

Why the Exxon Deal Stinks

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What an extraordinary week. Argentina announced plans to seize control of the country's biggest oil company YPF, owned by Spain's Repsol, and the Kremlin, via state-controlled Rosneft, unveiled details of its joint projects with ExxonMobil.

There again has been a lot of hype from Russian pundits who claim that Exxon's investment somehow "legitimizes" Rosneft's takeover of virtually all of Yukos' assets. Indeed, misguided analysts are suggesting that the Yukos case is history.

This is a ludicrously naive argument that is vigorously promoted by state-controlled media in Russia. This sounds like a broken record since the same argument was made about the failed \$8 billion BP-Rosneft stock swap in January 2011, which also included plans to jointly develop Arctic oil sites. But the BP-Rosneft agreement collapsed five months later.

There is no question that the Kremlin's illegal actions led to the theft of Yukos. Despite all of the attempts to grossly misrepresent the facts and spin the Yukos takeover as a legitimate tax and bankruptcy issue, Russia lost on all the primary procedural issues related to the

destruction and theft of Yukos in the ruling that the European Court of Human Rights rendered last September. As a result, substantial compensation is now due for those violations. Russia has yet to acknowledge its responsibility for the actions of its corrupt judiciary and administration.

It is important to remember that Yukos was run like any other major Western oil company, with transparent financial reporting, investor relations and corporate governance all in place. But this ended with a bogus forced bankruptcy in 2006, which followed a two-year Russian government campaign of harassment using illegal tax claims and asset freezes and the illegitimate auction in 2004 of the company's primary asset, Yuganskneftegaz, to the previously unknown Baikal Finance Group, which state-owned Rosneft acquired just two days later. The whole transaction using Baikal Finance Group and Rosneft was sanctioned by then-President Vladimir Putin but remained questionable legally under Russian law because it used financing from a state-owned bank.

Rosneft was directly involved in the bogus bankruptcy of Yukos. In December 2005, Rosneft struck a deal with Yukos' primary group of lending banks. If the banks forced Yukos into bankruptcy, Rosneft would then buy all the loans that the banks had outstanding to Yukos. The loans were duly purchased by Rosneft within a couple of days after the banks forced the bankruptcy.

After Yuganskneftegaz was expropriated by the government, Rosneft decided to raise capital with an initial public offering on the London Stock Exchange in 2006. Rosneft's IPO was strongly challenged by Yukos. We argued that since 75 percent of the Rosneft offering to potential investors was stolen assets, the offering was inappropriate and in breach of international legal and ethical standards.

The Yuganskneftegaz cycle was repeated in 2006 when the Russian court-appointed administrator auctioned 19 lots of Yukos assets in Russia. Rosneft benefited disproportionately from these illegal auctions after it won more than 75 percent of the lots. Former Yukos assets now make up more than three-quarters of Rosneft's total asset value.

Throughout that period, no one talked about "legitimization," so why is it any different today? Today, Exxon is investing with a company whose largest assets were stolen from Yukos shareholders by the Russian government. What is "legitimate" about theft?

A transaction on Exxon's part is therefore far from a legitimization of the crimes committed by the Russian government and Rosneft, but rather a move by a major international energy company to access high-risk exploration prospects. Putin's blessing of the transaction is merely his way of covering his tracks. In addition to the failed BP-Rosneft transaction, Putin also blessed the acquisition of Sibneft oil company by Yukos and then facilitated the dismantlement of the completed acquisition through fraudulent Russian court decisions.

The truth has not changed after the Exxon-Rosneft deal. More than 55,000 shareholders in Yukos, including about 50,000 in Russia, saw their investments stolen by the Russian government. There is no doubt that those shareholders would not agree with the Kremlin's toadies that any form of "legitimization" whatsoever has occurred.

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The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

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