

Court orders Russia to pay \$50 billion for seizing Yukos assets

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(Reuters) - An international arbitration court ruled on Monday that Russia must pay \$50 billion for expropriating the assets of Yukos, the former oil giant whose ex-owner Mikhail Khodorkovsky fell foul of the Kremlin.

Finding that Russian authorities had subjected Yukos to politically-motivated attacks, the panel made an award to a group of former Yukos shareholders that equates to more than

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ECHR expected to announce decision on Yukos claim on Thursday: Yukos

half the entire fund Moscow has set aside to cover budget holes.

Russia, whose economy is on the brink of recession, said it would appeal the ruling by the Dutch-based panel, which judges private business disputes. It also said the "politically biased decision" was based on "current events" - an apparent reference to Moscow's dispute with the West over Ukraine.

Independent lawyers said it would be difficult to enforce the award to shareholders in the GML group, who had claimed \$114 billion to recover money they lost when the Kremlin seized Yukos a decade ago.

Tim Osborne, director of GML, hailed the ruling. "The award is a slam dunk. It is for \$50 billion, and that cannot be disputed," he said. "It's now a question of enforcing it."

The ruling hit back at decisions made under President Vladimir Putin's rule during his first term as president to nationalize Yukos and jail Khodorkovsky, who had criticized him. The hardline approach was seen by Kremlin critics at the time as a stark message to oligarchs to stay out of politics.

Khodorkovsky, who used to be Russia's richest man, was arrested at gunpoint in 2003 and convicted of theft and tax evasion in 2005. Yukos, once worth \$40 billion, was broken up and nationalized, with most assets handed to Rosneft (ROSN.MM), an energy giant run by an ally of Putin.

After 10 years in jail, Putin pardoned Khodorkovsky in December and he now lives in Switzerland.

Announcing it would appeal, the Russian Finance Ministry denounced the award. "Instead of an objective, impartial consideration of the case, the arbitration court ruled based on current developments and as a result adopted a politically biased decision," it said in a statement on its website.

Moscow's relations with the West are at their worst since the Cold War due to its annexation of Crimea and over a rebellion by separatists in Ukraine after a pro-Russian president was forced out of office.

Russia argued that the court in the Hague had ignored tax violations by Yukos and said it was senseless and speculative to value the company so long after the events. Lawyers, however, said there were only limited grounds on which to appeal.

The panel of judges, which has been reviewing the case since 2005, concluded that officials under Putin had manipulated the legal system to bankrupt Yukos.

"Yukos was the object of a series of politically motivated attacks by the Russian authorities that eventually led to its destruction," the court said. "The primary objective of the Russian Federation was not to collect taxes but rather to bankrupt Yukos and appropriate its valuable assets."

ECONOMIC IMPACT

Khodorkovsky was not a party to the GML action but welcomed its success. "It is fantastic that the company shareholders are being given a chance to recover their damages," he said in a statement, adding that he would not seek to benefit financially from the outcome.

Russia faces a tightening of international sanctions originally imposed after it annexed Crimea in March. The United States has said it has evidence of Russian complicity in the downing of a Malaysian airliner over eastern Ukraine earlier this month, which it blames on the pro-Moscow rebels.

Russia denies the charges and has blamed the Ukrainian military for the tragedy in which 298 people died.

Credit Suisse economist Aleksei Pogorelov said the ruling could have significant economic effects. "This decision affects the assessment of the long-term financial stability of Russia and could become the basis for arguments for revising Russia's ratings by international rating agencies," he said Credit.

\$50 billion represents about 2.5 percent of Russia's total annual economic output or 57 percent of its Reserve Fund, which is earmarked to cover shortfalls in the state budget.

The ruling hit Russian stocks. The RTS index [.IRTS](#) of Russian shares closed down 3 percent.

The European Court of Human Rights (ECHR) in Strasbourg is expected to announce a separate decision on Thursday on Yukos's multi-billion-dollar claim against Russia, ruling on "just satisfaction" or compensation, a Yukos spokeswoman said.

The application in the Strasbourg court, which is on behalf of all Yukos shareholders, argued the company was unlawfully deprived of its possessions by the imposition of bogus taxes and a sham auction of its main asset.

Bruce Misamore, former chief financial officer for Yukos, said he hoped the ECHR would take "strong note" of the size of the award by the Dutch court in assessing the just satisfaction claim and described Monday's ruling as a "landmark".

One lawyer, who declined to be named, said the timing of both rulings coming together was probably a coincidence.

RECLAIMING ASSETS

GML may now face a battle to claim the money from Russia.

"The question is whether Russia will pay that award, which I very much doubt," said Jan Kleinheisterkamp, an Associate Professor of Law at the London School of Economics. "This means that ultimately the shareholders will start to chase Russian assets abroad, which is a very tedious and usually not very fruitful business."

Antonios Tzanakopoulos, a law professor at Britain's Oxford University, said if assets were to be seized, they would have to be commercial, meaning it would not be possible to get a court order on an embassy building or a docked Russian warship.

Russia must pay the compensation to subsidiaries of Gibraltar-based Group Menatep, a company through which Khodorkovsky controlled Yukos. Group Menatep now exists as the holding company GML, and Khodorkovsky is no longer a shareholder in GML or Yukos.

"We didn't go into this for a pyrrhic victory to make a point ... We still believe that we will ultimately collect on this award," said Osborne.

Former Russian presidential adviser Andrei Illarionov said if Russia avoided payment it could face asset arrests around the world.

Chris Weafer, senior partner at Macro-Advisory consultancy in Moscow, said GML may try to target revenues from Russia's energy exports.

The ruling leaves Russia with few options to fight back, experts said. The arbitration court's rules call decisions on awards "final and binding". "The Kremlin's lawyers will be looking at any way to appeal this," said Weafer.

Tzanakopoulos said any appeal would effectively amount to a new arbitration procedure, which both parties would have to agree to. Russia would be likely to challenge enforcement claims in the many national courts around the world where such proceedings would be launched, he said.

A LONG SHOT

Experts said fighting the decision could be a lengthy and uphill process. "Appeals are difficult - it is a private arbitration," said a Moscow-based lawyer who declined to be named, adding that any counter-action would be a "long shot".

Any funds claimed will be shared among the shareholders. The biggest ultimate beneficial owner is Russian-born Leonid Nevzlin, a business partner who fled to Israel to avoid prosecution. He has a stake of around 70 percent.

Khodorkovsky ceded his controlling interest in Menatep, which owned 60 to 70 percent of Yukos, to Nevzlin, after he was jailed. "I am very pleased the international tribunal in the Hague decided that Russia violated international laws and illegally nationalized Yukos," said Nevzlin.


The other four ultimate beneficial owners, each of whom owns an equal stake, are Platon Lebedev, Mikhail Brudno, Vladimir Dubov and Vasily Shaknovski.

Rosneft, which is not a defendant in the case, said it expected no claims to be made against the company and that the ruling would not have a negative impact on its "commercial activity and assets".

Rosneft bought the bulk of Yukos assets through auctions after the company was declared bankrupt. Its shares were down 2.6 percent.

(Reporting by [Tom Miles](#) in Geneva, Vladimir Soldatkin, Megan Davies, Oksana Kobzeva, Lidia Kelly, Denis Pinchuk, Dasha Korsunskaya and Alessandra Prentice in Moscow, Tova Cohen in Tel Aviv, Thomas Escritt and Anthony Deutsche in Amsterdam, Editing by Elizabeth Piper, Will Waterman and [David Evans](#))

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