Analyses OSW

CENTRE FOR EASTERN STUDIES 27.04.2023 www.osw.waw.pl

The state takes control of Western companies in Russia

Iwona Wiśniewska

On 25 April, President Vladimir Putin signed a decree allowing the authorities in Moscow to establish the temporary administration of assets located in the Russian Federation belonging to individuals and legal entities from countries the Kremlin considers "unfriendly". At the same time, the document does not presuppose the withdrawal of those assets from their owners. However, it gives the president of the Russian Federation authorisation to withdraw the temporary administration regime at any time. The decree states that the establishment of state management is the government's response to the deprivation or restriction of the property rights of the Russian Federation, its companies and citizens (as well as to threats of such actions) by the US and other countries cooperating with them (see the *Decree of the Russian President of 25 April 2023*).

At the same time, the decree transferred the electricity companies in Russia owned by Finland's Fortum and Germany's Uniper under the temporary management of the Federal Agency for the Management of State Property (*Rosimushchestvo*). On 26 April, Vyacheslav Kozhevnikov and Vasily Nikonov were appointed as the new directors of these entities: both of these individuals, until these appointments, had been managers of the state oil company Rosneft, which is managed by Igor Sechin, a close associate of Putin.

Fortum and Uniper are the only foreign investors in Russia's electricity sector, after Italy's Enel sold off its assets to Lukoil last autumn. Fortum, whose majority shareholder is the Finnish government, owns more than 98% of the shares in Russia's Fortum, which controls seven heat & power plants in Siberia and the Urals. Uniper owns 83.7% of Unipro, which includes five heat & power plants in central Russia and Siberia. Until the autumn of 2022, Fortum had been the majority shareholder of Uniper, but now 99% of the shares are owned by the German government. The two companies made a combined profit of about 22 billion roubles (c. $250 million) in 2022, while the installed capacity of all the two entities' power plants is about 16 GW, or about 7% of the capacity of the Russian electricity system.

Commentary

- The signed decree is light on details, but it gives the Kremlin a lot of leeway on how to implement it. It will undoubtedly be used as another instrument to put pressure on Western entities in Russia and the governments of their countries of origin. Threatening to impose restrictions may allow the Kremlin to discipline and urge Russian companies to lobby for an easing of the sanctions policy against the Russian Federation in Europe. The Kremlin has already announced that more entities may be added to the list. The decree also gives the Russian state free rein to dispose of Western companies' assets and *de facto* to benefit from them, as the costs associated with establishing temporary administration are to be covered by the income of these companies. As a result, the ownership rights of Western companies in Russia will be further restricted. Foreign companies already require the approval of the Russian government to withdraw from the Russian Federation; about 2000 companies, including Uniper itself, are currently waiting for such permission. The authorities can also decide on the terms of the process; these include the price to be paid, and the option of moving the funds abroad. As a result, Western corporations have been forced to dispose of assets in the Russian Federation at undervalued or purely symbolic prices. In addition, investors from countries "unfriendly to Russia" have also been severely hampered in transferring their dividends abroad (see ' *'The silence of the lambs'. Russian big business in wartime*').

- The decree demonstrates the Russian president's overriding role in the decision-making process regarding relations with Western entities (including the ability to withdraw their management of their assets). It is a further demonstration of the subordination of Moscow's economic policy to the interests of Putin's elite. Regardless of the restrictions the Russian government has imposed on Western companies, the Kremlin can selectively exempt entities from the application of the established rules; that increases the non-transparency of the system and the risks of corruption, and creates space for bargaining with corporations. One example of this was Shell's withdrawal from the Sakhalin-2 oil and gas project (see '*Novatek is taking over Shell's assets in Sakhalin*').
- Since Russia launched its invasion of Ukraine, Western countries have frozen assets belonging to Russian legal and natural persons worth a total of about $60 billion as part of individual sanctions, as well as the foreign exchange reserves of the Central Bank of Russia, estimated at about $300 billion. In addition, the German government has taken control of Gazprom and Rosneft assets located in Germany, and a similar decision was taken by the Polish government with respect to Gazprom and Novatek's assets located in Poland. Work on a Russian response to these Western actions began in spring 2022. The possibility of nationalising Western assets in the Russian Federation was even considered at the time. In the end, however, the decree just signed does not give such broad powers to the government in Moscow. It probably did not want to frighten non-Western entities or discourage them from further cooperation with Russia. In reality the Kremlin already has sufficient instruments (including a pliant judiciary and the apparatus of repression) to seize any assets in Russia. Moreover, under Putin's system of rule, ownership is contractual, and the actual beneficiaries of assets are very often not their legal shareholders.
- The establishment of a state-run board at Uniper is likely linked to its origins and its significant importance to Germany's energy sector. Placing this company under Russian restrictions can be seen as the Kremlin's direct response to the German government's takeover of Gazprom and Rosneft's assets in the country. Presumably, Rosneft will also benefit from the takeover of the companies' managements, as indicated by the appointment of its representatives as the new directors. The timing of the decision is also significant in this case: on 20 April, the Bundestag passed legislation that gives Berlin the option to divest Rosneft's assets in Germany which are currently held under trust. In contrast, the reasons for the transfer of Fortum to state administration are not

entirely clear. It should be noted here that Fortum and Uniper had already decided to withdraw from Russia in the spring of 2022, but the government in Moscow blocked the sale of their assets. Both companies had already written off their Russian assets, and so they had lost control over their Russian subsidiaries even before the Russian president signed this latest decree.