Yukos, Putin and the oligarchs

Method and madness

MOSCOW

The tragicomic destruction of Yukos, and its legacy

In the end it was a classic Russian combination of the astonishing and the predictable and the predictably bad, and a fitting denouement to a campaign that has been as chaotic as it has been capricious. Following the forced auction of the main oil-production subsidiary of Yukos, the Kremlin has extended its influence in Russia's energy sector. Besieged for a year and a half, Yukos has finally and irrevocably been eviscerated; Mikhail Khodorkovsky, its former boss, whose political ambitions incurred the wrath of Vladimir Putin, Russia's president, is still in prison and on trial. The astonishing part involved an American court and a mystery shell company.

On December 19th, Yuganskneftegaz, which accounted for 60% of Yukos's oil-production capacity, was sold by the government for $9.35 billion, ostensibly to pay some of Yukos's huge tax bill. But the sale was not to Gazprom, a state-run gas firm that had seemed the likely buyer. Instead, Yugansk was bought by Baikal Finance Group, a hitherto unknown firm whose registered address in the town of Tver reportedly houses a grocery shop.

Big Russian corporate auctions are often brazen and bizarre, but the identity of the successful buyer is generally not a surprise. Rumours about the provenance of Baikal swirled around Moscow. Then, on December 22nd, Rosneft, a state-owned oil company, revealed that it had bought Baikal (and thus Yugansk) for an undisclosed sum. The chairman of Rosneft is Igor Sechin, a close confidant of Mr Putin. Thus the state took back Mr Khodorkovsky's prime asset in a way not unlike that in which he acquired his wealth in the first place. Mr Putin said that the process had adhered to the best market standards. Andrei Illarionov, the president's maverick economic adviser (at least for now), reportedly called it the "swindle of the year".

Why Baikal and Rosneft, and not Gazprom? The most palatable explanation is a last-minute injunction secured by Yukos in a court in Houston, Texas, protecting the firm's assets while it filed for bankruptcy—part of Yukos's strategy of trying to force the Kremlin into openly using extra-judicial methods. The ruling, though questionable, scared off a consortium of Western banks financing Gazprom's bid. In the end, Baikal was the only actual bidder. Rosneft, being state-owned, should enjoy sovereign immunity, even in a Texan court.

That is unlikely to stop Yukos and some of its shareholders suing it, the Russian government, the owners of Baikal (if they can be found) and Gazprom. Yet Yukos now looks comprehensively doomed. It once seemed likely that the firm's alleged tax debts and the attendant penalties would conveniently equal the government's valuation of Yugansk. After the sale Yukos would have kept some assets to pacify minority investors. But the tax bill dwarfs the discounted auction price, and further expropriations now seem likely.

The Houston court has altered the fate of Yugansk only temporarily, because Rosneft is merging with Gazprom in a deal that will give the Russian government a controlling stake in the enlarged firm. The merger will produce a global energy giant, and an even stronger foreign-policy instrument for the government than Gazprom is now. However, the Yugansk auction may delay the merger for a while, and with it the liberalisation of Gazprom share ownership—to allow foreign investors to buy ordinary shares—that is supposed to follow it.

The anxiety induced by the Yukos affair has not been helped by another of Mr Putin's remarks about the auction. It had, he said, put right a wrong done in the privatisations of the 1990s—of which Mr Khodorkovsky was not the only beneficiary. Roman Abramovich, an oil baron turned soccer-club owner whose flamboyant lifestyle has helped to make him vulnerable to crowd-pleasing penalties, has already sold some of his Russian assets. There were rumours this week that Rosneft and a foreign partner were planning to acquire Sibur, the oil company in which Mr Abramovich has a majority stake. Sibur may yet face a back-tax bill of its own.

Investors who had hoped that the Yukos affair was a one-off vendetta against a troublesome and hubristic oligarch had already been distressed by new tax charges against Vimpelcom, a mobile phone operator listed in New York. Vimpelcom is neither a privatised company nor an energy firm, two of the factors that made attacking Yukos attractive to the Kremlin. The fracas may owe something to a rumoured spat between a government minister and a big Vimpelcom shareholder. Not "another Yukos", then, but not an advert for investing in Russia, either.