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# Risks of Russian Business Ownership in Georgia

This policy brief addresses risks tied to Russian business ownership in Georgia. The concentration of this ownership in critical sectors such as electricity and communications makes Georgia vulnerable to risks of political influence, corruption, economic manipulation, espionage, sabotage, and sanctions evasion. To minimize these risks, it is recommended to establish a Foreign Direct Investment (FDI) screening mechanism for Russia-originating investments, acknowledge the risks in national security documents, and implement a critical infrastructure reform.

Russia exerts substantial influence over Georgia. First and foremost, Russia has **annexed 20 percent** of Georgia’s internationally recognized territories of Abkhazia and South Ossetia. Further, it employs a variety of hybrid methods to disrupt the Georgian society including **disinformation, support for pro-Russian parties and media, trade restrictions, transportation blockades, sabotage incidents**, and countless more. These tactics aim to hinder Georgia’s development, weaken the country’s statehood, and negatively affect pro-Western public sentiments (Seskuria, 2021 and Kavtaradze, 2023).

Factors that may also increase Georgia’s economic dependency on Russia concern trade relationships, remittances, increased economic activity driven by the most recent influx of Russian migrants, and private business ownership by Russian entities or citizens (Babych, 2023 and Transparency International Georgia, 2023). This policy brief assesses and systematizes the risks associated with Russian private business ownership in Georgia.

## Sectoral Overview of Russian Business Ownership

Russian business ownership is significant in Georgia. Recent research from the Institute for Development of Freedom of Information (IDFI) has addressed Russian capital accumulation across eight sectors of the Georgian economy: electricity, oil and gas, communications, banking, mining and mineral waters, construction, tourism, and transportation. Of the eight sectors considered by

IDFI, Russian business ownership is most visible in Georgia’s electricity sector, followed by oil and natural gas, communications, and mining and mineral waters industries. In the remaining four sectors considered by IDFI, a low to non-existent level of influence was observed (IDFI, 2023).

**Table 1.** Overview of Russian Ownership in the Georgian Economy as of June 2023.

Sector	Ownership Assessment
<b>Electricity</b>	Several companies involved in electricity generation, supply, transmission, and trade are under Russian ownership (e.g., Russian Inter RAO owns Telmico, the only electricity supplier to the Georgian capital, Tbilisi).
<b>Oil and Gas</b>	One of the five top retail oil operators is under Russian ownership. Another company, controlling 33 percent of the oil terminal in Georgia’s Poti Port, was under Russian ownership until May 2022.
<b>Communications</b>	25 percent of the fixed telephone market is controlled by businessmen with Russian citizenship. The third largest mobile service provider was under Russian ownership until May 2022.
<b>Mining and Mineral Waters</b>	Seven license-holder firms are under Russian ownership.

**Source:** IDFI, 2023.

There are several reasons for concern regarding the concentration and distribution of Russian business ownership in the Georgian economy.

First, it is crucial to keep Russia's history as a hostile state actor in mind. Foreign business ownership is not a threat in itself; However, it may pose a threat if businesses are under control or influence of a state that is hostile to the country in question (see Larson and Marchik, 2006). Business ownership has been a powerful tool for the Kremlin, allowing Russia to influence various countries and raising concerns that such type of foreign ownership might negatively affect national security of the host country (Conley et al., 2016). Similar concerns have become imperative amidst Russia's full-scale war in Ukraine (as, for instance, reflected in **Guidance** of the European Commission to member states concerning Russian foreign acquisitions).

Further, Russian business ownership in Georgia is particularly threatening due to the ownership concentration within sectors of critical significance for the overall security and economic resilience of the country. While there is no definition of critical infrastructure or related sectors in Georgia, at least two sectors (energy and communications) correspond to critical sectors, according to international standards (see for instance the list of critical infrastructure sectors for the **European Union, Germany, Canada and Australia**). Such sectors are inherently susceptible to a range of internal and external threats (a description of threats related to critical infrastructure can be found **here**). Intentional disruptions to critical infrastructure operations might initiate a chain reaction and paralyze the supply of essential services. This can, in turn, trigger major threats to the social, economic, and ecological security and the defense capacity of a state.

## Georgia's Exposure to Risks

Identifying and assessing the specific dimensions of Georgia's exposure to risks related to Russian business ownership provides a useful foundation for designing policy responses. This brief identifies six distinct threats in this regard.

### Political Influence

Russia's business and political interests are closely intertwined, making it challenging to differentiate their respective motives. This interconnectedness can act as a channel for exerting political influence in Georgia. Russians that have ownership stakes in Georgian industries (e.g. within electricity, communications, oil and gas, mining and mineral waters) have political ties with the Russian ruling elite facing Western sanctions, or are facing sanctions themselves. For instance, Mikhail Fridman, who owns up to 50 percent of the mineral water company IDS Borjomi, is **sanctioned** for supporting Russia's war in Ukraine. Such interlacing raises concerns about indirect Russian influence in Georgia, potentially undermining Georgia's Western aspirations.

### Export of Corrupt Practices

The presence of notable Russian businesses in Georgia poses a significant threat in terms of it nurturing corrupt practices. Concerns include "revolving door" incidents (movement of upper-level public officials into high-level private-sector jobs, or vice versa), tax evasion, and exploitation of the public procurement system. For instance, Transparency International Georgia (2023) **identified** a "revolving door" incident concerning



the Russian company Inter RAO Georgia LLC, involved in electricity trading, and its regulator, the Georgian state-owned Electricity Market Operator JSC (ESCO). One day after Inter RAO Georgia LLC was registered, the director of ESCO took a managerial position within Inter RAO Georgia LLC. Furthermore, tax evasion inquiries involving Russian-owned companies have been documented in the region, particularly in **Armenia**, further highlighting corruption risks. We argue that such corrupt practices might harm the business environment and deter future international investments.

## Economic Manipulation

A heavy concentration of foreign ownership in critical sectors like energy and telecommunications, also poses a risk of manipulation of economic instruments such as prices. The significant Russian ownership in Armenia's gas distribution **network** exemplifies this threat. In fact, Russia utilized a price manipulation strategy for gas prices when Armenia declared its EU aspirations. Prices were then reduced after Armenia joined the Eurasian Economic Union (Terzyan, 2018).

## Espionage

Russian-owned businesses within Georgia's critical sectors also pose espionage risks, including economic and cyber espionage. Owners of such businesses may transfer sensitive information to Russian intelligence agencies, potentially undermining critical infrastructure operations. As an example, in 2022, a Swedish business owner in electronic trading and former Russian resident, was **indicted with transferring secret economic**

**information** to Russia. Russian cyber-espionage is also known to be used for worldwide **disinformation campaigns** impacting public opinion and election results, compromising democratic processes.

## Sabotage

The presence of Russian-owned businesses in Georgia raises the risk of sabotage and incapacitation of critical assets. Russia has a history of using sabotage to harm other countries, such as when they disrupted Georgia's energy supply in **2006** and the recent **Kakhovka Dam destruction** in Ukraine (which had far-reaching consequences, incurring environmental damages, and posing a threat to nuclear plants). These incidents demonstrate the risk of cascading effects, potentially affecting power supply, businesses, and locations strategically important to Georgia's security.

## Sanctions and Sanction Evasion

Russian-owned businesses in Georgia face risks due to Western sanctions as they could be targeted by sanctions or used to evade them. Recent cases, like with **IDS Borjomi** (as previously outlined) and **VTB Bank Georgia** – companies affected by Western sanctions given their Russian connections – highlight Georgia's economic vulnerability in this regard. Industries where these businesses operate play a significant role in Georgia's economy and job market, and instabilities within such sectors could entail social and political concerns. There's also a risk that these businesses could help Russia bypass sanctions and gain access to sensitive goods and technologies, going against Georgia's support for international



sanctions against Russia. It is crucial to prevent such sanctions-associated risks for the Georgian economy.

## Assessing the Risks

To operationalize the above detailed risks, we conducted interviews with Georgian field experts within security, economics, and energy. The risk assessment highlights political influence through Russian ownership in Georgian businesses as the foremost concern, followed by risks of corruption, risks related to sanctions, espionage, economic manipulation, and sabotage. We asked the experts to assess the severity level for each identified risk and notably, all identified risks carry a high severity level.

## Recommendations

Considering the concerns detailed in the previous sections, we argue that Russia poses a threat in the Georgian context. Given the scale and concentration of Russian ownership within critical sectors and infrastructure, a dedicated policy regime might be required to improve regulation and minimize the associated risks. Three recommendations could be efficient in this regard, as outlined below.

### Study the Impact of Adopting a Foreign Direct Investment Screening Mechanism

To effectively address ownership-related threats, it's essential to modify existing investment policies. One approach is to introduce a FDI screening mechanism with specific functionalities. Several jurisdictions implement mechanisms with

similar features (see a recent [report](#) by UNCTAD for further details). Usually, such mechanisms target FDI's that have security implications. A dedicated screening authority overviews investment that might be of concern for national security and after assessment, an investment might be approved or suspended. In Georgia, a key consideration for designing such tool includes whether it should selectively target investments from countries like Russia or apply to all incoming FDI. Additionally, there's a choice between screening all investments or focusing on those concerning critical sectors and infrastructure. Evaluating the investment volume, possibly screening only FDI's exceeding a predefined monetary value, is also a vital aspect to consider. However, it's important to acknowledge that FDI screening mechanisms are costly. Therefore, this brief suggests a thorough cost and benefit analysis prior to implementing a FDI screening regime in Georgia.

### Consider Russian Ownership-related Threats in the National Security Documents

Several national-level documents address security policy in Georgia, with the National Security Concept – outlining security directions – being a foundational one. Currently, these concepts do not specifically address Russian business ownership-related threats. When designing an FDI screening mechanism, however, acknowledging various risks related to Russian business ownership must be aligned with fundamental national security documents.



## Foster the Adoption of a Critical Infrastructural Reform

To successfully implement a FDI screening mechanism unified, nationwide agreement on the legal foundations for identifying and safeguarding critical infrastructure is needed. The current concept for critical infrastructure reform in Georgia envisages a definition of critical infrastructure and an implementation of an FDI screening mechanism. We therefore recommend implementing this reform in the country.

## Conclusion

This policy brief has identified six distinct risks related to Russian business ownership in several sectors of the Georgian economy, such as energy, communications, oil and natural gas, and mining and mineral waters. Even though Georgia does not have a unified definition of critical infrastructure, assets concentrated in these sectors are regarded as critical according to international standards. Considering Russia's track record of hostility and bearing in mind threats related to foreign business ownership by malign states, this brief suggests regulating Russian business ownership in Georgia by introducing a FDI screening instrument. To operationalize this recommendation, it is further recommended to consider Russian business ownership-related threats in Georgia's fundamental security documents and to foster critical infrastructural reform in the country.

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