The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Q&A: Canadian Pioneer Recalls Gorbachev-Era Euphoria

By Andrew McChesney

October 04, 2012



Edward Belobaba

Don't complain to Edward Belobaba that doing business here is difficult. He'll likely retort that you have no idea how easy it is compared with when he helped trail-blaze the path for Western investors into the Soviet Union in the 1980s.

Belobaba, who as a lawyer guided Canadian companies in forming their first joint ventures here, carried U.S. dollars and Marlboro cigarettes to pay for gypsy cab rides across Moscow. He witnessed the need for creative schemes to raise hard currency because of the lack of a convertible ruble. He sat in on meetings where Western executives had to explain simple free-market concepts like the difference between revenues and profits — not always an easy task when the Russian hosts kept pushing another shot of vodka at 10 a.m.

Edward Belobaba

Education

1970 – University of Waterloo (Waterloo, Ontario), Bachelor of Arts

1973 – York University, Osgoode Hall Law School (Toronto, Ontario), Juris Doctor, ⊠gold medalist

1975 – Oxford University (Oxford, England), bachelor of civil law, Viscount Bennett Scholarship

Work Experience

2005–Present: Superior Court of Justice (Ontario), judge

2003–05: Law Office of Edward Belobaba (Toronto), principal specializing in opinions and appeals

1984–2003: Gowlings (Toronto, Moscow), partner, ⊠specializing in litigation and international business law

1975–84: York University, Osgoode Hall Law School (Toronto), associate professor and associate dean

1973–74: Supreme Court of Canada (Ottawa), law clerk to Chief Justice Bora Laskin

Favorite book: "Zen and the Art of Motorcycle Maintenance: An Inquiry into Values" (1974) by Robert M. Pirsig

Reading now: I just finished "Bailout: An Inside Account of How Washington Abandoned Main Street While Rescuing Wall Street" by Neil Barofsky (2012), and on my wife's recommendation, I've started "The Elegance of the Hedgehog" by Muriel Barbery (2006).

Movie pick: I've seen "Goodfellas" (1990, directed by Martin Scorsese) dozens of times, and I can watch it again and again.

Favorite Moscow restaurant: They're all gone now, but I remember one "co-op" restaurant that opened in 1989 on the outskirts of Moscow. The pianist playing classical pieces provided an unforgettable juxtaposition: an incredibly talented Soviet-trained pianist playing probably his first private gig for half-drunk, raucous Western businesspeople in a pioneering restaurant venture in a former state-owned electrical plant in the middle of nowhere.

But those early years also carried an unrivaled sense of eagerness and optimism that Belobaba remembers fondly.

"The heyday of perestroika and glasnost was an amazing time," he said. "The Western world was excited beyond words about doing business in the U.S.S.R. ⊠I remember a Nabisco executive gushing about the boundless opportunities in this new and amazing market: 'Can you imagine: 350 million consumers who have never tasted an Oreo cookie!'"

Belobaba, 63, now a judge in the Ontario Superior Court of Justice, shared his memories of those years via several e-mail exchanges with The Moscow Times.

"The early years were sheer, utter and ridiculous euphoria," he said. "And then, of course, reality hit, and by 1995 Western investors were running for the hills. But what an extraordinary six or so years."

For the record, U.S.-based Nabisco still does not sell Oreo cookies in Russia.

This interview has been edited for length and clarity.

Q: Why did you first come to Russia?

A: My background is actually Ukrainian, and I have always been interested in the Soviet Union. Nazis took my parents from Ukraine to Germany as Eastern Workers in 1941, and I was born in West Germany in 1948. We immigrated to Canada a year later. I knew Ukrainian from home and took Russian at the university, not knowing that I would be using it years later as a lawyer doing joint ventures in the Soviet Union.

In 1987, I was a Toronto-based lawyer looking to do something different when the big news came that Mikhail Gorbachev was opening up the Soviet Union to joint ventures with Western companies. This was the first time since Lenin's New Economic Policy of the 1920s allowed American Armand Hammer to open joint ventures in Russia. So in the summer of 1987, I attended the first-ever International Bar Association conference in Moscow on the new joint-venture laws.

A few months later, I was retained by a leading Canadian auto parts company, Magna International, to help it set up the first Canadian-Soviet auto manufacturing joint venture in Zaporozhye, Ukraine. The deal meant instant credibility for me, with lots of press

and publicity. I spoke at numerous conferences, attracted more clients and helped set up the Canada-U.S.S.R. Business Council of 200 blue-chip companies, which traveled with Canadian Prime Minister Brian Mulroney to Moscow in November 1989. We enjoyed Kremlin dinners and met Gorbachev, Nikolai Ryzhkov and Boris Yeltsin. It was an incredibly exciting time of boundless optimism, even euphoria, about the opening of the Soviet Union's consumer market of 350 million people.

We opened the first fully staffed Canadian law office in Moscow in August 1992 with a Russian-speaking Canadian lawyer and three Russian office staffers. Today, Gowlings Moscow is celebrating its 20th anniversary and is still going strong.

I never actually lived in Moscow, always visiting on two-week trips. But from 1988 to 1994, I made 72 plane trips with Western clients to various cities in the former Soviet Union.

Q: What were the main challenges working here? How did you resolve them?

A: Remember this was more than 20 years ago, so everything was a challenge.

Logistically, there were no cell phones, very few computers, and a less than reliable telephone system. Even in main cities such as Moscow or St. Petersburg you had to book international calls several hours in advance with the hotel operator and go down to a cubicle at weird hours to talk with your office or family. There were no cabs. We needed U.S. dollars or Marlboro cigarettes to catch cross-town rides with accommodating Russian motorists. But here's one plus of these "anything goes" early years: When we arrived at Sheremetyevo Airport, the waiting Russian partner, clearly having "gifted" the militsia, could arrange to have the welcoming van drive right up on the tarmac and meet us as we came off the plane.

Information was also a problem. No one knew who to partner with and whether they were legit. In these early days of "joint-venture mania," everybody — and I mean everybody — was offering partnership opportunities. The director of a state-owned brewery said he now owned the entire brewery and could assign its assets to a joint venture. A museum director who heard about the project called to offer an unused wing of the museum for use as a bottling facility. The mayor said he could guarantee the delivery of not only the water but also the malt. It seems his brother ran a huge grain collective. ⊠

Basic terminology presented a challenge. Concepts such as profit and loss, interest rates, or a limited liability company had no meaning in Soviet Russia, so many a first meeting was spent explaining to an otherwise very intelligent Soviet factory director why revenues were not the same thing as profits; the time value of money and the notion of interest; the concept of collateral; and the reason for shareholder agreements.

We struggled to keep up with all the new laws and regulations. There was no central repository — city halls and regional governments had not created websites yet — so we often had Russian representatives telling us about relevant legal changes that had just been published in the local newspaper that morning.

The fundamental financing challenge was how a joint venture would generate hard currency for both its Soviet and Western partners with a nonconvertible ruble. This led to a number of creative schemes. For example, a Soviet partner knew a local Navy commander who would

arrange to cut up scrapped submarines sitting in Leningrad's port, sell the titanium to European metal buyers, and then use the incoming hard currency to help finance a Canadian developer's office tower project. That's how Navy commanders ended up as shareholders in downtown office buildings.

Corruption and bribery were mainstays of Soviet Russia. People survived over the decades by dealing in the black market and under the table. Western clients never told their lawyers about what they had to do, but I was never surprised to learn after the deal was completed that certain "incentives" had been provided, like new SUVs for Russian partners, free trips to Western resorts, or worse — much worse. One client told me that after opening a new computer store, two local gangs had dropped by to offer "fire insurance protection" for $10,000 a month. Within days came another visit, this time from the local police, who said they were available to provide the same protection at the same price. The client went with the police — who wouldn't? — and the company's monthly financials showed this entry: "insurance premium, $10,000."

But the most pervasive, all-encompassing challenge was the lack of rule of law. There were lots of laws and regulations, but no real rule of law. Sometimes shareholder meetings were interrupted by men carrying guns, and another vote had to be taken, this time with an outcome that was more favorable to those carrying the guns. To be sure, this didn't happen often but enough that no one doubted they were working in the Wild East.

How did we resolve these challenges? We didn't. We just did the best we could. We coped. We made adjustments. What amazes me looking back is not that many projects failed — and lots did — but that many actually succeeded. My first joint venture in Zaporozhye, Ukraine, is still going strong.

Q: Can you describe the euphoria?

A: The advent of perestroika and the opening of the Evil Empire was a huge international story. Every Western company and entrepreneur was struck by this unique and historic opportunity, from oil and mining companies to food and clothing store chains to doughnut shops and pizza outlets. Every sane Western businessman had his own "Oreo vision."

And it wasn't just the euphoria and naivete of Western investors like the vice president from Nabisco, but also the euphoria and naivete of the Soviet partners about the West and what it had to offer. I remember a senior Soviet official visiting Toronto in 1989 and marveling when I stopped and withdrew money from an ATM. Until later that evening, when I explained otherwise, he and his delegation actually believed that ATMs simply dispensed money to anyone walking by and needing cash.

Reality hit hard within months of the toasts and congratulatory dinners that accompanied the signing of joint-venture documentation. Promises didn't materialize, and legal problems emerged about who really owned or could deal with what. More bureaucrats wielding huge rubber stamps materialized and tried to slow projects down just because they could or because they wanted to be in on the deal. Reality hit when you realized that the infrastructure needed for most joint-venture projects just wasn't there: no banking system, no distribution system. The courts didn't work; contracts couldn't be enforced.

Fortunately, as time went on, the business system became a bit more transparent, the court system a bit more independent. Russians started to invest in their own country, and some of the optimism returned. But you will never again see that unbounded and frankly ridiculous euphoria of the early years.

Q: Who or what inspired you?

A: The sheer enormity of what was happening, and having a front-row seat as a bit-player watching a mainly peaceful revolution transforming the massive Soviet Empire into who-knows-what. I knew that I was incredibly fortunate to witness and take part, however modestly, in this seismic paradigm shift.

I was amazed by the everyday excitement of seeing two very different systems clash and converge. One example was the opening of the country's first McDonald's, on Pushkin Square, with the huge lines for blocks and blocks day after day, month after month, and the stories of families traveling miles by train to Moscow to buy Big Macs and fries and then carrying the Styrofoam containers home to be cleaned and reused.

I am inspired by the passion of the Russian people, especially the younger generation, and their determination to build a freer, more democratic country.

How quickly these dreams were derailed by corrupt oligarchs, who proceeded to steal the country blind while the government watched or participated, and by arrogant Western economic advisers who tried to force the U.S. model on a country they really didn't understand or, frankly, care too much about.

I am impressed that despite the many setbacks, the imperfect revolution continues, thanks to the thousands of Russians, including Pussy Riot, who don't want to see their country go back to being ruled by Soviet-style silnaya ruka potato heads.

Related articles:

- Q&A: Getting the Most Out of Oligarchs and the West
- Q&A: Nordgold CEO Zelenski Prefers Business People to Molecules
- Q&A: Railcar Boss Has No Fear of Flying or Foreigners

Original url:
https://www.themoscowtimes.com/2012/10/04/qa-canadian-pioneer-recalls-gorbachev-era-euphoria-a18300