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Chapter 10

THE IMPACT OF SANCTIONS ON RUSSIAN BUSINESS ABROAD AND HUNGARIAN BUSINESS IN RUSSIA: PARALLEL STORIES OF ADJUSTMENT

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Executive Summary

This chapter examines how the sanctions imposed on Russia after its 2022 invasion of Ukraine have impacted Russian firms, their direct investment abroad, and Hungarian business presence in Russia, and, in particular, how Russian and Hungarian firms have adjusted to this new reality. It highlights the main commonalities, such as the difficulties of access to finance transactions and the interruption of logistics and supply chains, especially in the areas of technology goods. The chapter also looks at the main differences between Russia and Hungary. In Russia, large firms with exposure to the West have been facing major difficulties in their international operations and have focused their efforts on mitigating the effects of sanctions. On the other side, Hungarian firms investing in and/or exporting to Russia typically try to hold their ground in the Russian market. They are attempting to overcome difficulties such as risks of foreign exchange and non-payment, issues with logistics and supply chain disruptions, problems with banking and financial transactions, increased time and costs of international shipping due to altered routing, additional administrative burdens at the border, air travel restrictions, and a constant need for information to adapt to sanctions and countersanctions. It is uncertain whether the generally positive attitude of Hungarian firms towards staying (and even taking advantage of the situation to expand further) will change over time. The challenges may become too great to take on, not only for smaller, resource-poor, and less-experienced firms, but also for stronger enterprises.

Keywords: Hungary, Russia, multinational enterprises, outward foreign direct investment, sanctions

10.1. Russian firms and direct investment abroad under sanctions

10.1.1. Sanctions applied against Russia

Because of the 2022 war in Ukraine, Russia has become the target of the largest number of sanctions in the world: nearly 12,000 measures were in place in early August 2022 (Castellum.AI, 2022). Many of these measures directly restrict the scope for reciprocal direct investment, particularly in the financial and technology sectors. Russian authorities have responded to these sanctions, with countermeasures. For firms that carry out activities on both sides of the division line, it has become arduous to comply with the contradictory requirements of the two parties. Many of them have responded by reducing, suspending, or eliminating their business deals on the other side (Kalotay, 2022). It goes without saying that a sanctions regime cannot completely disrupt economic relations, but it can make the most basic economic activities extremely difficult and expensive.

Among the sanctions, freezing of Russian banking assets abroad is a very severe measure affecting both inward and outward foreign direct investment (FDI). The universe of the largest Russian banks includes various state-owned entities; therefore, sanctions are applied to them due to their direct links with the power center. There are also entities that are on paper privately owned but are so close to the government that already in 2014 they had been put on the sanctions list. The freezing of the assets of these financial institutions (which has already happened to practically to all Russian banks) has a double negative effect on Russian multinational enterprises (MNEs). On the one hand, it results in the halt of activities or bankruptcy of the affiliates of

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these banks operating abroad, as occurred very early on with the Vienna-based Sberbank Europe, a subsidiary of state-owned Sberbank, with affiliates in seven European countries.[32] On the other hand, this freezing of assets means the impossibility of financing the transactions of Russian MNEs abroad. It also has an impact on access to finance by foreign investors located in Russia. The Russian government may be prompted to apply restrictive measures to stop the outflow of resources, including an obligation to surrender export receipts or prohibition of the repatriation of profits.

The exclusion of Russian banks from the SWIFT payment system makes all business transactions involving the Russian and foreign clients of these banks more costly and cumbersome. Alternatives exist on paper, such as using China's Cross-border Interbank Payment System (CIPS). However, its development may be not so easy and would not prevent the increasing cost of doing business. Moreover, the use of that system may result in side effects, such as the need to rely heavily on the Chinese yuan as the currency of payment/clearing, which may not be desirable for some corporations. As another alternative, within Russia, the Financial Message Transfer System (SPFS) of the Central Bank of Russia has been launched with about 400 users, which may be a solution for purely domestic payments. However, this system is not yet linked with other systems abroad.

Sanctions can lead not only to the freezing of Russian assets abroad but also to their seizure and placement under host-country government trusteeship, such as in the case of Gazprom's former German affiliate, which was taken under German government control despite its formal transfer to another Russian owner (see Section 11.1.2).

Sanctions affecting different sectors of economic and social activities may have varying impacts on FDI. Two of them, banning Russian vessels from foreign ports and Russian aircraft from foreign airspace, can seriously hamper business transactions between Russia and the rest of the world, and can act as a major disincentive to FDI. Sanctions against rich individuals (oligarchs) also hurt Russian firms because they almost automatically drag the companies, they control onto the sanctions list.

10.1.2. Large Russian MNEs are affected by sanctions and adjust to them

The bulk of outward FDI of Russia is carried out by a handful of large MNEs. Almost all of these firms and/or their executives and owners fell under sanctions, with an immediate negative impact not only on MNEs' operations, but also on Russia's foreign economic links. The total foreign assets of the 20 largest MNEs were valued at USD108 billion at the end of 2019 (Table 10.1), compared with a total outward FDI stock of USD407 billion in the same year (CBR, 2022c). The majority of these MNEs are natural-resource-based firms, with oil and gas companies occupying the top three posts. Their strategies are related to the control of their value chains, typically upstream at home and in developing countries and downstream in developed countries. Certain firms are actively involved in FDI transiting through other countries or leaving the country and coming back (called "round-tripping"). Some (e.g., VEON, NLMK, and Evraz) have undertaken "corporate inversion", and now have their official headquarters registered abroad, while Russian individuals remain the main shareholders. State-owned MNEs make up more than one-third of the list.[33] Together, these firms account for almost half of the assets of the top 20 group. However, the impact of the Russian government does not stop there. The privately owned MNEs are also under state influence: the government has an informal say in their major strategic decisions (Panibratov, 2013).

[32] Bosnia and Herzegovina, Croatia, Czechia, Germany, Hungary, Slovenia, and Serbia.

[33] Atomenergoprom, Gazprom, Rosneft, Russian Railways, Sovcomflot, VSMPO-Avisma (with only a minority blocking share of the state), and Zarubezhneft.

Table 10.1. Most of the 20 largest Russian non-financial MNEs are affected by sanctions Firms ranked by foreign assets at the end of 2019 (USD billion and %)

Rank	Company	Industry	Long-term foreign assets (USD billion)		Total foreign assets (USD billion)		Share of foreign assets in total assets (%)	
			2018	2019	2018	2019	2018	2019
1	Lukoil	Oil and gas	18.4	21.3	24.8	28.8	30	30
2	**Gazprom**	Oil and gas	14.8	15.6	18.5	18.9	6	5
3	**Rosneft**	Oil and gas	8.3	11.1	10.8	13.6	6	7
4	**VEON**	Telecom	6.2	6.8	8.0	8.0	56	50
5	Rusal	Metallurgy	3.7	4.2	5.4	6.5	34	36
6	**Sovcomflot**	Transport	5.6	5.5	6.0	6.1	84	83
7	**Atomenergoprom**	Nuclear energy	3.8	4.1	5.7	5.5	12	10
8	**Russian Railways**	Transport	1.7	2.0	3.1	3.3	4	4
9	**Evraz**	Metallurgy	2.1	1.9	3.7	3.2	40	32
10	NLMK	Metallurgy	1.4	1.3	2.9	2.5	29	24
11	**EuroChem**	Chemicals	1.4	1.4	1.7	1.8	18	15
12	NordGold	Metallurgy	1.3	1.3	1.6	1.7	64	61
13	Russneft	Oil and gas	1.2	1.6	1.4	1.7	37	36
14	**VSMPO-Avisma**	Metallurgy	0.1	0.2	1.2	1.4	25	25
15	**Zarubezhneft**	Oil and gas	0.5	0.6	1.0	1.2	37	35
16	**MegaFon**	Telecom.	0.2	0.5	0.2	1.0	3	9
17	TMK	Metallurgy	0.9	0.3	1.9	0.8	38	15
18	**Norilsk Nickel**	Mining	0.5	0.4	0.7	0.7	4	3
19	**MMK**	Metallurgy	0.3	0.3	0.5	0.5	7	6
20	AFK Sistema	Holding	0.9	0.3	1.6	0.5	8	2
Total of the top 20			73.1	80.7	100.8	107.6		

Note: Firms shown in bold are under sanctions.
Source: Authors' compilation based on Kuznetsov (2021).

At the level of individual firms, the hemorrhage started early. As mentioned above, Sberbank Europe was the first in a potentially long flow of Russian bankruptcies abroad. Another case of instant bankruptcy was that of the Switzerland-based Nord Stream 2 holding company, which oversaw a trans-Baltic Sea gas pipeline between Russia and Germany whose certification was stopped by German authorities.

Some Russian MNEs also face difficulties in the financing of their overseas operations. In the first half of 2022 Severstal and Evraz, two large Russian integrated iron and steel producers, defaulted on their international bond payments, despite the availability of sufficient funds to pay them. The reason for this paradox was that these MNEs' foreign bankers refused to process the payments on the grounds that the principal owners were oligarchs put on the sanctions list. In March 2022, Severstal, owned by the Russian oligarch Alexei Mordashov's Severgroup, failed to make a USD12.6 million interest disbursement to holders of bonds worth USD800 million after its banker, Citigroup, froze those payments (MacDonald, 2022). Also in March 2022, Evraz, partly owned by another Russian oligarch, Roman Abramovich, was blocked by its banker, the New York affiliate of Société Générale, from paying the USD18.9 million coupon on its USD700 million bond partly due to U.K. sanctions against the oligarch (Financial Times, 2022). The U.K. justified its sanctions by the fact that Evraz produces 28% of all Russian railway wheels and 97% of the country's rail tracks, which were "of vital significance as Russia uses rail to move key military supplies and troops to the frontline in Ukraine" (Holman & Bouckley, 2022). As a side effect, the financial difficulties of Evraz affected its North American operations. The first lay offs were reported in Canada in May and June 2022 (Ponticelli, 2022), though this scaling back did not apparently affect the firm's large plant in Pueblo, Colorado (Tolan & Ash, 2022).

Some Russian firms have designed strategies to bypass sanctions, with varying success. The state-owned shipping company Sovcomflot avoided the seizure of its assets by selling off at least a dozen tankers (of a fleet of 121 vessels). Some transactions took place "through a web of shell companies, shielding the vessels' ultimate owners from the risk of penalties" (Moscow Times, 2022). Another part of the strategy consisted of transferring selected corporate headquarter functions to Dubai in the United Arab Emirates. This partial "corporate inversion", following the footsteps of other firms (see the discussion on Table 10.1), allowed Sovcomflot to obtain safety certification from India for over 80 vessels managed from its Dubai center (Marine Insight, 2022). In another case, in March 2022, the Russian gas giant Gazprom terminated its participation in the Germany-based Gazprom Germania[34] and transferred its shares and company assets held in Europe to a former Gazprom unit controlled, through voting rights, by a hitherto unknown Russian firm—to no avail. In April 2022, Gazprom Germania was brought under the control of the German energy regulator Bundesnetzagentur. In retaliation, in May 2022, Russia imposed sanctions against the former Gazprom Germania units.[35]

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[34] Gazprom Germania was renamed SEFE Securing Energy for Europe in June 2022.

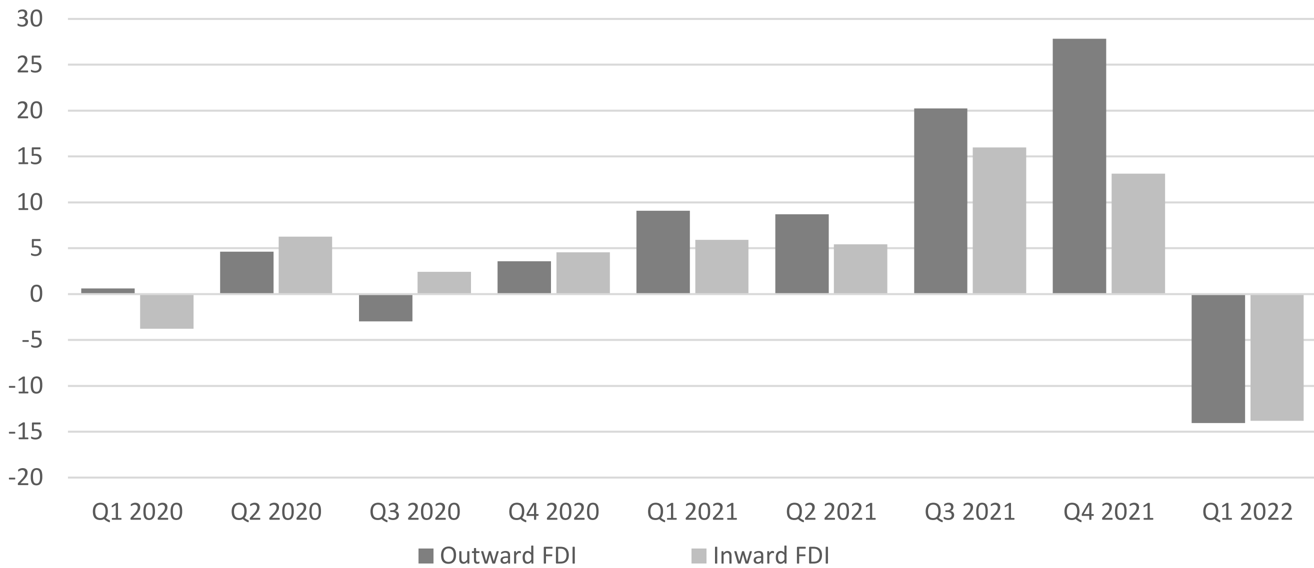
[35] In September 2022, thus after this chapter was completed, Germany also placed the local units of Russian state-owned oil firm Rosneft under fiduciary management.

Another response of Russian firms to sanctions has consisted of the use of the Swiss trading platform, which traditionally manages the bulk of Russian commodity transactions. Though Switzerland decided to apply the same sanctions as the EU, Switzerland-based MNEs continued some deals in Russian coal, and so did some large Russian coal producers maintaining subsidiaries in the country (including SUEK and Evraz; Atkins, 2022). There were also questions raised about the eventual indirect imports of Russian gold via the U.K. and Dubai (Soguel, 2022), though the adoption of the EU's July 2022 ban on both direct and indirect imports of gold closed, in principle, this loophole on sanctions.

10.1.3. The plunge in the FDI outflows of Russia as a consequence

As a result of the above-mentioned issues, the 2022 war in Ukraine increases uncertainties about FDI to and from Russia and is expected to affect it negatively in the short, medium, and long run. This was already visible in the first quarter of 2022, which consisted of 60% peacetime days and 40% days at war. Both inflows and outflows dropped sharply and turned largely negative due to divestments (Figure 10.1). Of the two phenomena, it is outflows that drive the foreign operations of Russian MNEs. However, via the above-mentioned phenomenon of round-tripping, they usually move together with inflows. In outflows, the decline in the first quarter of 2022 was breaking a post-COVID recovery trend.

Figure 10.1. The quarterly FDI inflows and outflows of Russia plunged in Q1 2022
Q1 2020–Q1 2022 flows (USD billion)



Source: Authors' compilation based on data from CBR (2022a).

10.2. Hungarian business presence in Russia under sanctions

10.2.1. Hungary's special relations with Russia and Hungarian business in Russia

Hungary occupies a somewhat special place among the members of the EU and the North Atlantic Treaty Organization (NATO) countries in terms of its political-diplomatic rapprochement and institutional convergence with autocratic Russia since 2010. In 2012, Prime Minister Orbán launched his "Eastern Opening" policy in an effort to diversify Hungarian exports and reduce dependence on EU markets. Trade houses were opened in the target countries and delegations travelled to them, including Russia, and cultural and historical ties were resumed. However, trade and investment data prove there has been no breakthrough in the "Eastern Opening" with Russia. In 2021, Russia's share in Hungarian exports of goods reached only 1.5% (Eurostat Comext, 2022), and 1.9% in Hungarian outward FDI stock (HNB, 2022). Hungarian–Russian trade remains unbalanced in favor of Russia due to large Hungarian imports of crude oil, oil products, and natural gas. Most Hungarian exports to Russia usually consist of agri-food products, medicine, machinery, and transport equipment. At the end of 2021, Hungarian FDI stock in Russia totaled EUR648 million as per data from the Central Bank of Hungary (HNB, 2022).[36] Hungarian FDI in Russia spans a variety of industries and activities, most prominently banking, oil production, pharmaceutical production and sales, feed production and sales, construction and real estate, and medical equipment sales, but it also includes chemical products sales, medical implant manufacturing and sales, and others. The Russian market is of limited importance for the Hungarian economy, though it continues to be important for selected Hungarian export products and investor firms. Hungary's leading retail bank OTP Bank, the Hungarian-based multinational pharmaceutical company Gedeon Richter, and the Hungarian national oil champion MOL stand out as the largest direct investors in Russia (Table 10.2).

[36] The Central Bank of Russia shows the somewhat lower figure of USD564 million (at 2021 exchange rates) (CBR, 2022b).

Table 10.2. OTP Bank, Gedeon Richter, and MOL are the largest direct investors in Russia
The largest subsidiaries of Hungarian companies in Russia, by own capital, 2021 (USD thousand and number of employees)

Russian company	Activity	T/O (th $)	No. of empl.	Own cap. (th $)	Hungarian owner
OTP Bank	banking	..	..	..	OTP Bank (HU, 66.20%), Alyansrezerv (RU, 31.70%) [> OTP Bank (HU, 100.00%)], MFB Invest (HU, 1.20%)
Richter Gedeon-Rus	production of medicines	204,654	376	77,276	Richter Gedeon (HU, 100.00%)
Baitex	oil exploration and production	160,711	214	52,382	MK Oil and Gas (NL, 100.00%) > MOL (HU, 51.00%)
Greif Perm	manufacturing of steel drums, eurocubes, and clovertainers	107,330	439	41,158	Greif Hungary (HU, 99.00%)
Egis-Rus	medicine storage, sales, and marketing	114,301	407	28,272	Egis (HU, 100.00%)
Terra Nova Invest	owner and operator of dairy farms	38	10	24,358	New World Farming (HU, 99.99%)
Alyansrezerv	business and management activities for the Russian OTP Bank	0	2	21,139	OTP Bank (HU, 100.00%)
Veles	rental of commercial property	2,415	37	17,363	Stoa (HU, 100.00%)
Nyumedtekh	supplying of medical products and maintenance services	63,997	59	13,768	New Medical Technologies (HU, 90.00%)
Agrofeed Rus	owner of a feed premix plant	51,224	131	12,788	Agrofeed (HU, 100.00%)
Torgoviy Kvartal Naberezhnye Chelny	owner of Torgoviy Kvartal, a shopping center	5,961	1	11,424	Prinstar (CY, 100.00%) > […] > Shareforce Befektetési (HU, 70.00%)
Gedeon Richter Farma	overseeing of Richter's marketing and sales network	44,091	811	7,204	Richter Gedeon (HU, 100.00%)
BSC Msc	software development for high-tech customers	11,193	221	4,652	Finshape Czechia (CZ, 90.00%) > Algorithmiq (CZ, 79.50%) > Algorithmiq Invest (HU, 100.00%)
Wanhua Borsodchem Rus	customer support for chemical product sales	72,365	241	2,347	BorsodChem (HU, 99.00%)
Finservis	financial broker in point-of-sale lending	2,189	81	2,241	Inga Kettő (HU, 99.00%), MFM Projekt Beruházási és Fejlesztési (HU, 1.00%) > OTP Bank (HU, 100.00%)
Energoinvest	supplying heating, construction and technical re-equipment of boiler houses	9,503	66	2,177	SPTK Intelset (RU, 99.98%) > Onyx Infrastructure & Development Corp. (HU, 100.00%)

Note: T/O = turnover; .. = not available; CY = Cyprus; CZ = Czechia; HU = Hungary; NL = Netherlands; RU = Russia.
Source: Authors' compilation based on information from the Bureau van Dijk's Orbis company database.

10.2.2. The impact of sanctions and Russian countermeasures on Hungarian business in Russia

Hungarian companies operating in Russia have been facing a complex and diverse set of threats since Russia invaded Ukraine in February 2022. The ruble's plunge after the outbreak of the war led to significant losses for these companies, although the exchange rate has since stabilized. Banking and money transfers have been a problem due to several Russian banks being excluded from the SWIFT system and because of Russian measures on foreign currency conversion and on payments into the bank accounts of firms from non-friendly countries. Despite the cordial Hungarian–Russian political relations, Hungary, as an EU member (thus not individually), is also on the list of unfriendly countries. In turn, OTP's continued presence in Russia helps Hungarian companies finance their day-to-day operations there (Horváth, 2022; Kiss, 2022).

The procurement of raw materials and components has become particularly problematic for companies in Russia, not only due to the Western sanctions but also to the fact that some foreign companies interpret those sanctions too strictly and prefer not to deliver to Russia, while several foreign suppliers have voluntarily stopped supplying the Russian market for moral reasons or under pressure from their government or home-country society. The replacement of these suppliers is difficult, costly, and time-consuming. Companies operating in Russia are trying to build up alternative supplier sources abroad (or in some cases, within the country). To help alleviate this situation, Russia introduced a "parallel imports" scheme. To source the necessary products, Russian and foreign companies operating in Russia have turned to intermediaries located in countries that do not enforce or support sanctions against the country (Horváth, 2022; Kiss, 2022). The Russian government signed a resolution establishing fast-track imports of electronic devices into Russia and abolishing import duties on production equipment, components, feedstock, and materials for implementing major investment projects (MFRF, 2022a, 2022b). Nonetheless, suppliers have switched to immediate payment or prepayment as opposed to payment due 30 to 60 days (Kiss, 2022).

Road freight transport from Hungary to Russia has also become more complicated, costly, and time-consuming for Hungarian businesses. Rail transport via Ukraine had to be switched to trucks, and truck traffic was typically shifted to the Baltic States (Latvia and Lithuania). Belarus is no longer a real transit option, since it announced a ban on trucks registered in the EU entering its territory in April 2022, though certain exceptions apply, such as for drugs and medical goods. For others, it is possible to recouple semi-trailers or reload goods into Belarusian trucks, but this is not attractive for Hungarian transporters (Kiss, 2022). It is also difficult for Hungarian businesspeople to travel by air from Hungary to Russia because the EU shut down its airspace to Russian aircrafts in February 2022, followed by Russian countermeasures and by decisions by non-Russian carriers to cancel flights to and from Russia (Konkoly, 2022).

The increase in the costs cannot be fully passed on Russian consumers under the current economic conditions in Russia. The Hungarian government has not provided aid to Hungarian companies in Russia since the outbreak of the war (Kiss, 2022). The state-owned export-credit agency Eximbank and export-credit insurance company Mehib have stopped taking risks. In the case of existing credit insurance, Mehib still covers the loss if the customer does not pay (Gyenis, 2022).

Hungarian investors are much less prone to leave Russia than firms from other countries in Central and Eastern Europe, especially from Czechia and Poland. According to the Yale CELI data, 75% of the Czech firms suspended their operations in Russia, and another 6% left the country. As for Polish firms, 38% reported suspending their activities, and 43% withdrew. The corresponding shares in the Hungarian sample is 20% and 0%. It must be noted that this sample is very small and includes corporations having any type of business links with Russia (CELI, 2022).

Hungarian companies are not experiencing any hostility on the Russian market and are even receiving administrative assistance in this situation. These companies, however, need to be kept informed so that they do not take any action that would result in punitive measures from either the EU or Russia (the implementation of EU sanctions is considered a punishable act in Russia), but at the same time, they should not apply the sanctions too strictly. On the other hand, some Hungarian firms hope to take over the markets of foreign competitors who have withdrawn from Russia (Gyenis, 2022; Horváth, 2022; Kiss, 2022; Konkoly, 2022).

10.2.3. How leading Hungarian companies adjust to difficulties in Russia

Each of the three largest Hungarian-based FDI investors in Russia—the OTP Group in the banking sector, the pharmaceutical company Richter, and the oil and gas firm MOL—is taking a different approach to the situation. The exposure of the OTP Group to Russia is relatively low, though this depends largely on which indicator is used: Russian operation provided 2.9% of the Group's consolidated assets, 3.9% of the consolidated net loans, and 7.9% of the consolidated equity at the end of 2021 and 7.6% of the consolidated adjusted after-tax profit in 2021. Following the outbreak of the war in Ukraine, the Russian OTP Bank suspended all lending. Later, it resumed the sales of point-of-sale (POS) and cash loans, in small volumes and on conservative terms. The Bank, however, does not engage in new corporate lending; it only extends the maturities of some existing loans. The volume of corporate loans had halved year on year by the end of the first half of 2022, even though none of the Bank's corporate clients have been affected by sanctions. The Russian OTP Bank made a significant loss in the first half of 2022, but by the second quarter it was already turning a profit. The OTP Group is facing political pressure from the Ukrainian government to withdraw from the Russian market, which it does not intend to do—though does not rule this out in the longer term. However, a 2022 executive order of the Russian president bans such a move until the end of the year (Nagy, 2022; OTP Bank, 2022a, 2022b).

The share of the post-Soviet region in Richter's total pharmaceutical sales has decreased following the events in Ukraine in 2014, but Russia still accounted for 13.5% of Group sales in 2021. Paradoxically, its revenues in Russia increased both in Hungarian forints and Russian rubles in the first half of 2022 compared to the same period of the previous year. This is because although medicines are not subject to Western sanctions, many people stockpiled them after the outbreak of the war in Ukraine, and there have also been price increases in the Russian market. Difficulties abound, though. Richter is facing exchange rate risks in the Russian market. Further, the delivery time to the Russian market doubled for a while but has since returned to normal.[37] In Richter's factory in Russia, there is an issue with getting the necessary raw materials. For example, they had to switch to local sources for packaging materials. On top of this, some Western companies are unwilling to work for Russian customers, which disrupts the supply of components and the completion of IT tasks. Since 60% of Richter's products marketed in Russia are over the counter, Richter is recouping the expected losses by further raising prices. Like other multinational pharmaceutical manufacturers, Richter has no plans to withdraw from the Russian market, despite the pressure from the Ukrainian government to do so (Baka, 2022; Bonta, 2022; Növekedés.hu, 2022; Richter Gedeon, 2022a, 2022b).

MOL's exposure to Russia is low in terms of operations in the Russian market. Having sold its other exploration and production interests, MOL's stake in the company Baitex is the Group's only upstream project in Russia. In 2021, Baitex's Baitugan field in the Volga-Ural region accounted for only 3.6% of the Group's average daily hydrocarbon production (MOL, 2022). The war in Ukraine has been affecting MOL primarily through its imports from Russia rather than its activities in the Russian market.[38] On the import side, the crisis poses serious risks to MOL, but so far MOL has reaped large profits from the discount of Russian Urals

[37] Richter shifted to the Belarusian corridor in 2015. Its products are exempted from the 2022 Belarusian ban. (Based on personal information from Richter on September 28, 2022, after this chapter was finalized.)

[38] A May 2022 media report suggests that MOL's planned rubber bitumen plant project in Tatarstan had just been suspended (Kiss, 2022). MOL can neither confirm nor deny whether this is the case or not, and whether, if true, it was a result of the war. (Based on personal information from MOL on October 10, 2022, after this chapter was finalized.)

crude—delivered to MOL via the Druzhba pipeline through Ukraine—to global benchmark Brent.[39] Under the EU's sixth package of sanctions against Russia, approved at the end of May 2022, such piped crude oil imports will be exempted. However, the physical interruption of crude oil transit in Ukraine is still a risk. In August 2022, crude flows to Hungary via Ukraine were halted for six days due to sanctions preventing Russia from paying the transit fee to Ukraine. Eventually, MOL paid the transit fee to ensure the resumption of supplies.

10.3. Conclusions

The war in Ukraine adds major uncertainties to FDI to and from Russia and will affect it negatively. It will also hurt Hungarian firms that have decided to stay in the country. The degree of damage will depend on the evolution of the war and of the sanctions and Russian countermeasures, which are not fully known yet.

The experience of Russian firms adjusting to the wave of sanctions in 2022 proves that despite the financial difficulties and the increase in the cost of doing business, at least some MNEs have been attempting to continue transactions in the West, as long as the rules and conditions allow it or there have been ways around them. However, a long war and the ever-strengthening effects of the measures could force these companies to give up on a direct presence in Western markets and switch their activities to third countries. This chapter has highlighted only some salient cases of immediate adjustments to sanctions. Shutdowns or withdrawals due to sanctions have taken place for other Russian companies that are not discussed in this chapter, such as in the cases of the railway machine-building company Transmashholding in Hungary, the heavy industry and manufacturing conglomerate OMZ in Czechia, and the independent natural gas producer Novatek in Poland.

From the point of view of repercussions for the world economy, it is to be recalled that the largest Russian MNEs, including the state-owned ones, are global leaders in oil and gas, other types of mining, and metallurgy. They control extensive value chains, in most cases from the upstream, and their actions affect the entire industry in which they operate. They not only attempt to escape sanctions but also retaliate to the outside world. We are reminded of that reality in particular when Gazprom turns on and off its supply to the European gas markets on behalf of its owner, the Russian state.

FDI to and from Russia is expected to remain sluggish for a long time if no exit strategy to stop the conflict is developed quickly. The fall in both directions of FDI will, in the end, hurt the economic capacities of Russia, already affected by a previous round of sanctions imposed in 2014. Decoupling of the Russian economy from FDI partners works—if it works—only partially, and at a relatively high cost. That in turn could thwart the very economic fundamentals of the war effort. The calls of the Russian government for a reorientation of foreign economic relations do not promise too much success.

On the other side, the Hungarian companies—none of which are major players in the global value chain, rather regional players—typically try to hold their ground in the Russian market. The question is how their generally positive attitude towards staying and even taking advantage of the situation to expand further will change over time. They have the political and administrative support of the Hungarian government. The war in Ukraine has left Hungarian–Russian political relations mostly untouched, while other Central and East European countries have seen a significant deterioration in this respect. But cordial bilateral political relations and Hungarian political-administrative support for companies operating in the Russian market do not go hand in hand with financial support. Even in peacetime, Russia is a difficult place to operate in, though those with a long presence in the Russian market have a great deal of experience in mitigating risks and losses. However, the extensive set of difficulties associated with the current situation may become too much to take on, not only for smaller, resource-poor, and less-experienced firms but also for stronger enterprises. The three large Hungarian-based companies examined in this chapter are standing their ground, despite Western sanctions, Russian countermeasures, and outside political pressure to discontinue business with Russia.

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