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BULLETIN

Hundreds of Western Companies Still Operating in Russia

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More than 1,700 companies from countries that imposed sanctions on Russia for its full-scale attack on Ukraine remain present on the Russian market. Despite their declared opposition to the aggressor's actions and the cost of image losses, they are not withdrawing from Russia because of legal impediments introduced by Vladimir Putin's regime, potential of financial losses, and other reasons. Further, they justify the continuation of operations in Russia on the grounds of concern for meeting the needs of the civilian population and protecting jobs. It is in the interest of the EU and the G7 to convince such firms to leave the Russian market, as this will strengthen the visibility and effectiveness of the sanctions imposed on Russia.

On the day of the 2022 invasion of Ukraine, about 2,400 companies from EU and G7 countries were operating on the Russian market. According to the Kyiv School of Economics, by the end of September this year, more than 420 had completely exited it by selling shares or their entire operations (e.g., IKEA), and almost 790 had formally suspended operations in Russia (e.g., BP, BMW, Chanel, Apple). More than 560 companies stopped operations in Russia (e.g., Alstom and Siemens), more than 360 reduced them (e.g., limited the range of services offered or products supplied, such as Pirelli), and almost 140 postponed investment plans. Some withdrew on their own initiative and others under public pressure (e.g. Shell and Total Energies). Nevertheless, some 1,700 Western companies continue to operate in Russia (e.g., Storck and Orange).

Reasons for Staying in Russia. Many companies, mainly in the food, agro-chemical, and pharmaceutical industries, justify remaining in Russia on humanitarian grounds, including the need to ensure the supply of basic products to the civilian population to avoid disease and famine. They also cite job protection (e.g., Auchan, which has about 29,000 employees in Russia). The French company Bonduelle pointed to the lack of national and EU regulations

prohibiting it from operating in Russia, arguing the restrictions only apply to selected sectors. However, many businesses staying in Russia expect higher profits as competition withdraws, although paying taxes in the country is tantamount to contributing to the financing of the aggression against Ukraine. Companies are therefore taking various measures to limit the image damage. Pfizer and Nestle, for example, have reduced the number of products they offer, stopped investing in Russia, and are donating their profits to humanitarian support for Ukraine. Some entities have also abandoned advertising campaigns in Russia (e.g., PepsiCo).

The companies' form of business on the Russian market also influences the range of decisions they take. Many brands operate on a franchise basis and, although the parent company has already formally withdrawn from Russia or is seeking to do so, they have no real means of stopping franchisees from operating under their banner. For example, Burger King, with more than 800 restaurants in Russia, and Subway, which has around 450, cite this problem.

Since last year, Russian law has also made it possible to delegate to the Federal Agency for the Management of State Property (Rosimuszczestvo) the exercise of ownership rights

arising from shares in Russian companies held by entities from “unfriendly states” (e.g., the U.S., EU members) in the event of hostile action on their part or a national, economic, energy, or other threat. The regime also allowed for a change of ownership structure in economically significant companies whose owners are linked to “unfriendly states” and hold significant, but not necessarily controlling, stakes in Russian entities. Last summer, Danone’s Russian business went into interim management, with Yakub Zakrev, Chechen warlord Ramzan Kadyrov’s nephew, taking over in March (Danone eventually sold its Russian business to Zakrev below market price this year).

Legal Impediments. From 2022 onwards, Western businesses have often suspended operations in Russia, but the costs of doing so are increasing due to the protracted war and unfavourable legal developments. Leaving Russia is hampered by the requirement to obtain permission from the Russian authorities to transfer assets abroad or divest shares, which in strategic sectors (e.g., oil, banking) is granted by the president himself. Additional problems arise from the [sanctions regime](#), which restricts the transportation of fixed assets and cash transfers (retaliatory restrictions have also been introduced in Russian law) and the circle of potential buyers (e.g., discouraging transactions with oligarchs). At the same time, owners are reluctant to sell businesses to companies from China, Turkey, India, or Latin America, which would take over the market space and know-how of their Western competitors. In addition, the firms still in Russia are looking for buyers that will guarantee them the right of pre-emption after the end of the war, although the problems of servicing, obtaining semi-products, or qualified personnel (e.g., expats, which in managerial or engineering roles were often behind the success of the company) still threaten the profitability of their operations in Russia. Further costs may be generated, depending on the type of contract, by the need to pay compensation, severance, or liquidation damages to employees and suppliers for premature termination of cooperation. In the case of shares in Russian companies, additional losses are generated by the need to sell them significantly below market price and to pay the so-called voluntary tax on unrealised capital gains (5-10%). At the end of March this year, the losses of foreign companies that left the Russian market after the 2022 attack on Ukraine were estimated at \$107 billion.

Restricting operations in Russia (without taking formal steps) can result in nationalisation. In spring 2022, the regime made it possible for it to be carried out against companies that have stopped operations in Russia and in which more than 25% of the shares are held by foreign entities from countries described as unfriendly. They go into administration exercised by the Russian authorities, unless

they resume operations or sell their shareholdings if they have ceased operations without economic justification or due to an anti-Russian stance. This has persuaded Auchan to continue operating its subsidiaries, in order to avoid such accusations from the regime and takeovers under the pretext of bankruptcy protection and the initiation of proceedings against local management.

Thanks to non-transparent procedures and imprecise regulations, the regime can arbitrarily decide the future of Western companies on the Russian market. An additional problem for businesses in the case of any such decision is the lack of effective avenues of appeal, as local courts are not independent. Russia’s exclusion from the Council of Europe has further limited the ability of businesses whose rights (e.g., property) have been violated to seek redress.

Conclusions and Outlook. Russia is making skilful use of instruments of legal and economic pressure on foreign companies. The legislative changes introduced are designed to reduce the visibility of the negative effects of the war on Russian society, suggest the ineffectiveness of sanctions and encourage Western companies to pressure the home government to lift restrictions or refrain from [seizing Russian assets](#) because of potential retaliation. They keep foreign technology, know-how, and capital in Russia and undermine confidence in brands remaining in Russia among Western consumers.

The longer the conflict lasts, the less profitable it will be for companies to not suspend operations in Russia as a means of surviving the difficult times, which means having to decide whether to continue operations or withdraw. Individual decisions by businesses are a product of trying to balance the image and financial losses, but overall they are never beneficial for the business.

It is in Poland’s interest to encourage the EU to adopt solutions to persuade businesses to withdraw from Russia. However, the response to the Russian regime’s legal and economic pressure on EU companies should be adopted at the EU level. In view of the ongoing [Hungarian presidency of the Council of the EU](#) and [post-election changes in EU institutions](#), the prospect of concrete action will be more likely in the next months when Poland will take over the presidency of the Council. It can therefore prepare concrete proposals for action. Although support for companies leaving the Russian market is unlikely, as especially since 2014 they have known the risks of operating in Russia, it would be feasible to expand the catalogue of areas in which EU entities are banned from operating there (e.g., electronics, certain sectors of the food industry, such as confectionery). Another possibility is to impose sanctions on Russian entities taking advantage of the forced position of EU companies, such as buying back their shares below market value.