

**Evidence to the House of Commons
Select Committee on Foreign Affairs**

Inquiry into Russian corruption and the UK

A. Rosneft: a case study in Kremlin kleptocracy

1. **GML**ⁱ, via its wholly-owned subsidiaries, Yukos Universal and Hulley Enterprises, was the majority shareholder of the former **Yukos Oil Company** ('Yukos').
2. Yukos was a successful Russian company which introduced **OECD standards of corporate governance**, published quarterly financial reports, and declared its entire ownership structure. By 2003, Yukos had joined the *Financial Times*' top-ten global companies for shareholder confidence.
3. In February 2003, Yukos CEO, **Mikhail Khodorkovsky**, appeared on Russian television with other business leaders and President Vladimir Putin, and called for action against state corruptionⁱⁱ. In October that year, Mr Khodorkovsky was seized at gunpoint, detained on trumped-up charges of tax fraud, and jailed alongside his colleague, Platon Lebedev. Both men spent ten years in prison.
4. The **European Court of Human Rights** (ECHR) condemned their trials and those of two other Yukos colleagues, Alexei Pichugin and Vasily Aleksanyan. Mr Pichugin remains in jail after 15 years and is now Russia's longest-serving political prisonerⁱⁱⁱ. Mr Aleksanyan died because Russian authorities denied him medical treatment when he refused to sign statements against his former colleagues. In 2014, the ECHR awarded €1.9 billion in compensation^{iv} to Yukos shareholders, which Russia has refused to pay.
5. The original **US Magnitsky Act** expressed grave concern over the imprisonment of Messrs Khodorkovsky and Lebedev. It declared that "by silencing influential and accomplished figures such as Khodorkovsky and Magnitsky, the Russian authorities have made it abundantly clear that anyone in Russia can be silenced."
6. In 2014, an independent **Arbitral Tribunal in The Hague** ruled unanimously^v that Yukos was illegally expropriated by the Russian Federation. The Tribunal concluded that "Russian courts bent to the will of Russian executive authorities to bankrupt Yukos, assign its assets to a state-controlled company [Rosneft], and incarcerate a man [Mikhail Khodorkovsky] who gave signs of becoming a political competitor." The Tribunal awarded compensation of \$50 billion to former Yukos shareholders, which Russia refuses to pay.

7. The Tribunal described in detail how **Rosneft** illegally acquired Yukos assets, including its largest oil facility, Yuganskneftegaz. In 2004, Russian authorities sold off Yuganskneftegaz in a sham auction. The winning bid came from Baikal Finance Group, a company which, only days before, had been registered above a bar (sic) with a capital of \$358. Baikal won with a bid of over \$9 billion – and was then bought by Rosneft a few days later.
8. Rosneft thus played a central role in the illegal expropriation of Yukos. It also features in other related cases. In 2016, the *Financial Times*^{vi} and *NRC*^{vii} revealed how **Rosneft had attempted to corrupt the Dutch judicial system** through the Armenian courts. Internal company e-mails showed how Rosneft lawyers rewrote the rulings of an Armenian judge to support the company's claim to former Yukos assets in the Netherlands in a manner that would influence the Dutch judges. In one instance, a judge was handed his ruling on a USB stick. The *NRC* revealed that Rosneft was supported by the US law firm, Baker Botts, and the Russian secret services, the FSB.

B. Rosneft: agent of Kremlin foreign policy

9. Rosneft is Russia's biggest oil company and the **second-largest state-controlled entity**. By the end of the expropriation of Yukos, around 75% of Rosneft oil was produced by former Yukos assets. The Russian state retains a 50% +1 share in Rosneft. **BP** and **QHG** (representing the Qatar Investment Authority and Glencore) each hold just under **20%**.
10. Rosneft was listed on the **London Stock Exchange** in 2006^{viii}. At the time of the initial public offering, the UK's Financial Services Authority declared itself satisfied that the prospectus set out the various risks to investors. However, the Authority's legal advice recognised that Rosneft's acquisition of Yukos assets might breach the Proceeds of Crime Act^{ix}. Today, 700 million Rosneft shares are traded in London, representing over 6% of the total and a value of \$3.9 billion.
11. In the words of the *New York Times*^x, the **Kremlin uses Rosneft to build influence** in places where the United States has stumbled or power is up for grabs. Over the last year, Rosneft has signed cooperation deals with Cuba and Venezuela, given financial support to Kurdistan, sold shares to a Chinese energy trader, and launched new projects in Egypt, Vietnam and Brazil.
12. **US and EU sanctions have explicitly recognised Rosneft's strategic role** and the proximity of its CEO, Igor Sechin, to the Kremlin. In July 2014, following Russia's illegal annexation of Crimea, the US imposed sectoral sanctions on Rosneft. They limit Rosneft's ability to do business with US persons and companies. The EU imposed similar sanctions later that year, blocking access to EU capital markets. Any breaches of these sanctions can lead to criminal charges in all EU Member States.

13. The US also imposed **sanctions on Mr Sechin**, perhaps the closest ally of President Putin. In a profile of Mr Sechin published in March this year, the *Financial Times* referred to him as the “epitome of the group of all-powerful businessmen whose deep political influence and control over the country’s national resources depend on their proximity to President Putin. They are widely perceived in Russian society to be above the law and answerable only to the Kremlin.” Preparing its sanctions, the US Treasury said that Mr Sechin had shown “utter loyalty” to Mr Putin. His assets in the US are now frozen, and any business with him or his companies is illegal.

C. The British government’s response

14. The British government is now weighing its options after the **nerve-agent attack in Salisbury**. That aggression belongs to the Kremlin’s wider assault on the rule of law, which shows no sign of abating. Western democracies are being tested: how far will we allow Mr Putin to go, and do we have the courage to respond?
15. The government must now demonstrate that it understands the Kremlin kleptocracy: how it functions both at home and abroad, and how it undermines our own democracies. A fully-fledged **Magnitsky Act** would be a good start – it would isolate the worst criminals without harming the Russian people. It should target human-rights abusers and the most corrupt officials.
16. In parallel, this government has an opportunity to begin the work of cleaning London of dirty money. For reasons that we have outlined in our evidence, **Rosneft has no place on the London Stock Exchange**. Its listing raised serious concerns in 2006, and history has shown those concerns to be well-founded. Rosneft is stolen goods. It is a tool of Kremlin policy. The argument that investors know the risks – caveat emptor – is simply not good enough. When our democracies and our security are at stake, it cannot be business as usual.

References

ⁱ www.gmllimited.com

ⁱⁱ *Putin: the New Tsar*, BBC2, 9 April 2018

ⁱⁱⁱ <https://pichugin.org/en/>

^{iv} *ECHR final judgment, Yukos v Russia*, 31 July 2014

^v *Final Award of The Hague Tribunal*, 18 July 2014

^{vi} [Rosneft lawyers manipulated court rulings](#), *Financial Times*, 27 November 2016

vii [Rosneft manipulated the rule of law in The Netherlands](#), *NRC*, 24 November 2106

viii <https://www.rosneft.com/Investors/Equity/>

ix [Court bid to stall Rosneft listing](#), *Financial Times*, 18 July 2006

x [Russia uses Rosneft as a foreign policy tool](#), *New York Times*, 29 October 2017

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