Opinion **European companies**

Russia's economic war with the west moves to a new frontline

European companies are at risk of losing assets with little or no compensation as the Kremlin retaliates against sanctions

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The Schwedt oil refinery in north-east Germany. European actions to seize Russian assets are increasingly seen by Moscow as akin daylight robbery © Krisztian Bocsi/Bloomberg

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Russia's economic confrontation with the west following the Kremlin's invasion of Ukraine is entering a dangerous new stage. Until now, Moscow had mostly focused its retaliatory measures on squeezing European energy markets. But after a string of court decisions in Europe freezing Russian assets there, the Kremlin has begun escalation and created a legal framework for the temporary nationalisation of foreign assets in the country.

Projects that have cost billions of dollars and taken years of hard work are at stake, and it is likely the Russian government will exercise a personalised approach to every foreign stakeholder, trying to stoke new divisions in the west while benefiting interest groups inside Russia. The first victims of the new policy — the Russian assets of two European energy firms, Finland's Fortum and Germany's Uniper — were recently put under provisional management by a decree of Russian president Vladimir Putin.

The Kremlin's actions appear to have been triggered by the federal administrative court in Leipzig, which dismissed a claim by Rosneft, a state-owned Russian oil company headed by Igor Sechin, a longstanding Putin ally. Rosneft's claim was against the German government and its decision in September to put the company's assets in Germany under the supervision of the national energy regulator. Before that step, Rosneft was the third-largest oil refining company in Germany, accounting for more than 12 per cent of the country's processing capacity.

Germany's action stemmed from some of the unintended consequences of western sanctions. Rosneft's refinery at Schwedt in north-eastern Germany is important to the economy of the greater Berlin area but, with its majority owner under sanctions as a shareholder, it couldn't function properly: transactions involving sanctioned entities are illegal and there was a risk of capital withdrawal.

In Moscow, such actions by European authorities are increasingly viewed as nothing short of daylight robbery, and the hard men in the Kremlin won't simply sit back and watch. The new exit rules for western companies set up last month are just another part of Russia's retaliation strategy: western firms can only sell their stakes in projects with Russian partners at a 50 per cent discount, and also must pay a "voluntary donation" to Russia's war chest worth 5 to 10 per cent of the asset's value.

Apart from the technocrats in the Russian government who still care about the legality of Moscow's actions, the major driving force behind the mounting nationalisation campaign are the *siloviki* — that is to say, individuals with a security service, police or military background. These include people in the FSB, the prosecutor's office and Sechin, who can be described as the conservative leader of the Kremlin's *siloviki* faction and who is clearly dissatisfied with the Leipzig court's ruling.

Putin's decree gives the federal property management agency the right to control western assets hit by the need to stop operations in Russia. The agency's task is to evaluate these assets and then to sell them to Russian buyers. In other words, the recent actions against Fortum and Uniper's assets are simply a taste of things to come.

With its new legal mechanism, it's unlikely that the Kremlin will employ a uniform approach to foreign investors. Instead, it will cut separate deals with investors depending on their connections in Russia. A good example is Putin's permission for Novatek, a privately owned Russian gas producer with good connections in the Kremlin, to pay Shell more than $1bn for its stake in the Sakhalin-2 oil and gasfield.

This approach provides an opportunity for the Kremlin to drive new wedges between states and companies in the west.

As a result, western companies may find themselves in limbo. In the west, they are under public pressure to sever ties with Russia, but sanctions forbid them from selling their stakes to the majority of Russian businesses. Meanwhile, complying with the requirements of the Russian government may lead to them being branded enablers of Putin’s war. Consequently, a growing number of such companies look increasingly likely to lose their investments in Russia entirely.

So far, neither Russia nor Europe has a comprehensive strategy on how to deal with the stranded assets. The breakdown of ties will almost certainly exacerbate the conflict as the Kremlin seeks ways to punish Europe for imposing sanctions and supporting Ukraine. The appetite of Putin’s cronies to seize western assets in Russia will only add insult to injury.