas producer, set off a firestorm of political controversy. CNOOC Ltd. had outbid Chevron Corp. by about \$1.5 billion for Unocal. But after concerns were raised that the transaction was little more than a thinly masked move by China to corner oil supplies, CNOOC withdrew its bid.

Ener1 marks the second major case of the U.S. losing control of a stimulus project. The Department of Energy's \$535 million loan guarantee to Solyndra to produce solar panels was aimed at spurring alternative energy growth in the U.S. and to lessen dependence on fossil fuels. Instead, competition from China felled Solyndra last year, which left the U.S. to pay the bill.

"Instead of producing thousands of 'clean energy' jobs, the administration's loan guarantee and grant programs are yielding bankruptcies and the squandering of taxpayer dollars," Stearns said. "Only two days after President Obama highlighted federal investments in high-tech batteries in his State of the Union address earlier this year, Ener1 joined Solyndra, Beacon Power, Evergreen Solar, SpectraWatt and AES in bankruptcy — all recipients of taxpayer dollars."

Biden's office declined to comment and referred questions to the Energy Department.

Mary Anne Sullivan, who previously served as DOE general counsel and now heads law firm Hogan Lovells' energy regulatory practice in Washington, D.C., said: "You want the government to be where the private sector sees a risk they won't take. But it calls for judgment. There is no formula that tells you, 'Yes, this will succeed,' or, 'No, this won't.'"

Ener1, based in New York City but with manufacturing operations in Indiana, began working on batteries for hybrid electric vehicles in June 2009. With the promise of creating manufacturing jobs, the company received access to Argonne scientists and DOE funding.

Theodore O'Neill, senior vice president of alternative energy for Wunderlich Securities, said it is unlikely the battery technology Ener1 developed was any more high-tech than what Russia had already acquired or developed.

Ilias Belharouak, an Argonne researcher who worked on the battery project, said the company didn't move forward with battery production because by then the auto industry had introduced plug-in vehicles, and the company's batteries were too heavy.

The technology, however, is ideally suited to storing energy for the electrical grid, said Belharouak. Such batteries can provide backup power as well as store energy produced by the wind and sun. "It has the safety, it has the power, and the cost of the technology is very, very attractive," Belharouak said.

In its March 31, 2011, filing, Ener1 listed the Russian electric grid as its largest battery customer. The company first agreed to supply lithium-ion battery units in 2010. Last fall, Charles Gassenheimer, then CEO, said the company was negotiating a second "substantially large order" from the Russians. That same year a Russian state-owned bank accepted 40 percent of Ener1's common stock as collateral for \$24 million in loans, with an option to go up to \$100 million total, according to filings.

Ener1 stood to reap \$118.5 million from the DOE to produce batteries for electric vehicles. So far it has collected \$55 million and could receive more if it adds to its U.S. workforce of 275 under its contract, according to the DOE.

In an emailed statement, the Energy Department said Ener1's project was selected "based on the merit and commercialization potential of its batteries."

"We need to invent them here, make them here and sell them around the world. That's just what (the) battery manufacturing facility is doing, and that's why both the company and the project have received strong bipartisan support," Jen Stutsman, spokeswoman for the Energy Department, said last month.

The DOE added that during a financial due diligence check it did not find any issues requiring further investigation.

Michael Grosberg, chief operating officer of Global Technology Systems Inc., a Massachusetts-based maker of industrial and military batteries and energy control systems, said, "The U.S. government should act immediately to ensure more taxpayer dollars are not lost and U.S. security is not compromised."

Technology experts are raising concerns about nearly \$8 million in military contracts the company received, including a Navy contract for research and development related to unmanned aerial vehicles.

In 2006, according to filings, Ener1 also was awarded a \$1 million Department of Defense contract for so-called asset tracking, a technology used to track people carrying battery-powered devices.

The tracking systems in military battery packs are designed to protect personnel. For instance, if a soldier stops moving, falls down or is running out of battery power, technology inside his or her radio automatically alerts a command center. The Navy said prototype batteries were produced but not used and do not pose a threat to U.S. military personnel or civilians.

But some believe the technology could pose a threat to national security, as it can be used to track troop movements or anyone who has devices that contain those batteries.

"I live in that world," said Daniel Engels, a chief technology officer for Revere Security, a technology security firm. "We need to stop thinking about batteries as just a battery. As soon as they become intelligent, they become a potential entry point into your system."

Through such batteries, he said, an enemy could even remotely turn off lines of communication.

Russia ranks second to China in spying in the U.S., according to a 2011 report from the Office of National Counterintelligence Executive. The case that made the biggest splash occurred two years ago, when 10 agents of the Russian Foreign Intelligence Office were arrested after collecting information related to U.S. technology and intelligence. Other cases have involved bribes for automotive and helicopter technology, the report said.

Ener1's filings with the Securities and Exchange Commission indicate steadily widening losses since 2008. In 2010, losses totaled \$68.8 million on sales of \$77.4 million.

The company's plans for those DOE-backed batteries were tied to Think Global, an Elkhart, Ind., maker of electric vehicles with the same Russian backers. When Think Global didn't find a market for its buglike vehicles, Ener1 in May 2011 wrote off its \$73 million stake in the company.

The following month, Think Global filed for bankruptcy in Norway, listing \$32 million it owed Ener1. Zingarevich bought the company at auction in July for an undisclosed sum.

The ramifications for Ener1 were profound. Ener1's share price tumbled to pennies, and its shares were delisted from the Nasdaq stock exchange.

Ener1, too, filed for bankruptcy in January, but it emerged March 30 in a transaction that canceled its shares and ceded control to Zingarevich.

Separately, the enforcement division of the SEC is investigating Ener1 for securities fraud after it failed to report its financial condition and business dealings. The company said in February that it was ordered to produce information as part of the investigation.

"We have emerged from bankruptcy with significantly less debt, more working capital and a stronger financial position to enable us to compete more effectively in pursuing business opportunities to provide energy storage solutions for electric grid, transportation and industrial applications," the company's interim CEO, Alex Sorokin, said in an announcement.

Indiana Gov. Mitch Daniels, whose goal was to make his state the capital of the electric car industry, has backed the company. His office Friday said Daniels "remains hopeful Ener1 will be successful."

Bald and stocky with piercing blue eyes, the 52-year-old Zingarevich now controls Ener1. He is one of an elite group of Russian "oligarchs" whose resources are significant enough to influence national politics, according to a 2005 study in the Journal of Economic Perspectives.

In 1992, he co-founded Ilim Pulp, one of Russia's largest pulp and paper companies. He remains on its board. In 1993, Ilim Pulp hired Medvedev as its legal affairs director. Medvedev, who at one point owned 20 percent of the company, helped it grow significantly. He sold his stake in 1999, the same year he took a central government post.

At about that same time period, several of Ilim Pulp's competitors were attacked or murdered under mysterious circumstances. Dimitry Varvarin, director general of Orimi, Ilim Pulp's major rival, was shot to death in St. Petersburg in March 2000. Later that month, another founder of Orimi, Sergei Krizhan, was also murdered, along with his son, according to news reports.

Later that year, a lumber exporter was attacked, and a hotel owned by another player in the timber market was set on fire. And in 2001 the external manager of another competitor was also attacked, according to Russian media.

None of the murders or attacks were tied to Zingarevich or Ilim Pulp.

While Zingarevich has kept a fairly low profile, his son, Anton Zingarevich, 29, hasn't been as publicity shy. In 2007, a year after he graduated with his bachelor's degree from Regents Business School in London, his father installed him as vice president of operations at Ener1 and CEO of a subsidiary, NanoEner.

Stories about Anton Zingarevich began to appear recently in publications such as the Daily Mail and the Reading Chronicle in England when he purchased a stake in a British football club for nearly \$40 million. He also was in the limelight a little more than two years ago when he married Belarusian supermodel Yekaterina Domankova when she was 20 years old.

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