UAE cryptocurrency mining disputes: Dubai Court judgment sheds light on Bitcoin mining investment issues

April 6, 2023

Introduction

A recent judgment by the Dubai Appeals Court following a series of civil suits and criminal complaints has shed light on pitfalls and best practices when faced with disputes arising from cryptocurrency mining investments and when litigated before the UAE courts.

This case involved a complicated series of litigation including multiple civil disputes before the Dubai Courts at various levels, criminal complaints, and various investments.

This article explores the principal claims and remedies, with a focus on the complexities surrounding cryptocurrency mining and the legal ramifications when volatility is attached to such investments.

Case

Claims of misrepresentation and inflated fees in a cryptocurrency mining investment

The plaintiff claimed that they had invested USD 300,000 in a cryptocurrency mining device through a partnership, which was held for over four months before the device was purchased.

And that the defendants had admitted that the initial price of the device was USD 1,200,000 with the partnership share of the plaintiff at 25%.

The plaintiff also alleged that it was later discovered that the actual price of the device was USD 1,100,000 and the defendants had charged a commission of USD 220,000. As a result, the final price of the device was USD 880,000 and the actual partnership share of the plaintiff in the partnership owning the cryptocurrency mining device should have been 34%.

Inequitable distribution of Bitcoin earnings

The court sided with the plaintiff that the losses suffered were further exacerbated by the distribution of Bitcoin earnings based on the original partnership share of 25%, rather than the corrected share of 34% which led to the plaintiff receiving a lower value of USD 175,000.

Fluctuating Bitcoin value and delayed transactions

The plaintiff also argued another issue that contributed to their losses was the decline in the value of Bitcoin from USD 19,000 to USD 6,000 over the seven-month period during which the second defendant refused to transfer the cryptocurrency to the account of the plaintiff. Consequently, the plaintiff argued that the total amount they should have received was estimated at about USD 1,900,000 in relation to the Bitcoin mining device investment.

Lack of legal ownership and regulatory compliance

The court also noted that the plaintiff was not registered as the owner of a 34% share of the mining device, with the entirety of the ownership retained by the second defendant. Additionally, the plaintiff argued that the defendants were operating without a license from the Securities and Commodities Authority to engage in investment management activities.

Lack of Information on the mining device production

It was evidenced to the court that 66.21021 Bitcoins were transferred to the wallet of the plaintiff during the period from 27 September 2017 to 31 October 2018.

However, experts appointed by the court were not provided with data on the production capacity of the cryptocurrency mining and the number of Bitcoins produced during that period to verify the correctness of the Bitcoins transferred to the plaintiff, nor were the experts provided with information on Bitcoin distributions that had occurred after 31 October 2018.

Dispute over investment and rising mining costs

The investment was reportedly halted due to disputes between the parties and rising mining costs. This led the plaintiff and the defendants to suspend operations until the end of 2021 to decide whether to resume operations, sell the assets, or liquidate the project. The fate of the cryptocurrency mining device was not disclosed, and no evidence was provided to indicate that the device ceased operations on 31 October 2018.

Bitcoin wallet and losses

The plaintiff sold their Bitcoin wallet on the same date it was received. The total value of the Bitcoins sold amounted to USD 499,961.89.

The first defendant held the Bitcoin profits of the plaintiff for the period from October 2017 to February 2018, totaling five months.

The court found that the Bitcoin transfers to the plaintiff resumed on 17 March 2018, with the delayed payments resulting in a decrease in Bitcoin value and losses of USD 92,676.01 for the plaintiff.

Takeaways

Drawing upon the details of this case, we outline strategies and tactics to increase the efficacy of cryptocurrency mining claims and what pitfalls to avoid when litigating cryptocurrency mining investments before the courts in the UAE:

- Ensure transparency in crypto-mining investment agreements including accurate device prices, commission fees, and ownership percentages.
- Establish a fair and well-documented distribution of cryptocurrency earnings based on accurate ownership percentages and agreed-upon terms.
- Cryptocurrency value fluctuations can significantly impact investments. To minimize potential disputes arising from these fluctuations, parties should agree on strategies to mitigate their effects, such as setting predefined conditions for the transfer of assets or establishing a mechanism to address delays in transactions.
- Ensure that the ownership of mining devices and other assets is properly registered and compliant with local regulations and that parties engaging have the necessary licenses from relevant authorities.
- Justify hashrate and mining power guarantees. Disputes can arise if the mining company guarantees a certain hashrate or mining power but fails to deliver, especially if the reasons for underperformance are not clear or considered acceptable.
- When pursuing a cryptocurrency mining claim, it is crucial to have complete and accurate data on the production of the mining device and the amounts produced during the relevant period. This helps in verifying the correctness of the cryptocurrency distributions made to the involved parties. If the mining company has control over which mining pool to join, disputes can arise if investors believe the chosen pool is not providing optimal returns.

- In the event of rising mining costs, it is important to have a predefined plan in place to address such issues. The plan could involve suspending operations, selling assets, or liquidating the project, but should be transparent and agreed upon by all parties. Establishing a clear course of action in advance can help prevent additional losses and further disputes.

Cryptocurrency disputes can be highly complex and require specialized knowledge. It is essential to engage dispute counsel who have expertise in blockchain and digital asset disputes. Including various experiences, our team has advised on NFT disputes in the UAE and abroad, in litigation and arbitration, digital asset multi-jurisdictional fraud, and assisted in drafting new technology sovereign conventions.

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