

ROY DEN HOLLANDER
COUNSELOR AT LAW

545 East 14th Street - Suite 10 D New
York, New York 10009
(212) 982-5836 Fax Number: 212-
982-5943

DOING BUSINESS WITH AMERICANS

American businessmen have invested only about \$400 million in the Commonwealth of Independent States, a minuscule amount when compared to America's wealth. America's gross national product exceeds \$5 trillion and the country's total value surpasses \$13 trillion. With so much wealth, America should arguably be willing to invest a fraction of it to help Russia survive these perilous times. After all, altruism is a virtue. Besides, America did intentionally help bankrupt the Soviet Union by isolating its economies and fostering a costly arms race. In addition, America's failure to aid Russia's economy may result in civil wars, secessions and dictators. Finally, American businessmen can make money by investing in Russia.

All solid reasons for American businessmen to invest in Russia; however, the only reason they will act on is the opportunity to make money, because money is the measure of success in America. In general, American businessmen have no time for altruism unless it contributes to the bottom line. A Chevron corporation spokesman recently said Chevron makes charitable contributions to support its strategic business plans and provide a return on investment, which means profit. American businessmen will not be motivated to invest

in Russia out of remorse for their government's actions. America intended to destroy any nationalist system in Russia (as it tried in Vietnam) so American business would be free to profit by exploiting Russia's land and people. American business now sits on the threshold of having what it wanted". Finally, civil wars, secessions and dictators will allow American businessmen to make huge profits. So long as any nuclear threat to America is minimized, America's still powerful military-industrial complex would benefit greatly from the disintegration of Russia into small warring fiefdoms, which could easily result from strict adherence to the International Monetary Fund's economic plan. The sales of weapons to the different sides alone would pull the industry out of its current recession. Furthermore, a vast land mass with its people ruled by a number of little and relatively weak dictators will provide American businessmen with an advantageous situation similar to Latin America two decades ago. American businesses, such as International Telephone & Telegraph in Chile in the 1970's, have extensive experience at bargaining with dictators and maximizing their profits under totalitarian regimes.

Know Your Partner

American businessmen are collectively the most powerful force in America. Seven thousand of the largest corporations in America account for one-half of all America's economic activity. The one hundred largest banks in America control 54% of America's bank assets, or \$2.3 trillion. Since so relatively few businessmen control such large amounts of wealth, they exert great influence on the government. In fact, many government leaders are businessmen or former businessmen. George Bush made much of his fortune building

the Zapata Oil Company in Texas, and his sons are currently active in the oil industry. The American government generally does what American business leaders want it to.

The standards by which American businessmen operate are different than the standards of conduct subscribed to by many, but not all, Russians. American businessmen generally are not concerned whether an individual consumer lives or dies, so long as there is another consumer to fill the void and consume the businessman's products. Most American businessmen -- at heart — are only interested in themselves and their enterprise. The more money they and their enterprise makes, the more power they have and the more social status they command. Before pursuing a deal, American businessmen ask: how will I benefit from this action and how can I maximize my profits. They tend to believe the community can be sacrificed for their individual greed, and they often fail to see the need for fairness: a balance between their interests and the community's. If it means profits, most American businessmen will impoverish those on fixed pensions or those who work hard and long for small rewards.

Unfortunately, American businessmen control a lot of dollars that can help Russia out of its current predicament. The task then is not just to attract American business investments but to regulate these investments so that American businessmen are not free to engage in any profit maximizing activity they wish regardless of the cost to Russia's people, environment and future prosperity. American businessmen will compromise and act in a socially responsible manner, providing they can make a reasonable profit. The key is to assure fairness to American businesses and to Russia.

Attracting American Business

An American businessman's decision to buy an asset, make an investment, enter into a joint venture or import a product depends on the relationship between two factors: the potential profit and the risk that profit will not be achieved. The greater the risk, the greater the profit potential must be before an American businessman will invest.

To determine risk, an American businessman examines two types: systematic and unsystematic. Systematic risk includes the state of the entire market, infrastructure, currency, banking, legal system and political system; that is, the environment in which a business transaction takes place. Unsystematic risk involves the specific characteristics of a transaction, such as the marketability of an asset, the credit-worthiness of a business invested in, the business ability of a partner in a joint venture and the competitiveness of a product.

American businessmen see high systematic risk in Russia because of the absence of comprehensive laws on commerce, contracts, banking and finance, securities, company accounts, taxation, intellectual property, private property and financial accounting and the lack of mechanisms to enforce what laws do exist. Without a legal infrastructure, businessmen cannot be certain of being able to enforce an agreement, protect their property, transfer funds, obtain reliable information and protect their interests from the graft, corruption and Mafia-like protection services that now surround many business efforts in Russia.

A Russian pipeline company recently breached its contract to transport oil for an American joint venture in Siberia. The Russian company unilaterally decided to raise the

prices it had previously agreed to, blatantly violating the contract. The American company cannot go to court to enforce the contract because of the paucity of contract law and legal mechanisms for enforcing a judgement.

There are no rules defining the extent of liability an American company assumes when it invests in a Russian company that has environmental problems. Is the American company responsible for cleaning up the pollution caused by the Russian company before the American company became involved?

Vendors require a system by which they can maintain a legal interest in an asset sold to another company on credit. Such a system would enable the vendor to take back the asset if the buyer did not repay its debt. Russia lacks such a system.

Other systematic risks include disputes and overlapping jurisdiction among different levels of government; currency inconvertibility; lack of commercial, legal and market information; and visa restrictions.

Russia can lessen the systematic risks by enacting clear laws that are similar to those in other capitalist economies on the full range of business transactions, publish the laws in an organized manner, guarantee contracts, establish an arbitration body based on international standards, adopt suggestions of the Soviet American Banking Law group, establish an investment ombudsman to eliminate jurisdictional obstacles to business projects and eliminate visas.

The other risk, unsystematic, presents the danger that the specific asset bought, the business invested in, the partner in the joint venture or the imported product is not what it has been represented to be. Some Russian businessmen in their rush to make money tell

Americans what they think the Americans want to hear. Some American businessmen refer to these exaggerations as being offered the sun, the moon, the stars and everything that dreams are made of. While this may attract the American's interest, it will not cause him to invest. Before an American businessman invests, he requires lots of information about the business, its managers, the product and the market. Some of the typical information a businessman would want includes:

Management: The education and past business experience of principals in a company. American businessmen are not concerned with past political affiliations. They just want to be sure the manager and directors can run a business and deliver a product.

Product: The features and benefits of the product and why it is better than the competition.

Product's Market: A general profile of the company's customers, the current status of competition, the impact of competition on the business.

Distribution: How does the product get from the producer to the consumer.

Funding: Amount of money needed and how it will be used.

Status of Business: Background and history of the company.

Future Prospects: Likelihood of other or new products.

Financials: What the balance sheet and income statements indicate. They must be put together in accordance with generally accepted accounting principals.