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Russia moves to seize Western Assets in Retaliation for Sanctions

Vladimir Putin's confidential decree aims to give the Kremlin power to retaliate against European and US sanctions

Russia is to adopt powers to seize assets of "naughty" western companies and will make it harder for them to exit the country, as Vladimir Putin seeks ways to retaliate against US and European sanctions.

The Kremlin last week secretly ordered legislation to enable western assets to be appropriated at knockdown prices and is discussing even more draconian measures to fully nationalize groups, according to people familiar with the deliberations.

The insiders said Putin's economic team wanted the threat of nationalisation to be part of a carrot-and-stick approach aimed at punishing western countries that seize Russian assets while rewarding those that play by the Kremlin's rules.

The confidential Kremlin decree, seen by the Financial Times, would give the Russian state priority rights to buy any western asset for sale at a "significant discount" so they could later be sold at a profit.

Putin's order to his cabinet, signed last week, also requires all private Russian buyers of western assets to be fully Russian-held or in a process to exclude all foreign shareholders, further complicating any exit procedure.

Dmitry Peskov, Putin's spokesperson, told the FT that western investors and companies were "more than welcome" in Russia but noted others had stopped paying salaries entirely or simply decided to leave the country at a huge loss. Peskov said. "We say goodbye to those companies. And what we do with their assets after that is our business." People involved in western corporate exits from Russia say the Kremlin's move opens up a "Pandora's box" that will inevitably consolidate the state's control over the economy.

"I think nationalisation is inevitable. It is only a matter of time," said a senior businessman in the process of selling his assets in Russia. "The state will need money." The businessman, who said he planned to "slip through the window" before nationalisation begins, believes commodities groups would be hit hardest, as the Kremlin looks for more ways to tap export revenue for the budget. Technology companies would be less affected because they were

“hard to run”, he added. Putin’s circle has debated nationalising western companies since Russia’s full-scale invasion of Ukraine last year. But it has only used such powers in rare instances.

In April Russia took over the local subsidiaries of Finland’s Fortum and Germany’s Uniper in response to what it called “the illegal expropriation of Russian assets abroad”. The Kremlin decree was specific to those two companies. In deciding whether to expand such powers across thousands of western groups, the Kremlin will monitor what happens to the roughly €300bn ($324bn) of Russian central bank assets frozen in the west. Russia’s economic officials are worried about losing the crucial role western businesses continue to play in many sectors of the country’s economy.

The Kremlin is also eager to find new sources of income for the budget amid falling revenues from energy exports and skyrocketing military spending, which has driven the budget deficit up to $42bn this year. Under the current criteria, first announced in December, western companies are required to give Russian buyers a discount of at least 50 per cent of the asset’s value, and make a “voluntary” contribution of between 5 and 10 per cent of the deal price to the budget.

Central bank governor Elvira Nabiullina has been among the strongest voices pushing to limit western corporate exits and warn companies off with the threat of nationalisation, the people said. The central bank is worried that an exodus of foreign capital could weaken the rouble and limit options for Russian investors. But finance minister Anton Siluanov has backed the exits as a way to extract more revenue for the budget, the people added.

The central bank did not immediately respond. The finance ministry said exit procedures for companies were “working as normal” but said “additional changes are possible for individual deals”, without elaborating. The rules, according to Putin’s decree, also require new owners to float 20 per cent of the asset on Russia’s stock market, a move Nabiullina has said was required to give the country’s retail investors more places to put their money.

“Generally, the state does not want the investors to leave. To the contrary, they want to make the departure less interesting for them,” a senior western businessman in Moscow said. “But what they want is to encourage good behaviour.”