

Carnegie Council \ DRT International Privatization Project

Privatization in the Republic of Russia



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Ladies, and gentlemen, and respected guests, let me thank you for the fortunate opportunity to meet with you. You know that after August 19th, radical changes occurred in the Soviet Union and the Russian Republic. In essence, after the coup the communist regime was overthrown and, as is said in the Soviet Union, the stormy and active building of the new society has begun. The platform which was presented by Yeltsin and Siliaev after winning election, today has a new opportunity for quicker realization. And I can inform you that already this month at the Congress of People's Deputies of Russia, an amendment will be made to the constitution which will secure the right of every citizen to own private property and also to privately own the means of production. This is the basis of the package to provide an opportunity for building a real market economy and to actively lead towards privatization.

Just several days ago the Russian government reviewed and approved a program for the support of free enterprise, which examines and organizes all aspects and problems connected with the development of private enterprise. The program foresees the working out of all new laws connected with the regulation of market exchange activities such as the regulation of commercial banks, insurance companies, auditing firms, and all other kinds of market infrastructure. The program will produce documents which will organize

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the implementation of these laws with various instructions and rules. It is a big job and we hope and would like to ask for your assistance and cooperation; we would not like to repeat mistakes and have to learn everything by ourselves. And since the course of the Russian government is the integration of our economy into that of the world's, our rules must be compatible with the rules accepted in the world. In addition to supporting private enterprise, this program also foresees a whole range of new measures on education. The

best laws and standards of regulation will be functional only when they are known by business people and by the whole population.

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For this purpose we are creating a whole network of special schools, including business schools; we are developing programs of teaching; and we're starting to develop new courses and lectures, so as to teach the employees of commercial banks, insurance companies, stock exchanges, accountants, auditors, and so on. We're also developing programs for teaching businessmen; for all of those who would like to take the path toward free enterprise, who want to open their own businesses. Besides that, we're also developing some general courses for the education of the whole population. Maybe it's hard for you to understand, but our population just doesn't know what stocks are, what dividends are, what interest and credit are, and so on. In order that the policies of the government in the transition to a market economy will be understood by the whole population, and in order that that will be accepted not only psychologically but also rationally, we will need in this century still another campaign to eradicate illiteracy. It will be a liquidation of economic illiteracy, however, and in this regard we also count on and turn towards association with the outside world to help us in the organization of education.

The program also foresees establishing first and foremost priorities. As a top priority, the government will give maximum support to the development of private initiative and the development of businesses. In the first place we will create incubators for small enterprises, private enterprises, in the development of construction materials and the con-

struction industry; for the production of food products; for the production of other most essential items; and also for the production of export-oriented items using high technology, by which we mean those technologies which can be used as a result of conversion. I could talk about this program for hours: it was ratified by the government and has also been affirmed by our public figures and scientists, such as the academician Abalkian, and the academician Shatalin, Mr.

Yavlinsky, etc. That is, representatives of all schools in general came to the opinion that it is indeed a realistic program, which is ready to be accepted and implemented today. And most importantly, this program gives an opportunity to work on real projects: on the creation of joint ventures, on attracting foreign investment, and on the creation of joint business with Western countries. ■



ABOVE: Mr. Chernogorodsky (left) with Stig Host, chairman, KRITI Management. RIGHT: Private working lunch in honor of Mr. Chernogorodsky.



ABOVE LEFT: Left to right, Ronald Lauder, Gloria Gilbert Stoga, Chris Reddman, Valeri Chernogorodsky, and Alexander Klatchin. ABOVE: RIGHT: Stig Host speaking with William Leute III, president, Midland International Trade Services, Midland Bank, plc. LEFT: Chris Reddman, senior editor, International, TIME Magazine, speaking with Gloria Gilbert Stoga, Valeri Chernogorodsky, and Alexander Klatchin.

Questions and Answers

Q Could you comment please upon whether or not Russian companies will be allowed to export items other than the ones they themselves produce and if indeed this is permissible now?

A From the side of the Russian government, we now allow the export of goods to be sold for rubles in order that these rubles can be invested in the development of new enterprises, or to buy goods essential to the Russian republic, for specific use in the republic.

Q The Ford Motor Company announced just a few days ago they will not participate in the modernization of the plant they established in 1925 in Russia because they could not get assurance from the government of Russia to permit the repatriation of profits. Could you please tell us what the policy of the government will be to permit such repatriation of profits in foreign currency?

A The Russian government guarantees all Western investors the repatriation of their profits. I didn't hear that announcement of the Ford Motor Company; but I rather think that it is connected to the fact that they conducted negotiations with the Soviet government before the coup and today those factories, including Z.I.L., are coming under the management of the Russian government, and are being privatized. If Ford suggests such projects which allow Z.I.L. to work efficiently, I think that the question of repatriation of profits will depend on Ford, not on us.

Q Would the new rules permit foreign ownership of land involved in construction projects? Outright, without joint ventures?

A Yes. As I said, the government already put that question before congress, as an amendment to the constitution, which would secure the right to private ownership of land, the right to its sale, not disregarding foreigners, and secure the inviolability of the right to private ownership.



Left to right: Alan Stoga, Kissinger Associates; John Nellis, the World Bank; and Eduardo Franck, Techint, Inc.

Q I wonder if you know of specific industries, or companies, that have been making products for war that now are in the process of making something for the civilian economy. Can you give any examples and can you say anything about the difficulty of this?

A I would make three different announcements in this regard: first of all, before August 19 no one was seriously engaged in the conversion from military to civilian products. There was an order not to touch anything and to preserve everything, and to conduct conversations about the unprofitability and improbability of conversion. But now the whole defense industry is being transferred to the authority of Russia, and we are seeing that large defense enterprises and institutes have, nevertheless, done a great deal of work on conversion, and today are ready to invest a large contribution both in conversion and in the process of privatization of the economy. There are many realistic projects for using high defense technology for other productions, including small private enterprises. And there are many projects to utilize these industries without restriction, for the increase of production of imports and so forth, meaning airplanes, space technology, the technology of communication, etc.

Q There has been a good deal of discussion in the Soviet Union as to who will own the mineral resources and the petroleum resources of the country and the new relationship between the republics and the central government. Has that issue been resolved?

A As of today, all natural resources and natural wealth belong to the republic in which they are located. All enterprises, including defense enterprises, tank factories, and gun factories, belong to that republic in which they are located. Under central Soviet control—under the control of the president—remain only the army, banks, some parts of the communications system, transportation, and certain aspects of dangerous production. All other industries belong to the republics and where it is needed they can jointly run the coordination center which was created, and which is headed by Mr. Siliaev.

Q Prior to August 19th, Chevron had made an agreement with the central government regarding oil exploration in Siberia. What is the status of that now and for other companies who made similar agreements with the central government?

A All contracts signed by the Soviet government which concern Russia will continue to remain intact. In those cases where the contracts are not yet signed but the negotiations are still in progress, the Russian government will conclude negotiations and sign the contract.

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Q Can you tell us what you expect to come from the signing of the economic agreement between the republics and the central government that's supposed to take place this week, and what sort of banking system you foresee. Will the Russian Republic have its own system or will it be a national system with a central bank and a central currency? Or will each republic have its own currency?

A I hope that an inter-republic agreement will be signed yet this month, in the coming weeks, but I don't think that this agreement is going to be conclusive or complete; I don't think that all issues will be resolved immediately at this signing. But still the signing of this agreement will have significant meaning because it would lay out rights for our successors. President Yeltsin and State Secretary Burbulis are making all efforts for the agreement to be signed in the nearest future. Regarding the banking system and currency matters and pricing policies, it is difficult to predict what will be agreed upon. As for convertible currency, the Russian government does not intend or wish to create its own currency because it would be a great loss. On the other hand, if other republics introduce their own currencies, the ruble could remain only in Russia.

Q Does a scheme exist now where if a company wants to buy or start a radio or television station in the Russian republic it can do that and be assured that it could have free control over its content?

A The Russian government would welcome your creating a private TV or radio company and we can guarantee you that nobody will interfere in your broadcasts or operations. And if you listen to our TV, and read our newspapers, you will see that we now have more freedom in the media than you! We are not going to interfere in any commercial broadcasts, informational broadcasts, political broadcasts; you may conduct any activity, except for things that are legally banned even in your country, such as pornography and violence.

Q A very prominent American investor said that today it would not be safe to invest in the Soviet Union and that the privatization process should go on internally and develop, then one should see what happened and maybe only later on—in a year or two—put in money. Do you agree with that? And if you don't agree, how would you reassure American investors?

A I have to say that this attitude is realistic. Indeed we haven't had enough experience in certain types of stable profits to verify the outcome of current American investment in Russia. But nevertheless, realistic opportunities already exist for investing and for beginning to make profits. And since the Russian economy will be integrated with the world economy anyway, and since after every economic slump there comes a period of growth,



Alan Friedman of Deloitte & Touche, and Otto Grunow of Donovan, Leisure & Irvine, discussing privatization with Valeri Chernogorodsky.

the one who wins is the one who takes the first risk.

Q All over East and Central Europe the transition to the market has resulted in increased unemployment. Do you anticipate that this will happen in Russia and if so what are you doing to prepare for it?

A We are taking measures to create supplemental work places for the development of small businesses. We are hoping to create new opportunities through the development of small enterprises.

Q The labor councils and Soviet enterprises have become rather strong over the past couple of years with the decentralization of authority. Do you think that they will present an obstacle in the privatization process to foreign investment enterprises and how would the Russian government plan to deal with that in their privatization program?

A Yes, our labor collectives are now playing an active role, and in many cases they are acting as initiators in the privatization process. They are not only *not* hindering the attraction of foreign investors but on the contrary, they act as initiators in making the enterprise a joint one with the combined participation of foreign capital. The small number of joint ventures has already convinced our people that this way is much better than conducting an isolationist economy.

Q In Germany you have a counterpart institution which is the Treuhandanstalt. It has imported West German managers to help out the process, to get the companies ready for privatization so that someone in the market will be prepared to buy them, because at the moment many of them are not profitable and no one would buy them at all. Do you have a process now of introducing Western managers into the process to get the companies prepared to be sold on the market before the privatization actually begins?

A The program which I've already described provides for the preparation of specialists, and planning before and

during the process of privatization in all areas. We already have an agreement with the European Economic Community for the private financing of such programs in the future. And we have an agreement with the ministry of Great Britain dealing with the problem of employment, and with the English Fund "Knowhow", about the financing of such programs.

Q Does the process you describe envisage not just the technical or financial support for training Russians, but actually the introduction of Western specialists to work alongside the Russian entrepreneurs, as they do in West Germany and East Germany?

A Yes, of course, the program provides for joint working out of laws, joint working out of rules of the game, joint working out of educational programs, and joint learning.

This is to say, that Western teachers will teach here and our teachers will study in the West. There will be specific field work in the West for essential matters. This can only be done together. If we do it by ourselves, it will become kind of a Russian market which won't amount to anything. Consultants and more than ten major foreign specialists have already been attracted to the committee which I head, and the program itself was developed with the participation of Western specialists.

Q Academicians or business people?

A I would not like to publicly offend our research economists but I think that one defers to academicians when it's worth looking at events where one has to ask why they happened a certain way in the past. But when we need to make a decision today, we have to consult with practitioners.

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This is the fifth in a series of briefings published by the Carnegie Council as part of the Carnegie Council/DRT International Privatization Project.

The briefings are distributed free of charge to those interested in the topic. To order, write to Gloria Gilbert Stoga, Director, Privatization Project, Carnegie Council, 170 East 64th St., New York, NY 10021.