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Global Investment Strategy with focus on Emerging markets

Haagse Rechtbank Ruled that Permanent Court of Arbitration Had no Jurisdiction in Yukos Case

The Hague District Court (Haagse Rechtbank) ruled that the Permanent Court of Arbitration, which upheld the huge compensation in July 2014, did not have jurisdiction to rule in this case. The court has annulled 2 sentences in which damages of 51.6bn\$ were recorded.

The case revolves around the nationalization of the oil company Yukos by Russia in 2003. Major shareholders of Yukos, Russian oligarchs and biggest portfolio shareholders holding their shares in Cyprus and the Isle of Man began a so-called arbitration proceedings before the Permanent Court of Arbitration, located in The Hague. In July 2014 the court ruled that Russia taxpayers had to pay damages of \$ 51.6 billion, the largest damages ever awarded in such proceedings.

The Permanent Court of Arbitration decision was based on the Energy Charter and Energy Charter Treaty. That treaty was signed by Russia, but the Russian parliament, the Duma, has never ratified it.

The Hague District Court had to dig deep into the Russian legislation in order to reach a decision. Despite that the treaty was not ratified, it was provisionally in force. Hitherto both courts ruled the same. But according to the district court, the Energy Charter Treaty was applicable in Russia only insofar as the treaty is not in conflict with Russian law. While Russian law did not allow arbitration because Yukos was accused of tax evasion and then it was bankrupted through large tax bills.

Yukos legacy has been the major pain for all Russians on either side of the siloviki circle line inside and outside. The first 10 years following the dismantling of Yukos Russia has been lambasted on every corner of the investment world and political world for bankrupting Yukos.

Russians suffered second blow when the International Court of Arbitration ruled that Russia was liable of 51.6bn\$.

While the third blow that Russians have suffered was when the collapsed oil price threaten to bankrupt the Rosneft itself which took massive leverage and just written a 50bn\$ check to bail out group of Russian oligarchs forcing Rosneft to seek help from the budget. The lowers is the oil price the bigger problem Rosneft becomes for Russian taxpayers.

In addition the recent developments and arrest of assets in France and Belgium threatened to lead to a major escalation in the already poor relations between Russia and the West and possibly between Russia and Israel which granted protection to key Yukos oligarchs.

The move by the district court is a big victory for Russian taxpayers.

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