

The Western Private Sector as an Actor in the Russia-Ukraine War: Implications for Israel

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On the eve of the hostilities between Russia and Ukraine that erupted in February 2022, and even more so in the course of the war, many private companies, at their own initiative, adopted an active stance on the conflict in two main spheres: sending direct and intensive aid to Ukraine, and curbing or ceasing operations in Russia. These measures have an impact on the economic situation on both sides of the conflict, as well as on the course of the war. This is an important and partly new phenomenon that could have implications for Israel.

Aid to Ukraine

During the war between Russia and Ukraine, some Western companies, at their own initiative, adopted pro-Ukraine stances. At the same time, the Ukrainian government invested extensively in building a comprehensive system of support in all areas, which has enabled its positive influence on the course of the war.

- **Communication, storage, and information services:** For the first time ever during a military conflict, the Ukrainian government attempted to impede the Russian war effort through a wide variety of digital measures, while recruiting broad support from Western tech giants. For example, after an official request to Google, the company restricted access to certain features of its maps, and also blocked access to several YouTube channels of Russian state media.
- **An exclusive channel of communication in the service of the army:** Following a Russian cyberattack against the ground communication terminals of Viasat Inc. early in the invasion, the Ukrainian military and many civilian customers were left without a critical satellite communication hub that provided internet and additional services.

The Ukrainians turned to Elon Musk, the owner of SpaceX, which provides the satellite internet service Starlink. Musk agreed, and thousands of terminals were donated to Ukraine, in particular to military units, in order to enable the continuity of command and control. A small portion of the terminals that were transferred was bought by the US administration and crowdfunding. The cost of Musk's donation is estimated at \$80-100 million. Starlink provided Ukrainian forces with the exclusive ability to contain an attack against Viasat, and it is still one of the main means of communication for Ukrainian operational activity.

- The operation to save the Ukrainian databases: In advance of the invasion and after it began, Amazon Web Services agreed to Kyiv's request and enabled an operation to transfer the state databases (population registries, land registry data, tax databases, and more) to cloud storage outside of the country. The transfer of the information was made possible using physical transport devices, with exceptionally high capacity.
- Information security and cyber defense: In advance of and during the war, important assistance in repelling Russian cyberattacks was provided to Ukraine by information security giants, including Google, Microsoft, Mandiant, ESET, and others, along with state bodies. The corporations provided Ukraine with programs for free, and shared studies with it on the nature of the attackers' activity. In particular, Microsoft invested about \$300 million to set up special cyber defense teams. As a result of the aid from these companies, the Russian cyber effort has largely failed.

Military aid: Another new phenomenon: Western defense companies have contributed their products and proved willing to take risks involved in investing in the fighting country.

- The Turkish UAV producer Baykar has become one of the most prominent symbols of the Ukrainian resistance against the Russian invasion. The Bayraktar TB2 UAV is an effective weapon against the Russian army. Russia tried to prevent the continued supply of such

weapons to Ukraine, but the company's owners refused. In response to a crowdfunding effort in Lithuania to acquire drones for Ukraine, the company helped by supplying several drones for free, using the money raised to acquire ammunition and humanitarian aid. The success of using drones by the Ukrainian military led the company's owners to announce their hope to build a production factory in Ukraine within two years.

- After Germany's decision to supply Ukraine with Leopard tanks, the German arms manufacturer Rheinmetall launched negotiations on building a factory to produce advanced Panther tanks in Ukraine, with an investment of 200 million euros. The factory will be able to produce up to 400 tanks a year – a significant number for the Ukrainian army. In addition, Rheinmetall reported an initiative to provide Ukraine with 20-25 old Leopard tanks.

The "Exodus from Russia"

Several Western and Ukrainian institutions have followed the activity of foreign companies in Russia since the beginning of the war. Based on the data gathered, the following picture emerges: at the outset of the war, about 3,120 Western companies operated in Russia in a wide variety of fields. During the year of war, 206 of the companies left Russia completely, including large international companies; 465 companies are in the process of leaving or ceasing operations; 719 companies have announced the suspension of their operations, which usually includes ceasing production at their factories and ceasing investments; 328 companies have significantly reduced their operations; another 173 companies have decided to stop investing in their main operations in Russia, and some are also considering reducing their operations. That is, with Russia early in the second year of the war, about 60 percent of the foreign companies have ceased, reduced, or curbed their operations in one way or another. However, only 6.6 percent have fully cut off their relations with Russia.

According to a study by Switzerland's University of St. Gallen that examined 2,405 subsidiaries owned by EU companies and G-7 countries, 18 percent

of US companies left the Russian market completely, as did 15 percent of Japanese companies, and 8.3 percent of European companies.

Among the companies that continue to operate in Russia is Aushan (the French supermarket chain, which has 230 stores throughout Russia), which announced that it would remain out of a commitment to its civilian customers and 29,000 employees, and the US company Pfizer, which, while it stopped investing in Russia, continues to sell drugs on a limited scale, with the profits from sales transferred to humanitarian aid in Ukraine.

The largest chip producer in the world, the Taiwanese company TSMC, decided to join the US sanctions imposed on Russia almost immediately after the outbreak of the war, and stopped supplying chips for the Russian processors Baikal and Elbrus, which were supposed to serve as an alternative to Intel and AMD processors. The Elbrus processor was also planned as a replacement for Western processors for the needs of the Russian defense industry and government ministries. Russian industry has already been severely affected by these restrictions.

Many foreign IT companies have also announced the cessation of the sale of their products and the provision of their services to users from Russia. These include major brands – SAP, Cisco, IBM, Oracle, Adobe, Imperva, Fortinet, Microsoft, Norton, and Avast. Their departure signifies the suspension of support and updates of programs that have already been acquired by Russian users.

Many companies have encountered significant difficulties in their attempts to leave the Russian market. Those that have tried to sell their holdings face threats of nationalization by the government on the one hand and the tightening of sale regulations on the other hand. This includes the need for approval by Russia's Ministry of Finance and large discounts on the market value, and the process can take up to a year. Corporations in strategic industries (oil, gas) require the personal approval of Russia's president. Companies attempting to cease their operations place the local management at risk of criminal accusations due to proactive bankruptcy or

due to support for foreign sanctions. One example is the Russian court's decision to freeze all of Volkswagen's assets in Russia, in response to the claim of its Russian partner. The managements of some companies claim that they bear responsibility to shareholders regarding the sale of holdings worth billions of dollars and must ensure some compensation for them. Another example: the cigarette giant Philip Morris announced it would not succeed in selling its holdings in Russia and therefore it is forced to remain in the country.

According to a Yale University study, companies that left the Russian market enjoyed a rise in the value of their shares that compensated them for the losses that the departure caused them, while companies that remained did not experience such a rise.

Israeli companies have adopted various approaches to their continued operation in Russia. For example, reports by Yale University researchers show that Check Point continues to sell its cyber products, Coffee Cofix continues to maintain its branches, and Teva has not taken actions to cease its activity. In contrast, Fiverr decided to suspend its business operations, and Gett and Playtika completely ceased all of their business operations.

Conclusion

Western companies, especially tech companies, have become independent and influential actors. Their behavior is not uniform, but a critical mass can emerge quickly, because even a small number of giant corporations that decide to leave or help a certain side leads to significant consequences, including on the battlefield.

At this stage, there is not enough data to state whether foreign Western companies left Russia because of the damage that could result from the sanctions imposed on it, or due to ethical reasons, image considerations, or all of the above. In contrast, the aid to Ukraine from giant tech companies, which is estimated at hundreds of millions of dollars, is explained by image and ethical considerations. In addition, various Western companies provided humanitarian-civilian aid to Ukraine.

Israel should consider that the next time there is an escalation in the Palestinian arena or the Lebanese arena, the international business community might not support it, including taking an active stance. This must be prepared for in advance by mapping critical economic areas characterized by dependence on exclusive foreign suppliers. This would enable managing risks and locating alternative sources that would ensure the continuous functions of the various critical systems in case of a sudden cessation of the operations of foreign suppliers.

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