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## NOMENKLATURA DINOSAURS IN THE NEW WORLD OF 'BIZNESS'

Dear Peter,

The last time I saw Nikolai Borisovich was in the summer of 1989, when I was working on a Soviet-American joint fishing venture off the Oregon coast. Borisovich was the political officer on our factory trawler, the Kargat, and I was the company representative and only American crewmember. Borisovich made quite an impression on me; sleek, smooth, and plump as an olive, he regularly lectured the crew on the superiority of the Soviet system, predicting socialism's triumph following Gorbachev's perestroika, all the while denigrating America (which he had never seen) as a 'historical accident'. "America isn't that great", he would self-confidently proclaim to anyone within hearing range. "We'll go to port, and you'll see. They might be a little richer, but really it's not all it's made out to be."

That year, by lucky chance, the Kargat was invited to visit the port of Everett, Washington, a small city not far from Seattle. Since it was the first port call ever by a Soviet ship in Everett, the city rolled out the red carpet; the Kargat crew was wined, dined, feted, and fussed over in a three-day love feast between the Russians and their delighted hosts.

During this time, Borisovich clearly reviewed some of his more cherished beliefs. In the Everett Mall, a monument to the American consumer, Borisovich was seen standing in front of the main fountain, goggling at the stores and shaking his head, mumbling, "I never thought it possible". He asked countless questions about the people living in the big houses near the golf course. He drank beer continuously, and spent as much time as possible schmoozing with the mayor of Everett and other local big shots. Minutes before the Kargat departed for the Motherland, he invited me into his cabin to drink a last minute toast. "I want to become rich", Borisovich suddenly blurted out to me,

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"Not rich the way people are in our country. I want to be rich the way people are in you country."

Cut to 1992. While waiting in the cafe of the International Sector of the Khabarovsk Airport for a flight, I spied a strangely familiar Russian 'biznessmen' dressed in a \$400 Italian suit and \$200 Italian shoes. Wait, I'd recognize that plumply sleek figure and plastered down hair anywhere--it was Nikolai Borisovich. Once we got over the shock of the initial meeting we bought a bottle of wine and sat down for some serious catching up.

Borisovich, it turned out, was on his way to Japan--his seventh trip in the last two years. He started his own company in 1990, a joint venture that exports crab to Japan. His partner is the former captain of the Kargat. Although his spots have changed somewhat, Borisovich clearly remains a political leopard, with his own opinions of post-Communist Russia, and the politics of Yeltsin, et al. "They are doing exactly what the country needs", said Borisovich in a stern tone I recognized from the good old days of lecturing the Kargat's crew, "We need to go through economic 'shock therapy' to rid ourselves of the old ways. Yeltsin's politics are perfectly right."

Well, times change and so do people, and a little serendipity in the world sometimes brings the lesson home more neatly than any theory. How many other former political officers have started their own companies, firms, and businesses in the new Russia? After all, this was the class of people most likely to succeed when the political winds in Russia shifted; propagandists of the almighty nomenklatura, former guardians of political orthodoxy, by training malleable and opportunistic, influential, blessed with the insider knowledge that only years of working the system brings about, well-educated, well-connected, and well-versed in the rules of the game. They may have been the most Communist of the Communists, but in fact, that is no burden--the same people who changed when the Party line changed through Khrushchev, Brezhnev, Andropov, Chernenko, and Gorbachev have adapted just fine to the new Yeltsin line. Leadership comes and goes, but the Russian nomenklatura is forever. Borisovich may have lost his old ideology, but the medium he used to thrive in, the old-boy network of the privileged, is still there, in a new Petri dish.

That these people have managed to persist in Russian life is no surprise to the average Russian, or even to most well-informed Westerners; the surprise conceals itself in what these people actually are. In the West, they are generally perceived as being "conservatives", the Old Guard, the last defenders of a failed system. This perception is only partly true. If you scratch the surface of a Borisovich, what you will find will not likely be a red-blooded, Communist Party member yearning for the good

old days of Party meetings in the Red Corner. Nobody but cretins ever liked that. What you will find instead is a realist who sees that those days are gone, and that his only chance to hang onto his former status lies in working the system, and his connections, to maximum advantage. The pot at the rainbow's end of this inside shucking and jiving is access to even better privileges and perks, the ones that can be had by doing 'bizness' with the formerly despised West.

But for all the desire to find the elusive Western partner, reach an agreement with him, and then sign the almighty Contract, Borisoviches are exceptional. Very little concrete 'bizness' actually ever happens here in the Russian Far East; things tend to be "full of sound and fury, signifying nothing". As one executive from a prominent fishing collective here in Petropavlovsk-Kamchatsky told me, "Many Americans come through here, looking. Few ever come back to do anything." The obvious reasons for this state of affairs--lack of a convertible ruble, economic chaos, political instability, and the like--get enough airplay. But these reasons make the problem abstract, and conceal a little-discussed factor in the lack of success Russians businessmen meet with their American counterparts. After all, the Americans do come, and they sincerely want to work here with Russian partners. Russia needs everything. The market potential of Russia never fails to amaze them, enough so that even chaos and instability don't fail to make the risks worth the candle.

The difficulties on the way even to getting started are legion, but I am beginning to suspect that they hinge more on the human factor than anything else. The nomenklatura in a place like Kamchatka is far less urbane than, say, in Moscow or St. Petersburg, and less versed in the sophisticated demands of their prospective partners. The vast majority of people in power here were born, bred, and raised in the administrative-command system, and that is their main point of reference. The old Communist Party decision-making style, with its quasi-military commands, diktat, and orders emanating from an omnipotent Chairman, proves a most unwelcome barrier in business negotiations between Russians and their American counterparts. The evidence I have so far gathered is mostly anecdotal, but points towards a clash of paradigms with disturbing implications. Can Russians ever get along in the Western business world?

At first glance, this seems like a rather silly question. There is certainly no lack of delegations from both countries flying back and forth in hot pursuit of partners, although some would claim that many Russian delegations are more concerned with visiting shopping malls and strip bars than they are with doing anything concrete. This is not exaggeration; the facts are there. For example, a 15-person delegation from one of Kamchatka's

largest fishing enterprises spent two weeks in Seattle for 'Fish Expo '92', but came back without a single contract--a poor return on an investment of hundreds of thousands of dollars in hard currency. Grumbled one insider, "They didn't go there to do business, they just wanted to go gambling in Las Vegas. Our own boss said he just wanted to go on a shopping trip."

I recently had the opportunity to see a series of business negotiations between American and Russians fall apart; it was not a pretty sight, but it was educational. The following story is true; but because of the people involved, and the fact that Kamchatka is a small place, I don't want any unpleasantness, so I feel obliged to not to name names.

A group of American businessmen came to Petropavlovsk in November to investigate the possibility of establishing a packaging facility at the local Tin Can Factory (TCF). The factory sought foreign partners for developing a line of plastic packaging for Kamchatka's fish products, a move which would go a long way towards placing these products on the current world packaging standard. The possibility was mutually advantageous for a number of reasons--the Tin Can Factory would get Western packaging equipment (albeit used, but apparently in excellent condition), and open new markets for itself, since it would become the largest producer of plastic packaging in the Russian Far East; while the American businessmen would gain a foothold in a potentially multi-billion dollar market. The joint-venture proposal's centerpiece offered the Russian partners the opportunity to come to America and learn management and marketing; the proposal further called for the JV's profits to be plowed back into employee health benefits and upgrade of the factory facilities. These last two points were especially attractive, considering that women make up the majority of the factory's workforce.

Unfortunately for all, at present TCF is part and parcel of X, Kamchatka's largest shore-based fishing enterprise, the owner of a vast empire of factories, processing plants, ships, and buildings, employing well over thirty thousand people. X as it exists today is hardly the power it used to be--'razgosudarstvenniye' (degovernmentalization) granted many of its former vassals--mainly deep-water fishing fleets--freedom during the last three years, and privatization is taking its toll in the the present, with many X's remaining sub-enterprises trying to go their own way. The changes so far have been mostly structural, however, and the personnel from the old Soviet monolith remain in place, along with their same attitudes; an autonomy that exists on paper, as events would show, cannot substitute for habits of mind brought about through years of submission to the dreaded 'General Director'. X's General Director has been running X for 24 years, and appointed most of 'his' people, many of whom he knows from their student days,

to their respective posts. He is an enormously powerful and influential man here on the peninsula; his predecessor, for example, went on to become one of the two most highly-placed politicians on Kamchatka.

Troubles began early when X's General Director met with the American businessmen--the President of a fishing company, the Vice-President of a packaging firm, and the Vice-President of a financial management company--by asking them if they were the "engineers who came to make technical evaluations." A minor faux pas, but telling. It was then proposed that the businessmen, who had already reviewed the potential plant site at TCF the day before, go to the plant once again.

The request seemed reasonable enough; he wanted to hear their opinions, after all. Rather inexplicably, there suddenly appeared two Ukrainians, ostensibly intending to accompany the merry band. The General Director hustled the businessmen and the Ukrainians into a waiting van, and they all took off to TCF.

Once at TCF, the true reason for the repeat trip, and the presence of the Ukrainians, became quite clear. At the factory, the General Director showed little interest in reviewing the plant site with the businessmen, or even with speaking to them. His only real comment was, "They'll bring in the equipment, and we'll run it, and it will be like our other joint-ventures." Instead, the General Director buttonholed the Ukrainians and headed straight for a remote section of TCF, where they began an animated discussion about the pros and cons of some old canning lines. Clearly, the General Director planned to sell these lines to the Ukrainians. The businessmen stood on the side, obviously left out, and somewhat upset at suddenly being made to feel like a group of wallflowers at a high school dance. This went on for a half-hour, and then the group returned to the hotel where the businessmen were staying. The General Director then turned down an offer to discuss some points in the contract proposal for the joint-venture, claiming that he would prefer to address these points on the following day.

On the following day, the General Director cancelled all of his planned meetings with the American businessmen. When pressed to give a reason, his Russian representative, after pondering how to explain the General Director's absence, wrote on a piece of paper, "On ZAGULYAL s druziyami"--he went on a bender with his friends. And so an entire day of negotiations was missed.

The next day, at long last, the businessmen managed to meet with the General Director at his office. The Russian side, seven executives in full grey-suited bureaucratic regalia, came to listen to the contract proposal. For about five minutes. Once the preliminaries were dispensed with, they listened with glazed eyes to talk of commodity flows, financing mechanisms, and

international market opportunities.

Finally, the American businessmen finished their presentation; the General Director stepped into the breach. The businessmen, it seemed to him, little understood how things get done in the Russian Far East. First, both sides needed to sign a Company Charter, and then an Agreement, both of which would create the joint-venture. From this point, everything could proceed forward. And, at this point, everything began to unravel. There's really only one way to have a joint-venture in Russia, explained the General Director, and since X has four successful joint-ventures already (one with West Germany, one with Bulgaria, and two with Japan), the proposed joint American-Russian venture must follow their model.

First, the joint-venture must be 29% owned by the American side, and 71% owned by the Russian side. This would avoid disadvantageous Russian tax laws on hard-currency earnings by joint-ventures. Second, representation on the joint-venture's Board of Directors must be proportional to ownership--since the venture operates on Russian soil, it must be controlled and operated by Russians. Third, the joint-venture would not especially need permanent American representation; the Board of Directors could meet once a year in Russia, and make all the important business decisions then. The packaging lines would be set up and run with American assistance, but most operational decisions would be handled in Kamchatka by the Russians.

To ensure that the Americans understood the critical importance of the Charter and Agreement, the General Director supplied them with copies of the same documents for one of X's joint-ventures with a Japanese company. At this point, the clock struck five o'clock, and the General Director announced that the meeting was adjourned. There was no further discussion of any of the Americans conceptions of the joint-venture, and no elaboration of any of the points the Russians had raised. It's all in the documents, the General Director explained. Look them over, and we'll talk about them.

Back at the hotel, the businessmen looked over the documents. They were little more, said one, than pieces of paper. The only exact information in them illustrated a rather disturbing fact: the Confidentiality Clause, stipulating that all joint-venture documents, operations, and so on, were to be held in strict confidence for 25 years. According to the signature dates on the documents, the General Director jumped the gun on this clause by 23 years, four and a half months. The documents further indicated that the Japanese had purchased 2,000 tons of salmon from their Russian partners annually for four years for around 200,000 rubles and the equivalent amount in yen, quite a bargain for the Japanese, who got millions of dollars worth of fish for bargain basement prices. But probably the salmon was really

paid for in some other way...

With this, a number of other strange items the Russians mentioned almost incidentally came into focus. The General Director's suggestion that the packaging equipment to be supplied by the American businessmen be undervalued in the shipping documentation to avoid Russian customs duties. The hint that one of the General Director's sons should sit on the joint-venture's Board of Directors. The gentle insistence that a prominent local politician's daughter be appointed sight unseen as the joint-venture's Comptroller. "These people aren't interested in doing business with us at all", grumbled one of the businessmen, "They just want to line their own pockets, and set their children up in the JV."

And so it went. The thousands and thousands of dollars spent by the American businessmen to come to a remote corner of Russia disappeared like water into sand, and the joint-venture proposal went onto the shelf. The real shame of it all was not that time, energy, and money was wasted, but that a project with real perspectives for growth, and for resuscitating Kamchatka's dying manufacturing base, came apart because the old-style Soviet diktat doesn't work when dealing with Americans, who are understandably used to a different style of reaching agreements with their partners, especially when they plan on investing a million dollars worth of equipment in a country thousands of miles away. As one engineer from the Tin Can Factory said, "X is like a dinosaur on the verge of death, but before it dies, the powers that be (in Russian 'vlasti') are going to do all they can to make sure they retire in comfort. These people will be around for years to come."

At the same time (mixed results from the recent Congress of People's Deputies aside), the old system has likely been broken for good, and the fates of thousands and thousands of enterprises in Russia have been cast to the winds. Privatization will be completed on the Kamchatka peninsula by or shortly after the New Year, and a clean bill of economic health for many of the big local fishing enterprises will include some sort of economic activity with a foreign partner. Kamchatka's former 'vlasti' seem caught between a rock and a hard place in this regard--they are aware that they need foreign cooperation to survive, but can't seem to understand that serious investors don't want to play by their rules when they have to pay for the game. Perhaps worst of all is the progressive loss of credibility the 'vlasti' experiences as a result of these shenanigans; remember, in 'reform' Russia, nobody deals with an organization, like in the West. The 'vlasti' don't fire each other for blowing contracts because of boorishness.

Having to deal with people, not organizations, hurts the development of the Russian Far East in other ways. You can write

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a contract with one person, but if that person loses his job, you may find yourself having to renegotiate the entire contract all over again--he made his deal, and now I'm going to make mine (and collect the perks and bonuses that go with it). As one very knowledgeable Kamchatka insider put it, "You can't really do business here because it all depends on one person. If that person is undependable, then no matter how good your idea is, nothing will happen, you'll get discouraged, and never come back to Russia again."

For all that, foreigners come in droves to Petropavlovsk-Kamchatsky, and some of them will meet with success. Economic necessity ought to, in the last analysis, override boorish behavior and the paradigms of a system rapidly crumbling to dust. I remember one factory manager from a crab processing plant on the Sea of Okhotsk laughingly telling me how his progressive ideas on ownership so enraged some old-style 'vlasti' that they threatened to "throw (his) \*\*\* against a wall and shoot (him) once these reforms collapse." The manager commented that what enraged the 'vlasti' more than anything was the fact that they really had no power to do anything to him anymore. "Every day that privatization continues is another day for me to strengthen my own independence", he said. More than anything, this means he can create his own workforce, with a vital interest in the success of their enterprise, both attractive features for prospective foreign investors.

Besides, Kamchata has a sort of crude charm, a bullish attraction for those intrigued by the remote and obscure. The charm catches you unaware, when you least expect it. The businessmen from the above narrative encountered the rough-and-tumble delights of Kamchatka in unexpected places. Their hosts held an impromptu 'farewell banquet' for them in an unheated van while waiting for a flight to Khabarovsk from Elizova airport. Bottles of cognac and fatty Russian sausages were hastily arranged on the only available tables, briefcases on knees. For a brief half hour, the jokes and anecdotes flowed in a hilarious stream, urged along by a steady flow of cognac in paper cups. The disappointments of fruitless negotiations faded into a glow of good fellowship and genuine warmth. When the businessmen finally flew out (on a rare on-time flight), they promised their hosts that they would try again, and that they would come back to Kamchatka some day.

All best,



Peter H. Christiansen