Nationalization of Western Assets in Russia

By: www.ProfitableInvestingTips.com

Western sanctions against Russia made in an attempt to stop the invasion of Ukraine will likely result in nationalization of western assets in Russia. Nationalizing foreign companies or companies of political opponents has long been a practice of dictators like Putin. To the extent that there is a negotiated settlement to end the Russia Ukraine war we can expect Putin to hold hostage billions in western assets as bargaining chips. This will be part of how Russia deals with isolation from every major economy except China.

Leased Aircraft Lost in Russia

The New York Times wrote about leased planes stranded in Russia and how they may never be recovered.

> *As of Thursday, there were 523 aircraft leased to Russian carriers by companies outside the country, according to IBA, a consulting firm. Of those, 101 are on lease to S7 Airlines and 89 to Aeroflot. Both airlines have stopped flying internationally, eliminating any chance of repossessing the planes on foreign soil.*

Western oil companies have also stopped dealing with Russia, leaving billions of assets behind to be used by Russian state-owned oil companies. For example, Exxon Mobil has about $4 billion in assets left behind, mostly on Sakhalin Island in the Far East of Russia. McDonald's is not only going to lose 9% of its annual revenue ($2 billion) but since it owns 84% of its restaurants in Russia those assets are likely to be nationalized or given to one of Putin's favorite oligarchs remaining in Russia. The Times published a list of major companies ceasing operations in Russia. Some work through franchises but others will likely see losses as assets are nationalized.

Can Western Companies Get Nationalized Assets Back?

So long as Putin stays in power he will likely keep or sell nationalized assets from Western companies. His war chest of foreign reserves is unavailable to him due to banking and central bank actions. Thus he will not only be doing this to punish companies that leave Russia but also to fund his war, government, and personal bank wealth. And, the longer that new owners run those companies the less likely it will be that full recovery or compensation will be possible. To the degree that leased jets are sold to other foreigners and oil company assets are mixed with other state oil company operations, recovery or compensation will become increasingly difficult.

Profitability of Doing Business in Russia

Many companies set up business in Russia to take advantage of low tax rates, tariff-free access to many markets and a population ready for Western products, services, and lifestyle. Now that Biden is going to make sure Russia loses "most favored nation" status and profits in Russia will not be able to be repatriated but rather left in Russia as rubles which lost half their value in dollars and are likely to go lower. So long as Putin

continues his war or if he achieves prolonged occupation of Ukraine with an active resistance armed by the West, sanctions will not only remain in place but will get worse for Russia. Thus, Western companies doing business in Russia were going to lose money anyway. That fact will probably soften the financial blow that many companies will feel from nationalization of Western assets in Russia.

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