

Possible to operate without corruption

INTERVIEW WITH LONE THEIL HØGHOLT, THOMAS JARNUM AND HARM SPLIEDT

Corruption is one of the most frequently used words when talking about doing business in Russia and Ukraine. Everyone who has ever visited these countries, where storytelling sometimes ranges as more important than facts, seems to have a little story about corruption to tell. But how does it look for practitioners operating in the Russian and Ukrainian business environment?

The governments in Russia and Ukraine are aware that corruption is part of the heritage from the Soviet times and that it still exists in public administration and in business. From newspapers and other publicly available resources, it is clear that corruption plays a role in imports, customs handlings, invoicing, or when obtaining permissions, licenses or any other consent required in order to operate a business.

However, business life has actually undergone tremendous changes and those who have spent years in the region confirm this. Thomas Jarnum has spent six years living in Russia as a director of a Velux sales company and later as director of Lantmannen Unibake, which has just established production outside Moscow:

The director's view

"Those who gained their experience during the 1990s will see a tremendous change in society and business culture today", he says. "A traditional perception, such as the famous 'you have to be a heavy drinker to get a contract signed', is no longer true – at least not in the larger cities."

Thomas Jarnum has headed the establishment of a brand new bread factor: "We imported two bread

production lines for frozen bread with a combination of old equipment and brand new equipment from Europe and the United States", he explains. "Our intention was to do as much as possible with in-house resources. This included import of all equipment, the coordination of 13 construction companies and last but not least all the work related to applications for permissions and licenses with various authorities. This work was managed by a small organisation of only four people. As executers we had two technical engineers who were supporting us by writing applications and following up on the decision chain in the public administration system", explains Thomas Jarnum.

Thomas Jarnum's conclusion is very explicit: "Establishment of production in Russia is an administrative task and not a technical task!" According to him, it is unfortunate that the majority of all foreign companies still believe that establishment of production is a technical task. He explains: "When I say that it is an administrative task my statement is based on the fact that getting all permits for utilities, sewage, production, labor safety, sanitary, ventilation, tools, spare parts, manuals etc. must be in accordance with

"Establishment of production is an administrative task and not a technical task!"

Russian legislation and the procedures prescribed makes this a true time killer."

Thomas Jarnum further explains that the job of installing and getting machinery into operations is an administrative task that can normally only be carried out by medium to bigger size companies: "The translation of manuals alone kept three

persons busy full time for some months as all operating and safety instructions must be in Russian", he says.

"In reality, clear and logic procedures of getting the relevant permissions do exist. However, as the processing time is very long and many laws, regulations and government bodies change during the process, you often find yourself in a situation where you have to start all over and the already paid efforts are in vain. In this way, companies are left with a feeling that the road is extremely long, bumpy and difficult. This has nothing to do with corruption. It is purely bureaucracy, which is a totally different story", says Thomas Jarnum.

The legal view

For several years, Lone Høgholt has acted as a legal advisor to companies that want to establish sales or production on the Russian market. "Corruption does exist and all investors are forced to take a view on how to deal with it", she says.

Lone Høgholt categorises corruption as being either 'black' or 'white' – however, there are also greyish variants in between: "The 'black' corruption is the classical blackmail involving money for security, which investors very rarely meet or get near. It was quite wide-spread in the 1990s, but is no longer a problem today. The 'white' corruption is the one that investors meet in connection with public administration – and any investor will face it at some point", she says.

"As most administrative procedures are resource-demanding and time consuming, some may be tempted to make shortcuts through participation in corruption. However, it is a dangerous route as you may start an avalanche of expectations", Lone Høgholt explains. "Also, problems can be expected if a new management of the relevant authorities gets in charge and your permissions have been issued on a wrong basis. In

the long run it is cheaper to accept that you have to act in compliance with rules and regulations."

The investor's view

Harm Spliedt, partner in Team-Venture Europe A/S, which administers a small venture capital fund, confirms that acting in a professional way in the Russian market today includes avoiding participation in corruption. "All providers of capital to investors in Russia are aware of the problem, and therefore the ability to operate without exposing the project or company to corruption is considered increasingly important", he says. "Today it is even possible to operate on 'safe grounds', which could be very complicated ten years ago as regulations were not in place or were so newly drafted that no one knew how to interpret them – not even the relevant authorities."

Dealing with the authorities

Lone Høgholt explains that investors are very often unaware that expedition fees are fully legal: "Most travellers heading for Russia learn that obtaining a visa takes two weeks unless you pay an expedition fee and get it the very same day. This principle is generally accepted and applies to a number of administrative functions", she says.

"A number of authorities conduct paid consultancy services. In some cases this is in compliance with the law, and it may be very beneficial for a project if the consultant that prepared part of the technical documentation and verification is also identical to the approving authority! In other cases the picture is muddier and this is when you move into a grey area", says Lone Høgholt.

Thomas Jarnum explains that many of the federal authorities work with affiliated companies. "In practice this means that you have to use these affiliated companies for a certain installation job, like gas installation, freezing

Lone Thiel Høgholt



Lone finished her law studies in 1991 and has since then combined a profound knowledge of Russian language and culture with her legal work. From 1996 to 2000, Lone worked as an in-house counsel at Dandy A/S, before taking up a position as head of the Moscow offices of Danish law firm Bech-Bruun Dragsted International A/S. In 2004, she switched to a similar position at the Moscow offices of DLA Piper. Today, Lone works as a lawyer for Team-Venture, which benefits from her solid experience and knowledge of the Central and Eastern European markets.

Thomas Jarnum



Thomas Jarnum is 48 years old and a former naval officer. He has been living in Russia with his Russian wife for six years. Thomas began his civil career as manager for Velux and later for Unibake in Russia, where he was in charge of establishing the company's production facility.

equipment or installation of firefighting equipment. We tried to use other and cheaper companies, but were informed that these companies would not have sufficient competences to conduct the specified job according to norms and regulations. Local authorities in general proved very helpful and wanted us to get started as we were expected to employ local people and pay local taxes", he says. "Federal authorities never had the same incentive. Often they just did not show up at agreed meetings and inspections on the site and these problems were very time-consuming."

Thomas Jarnum's conclusion is that establishment of production as well as a sales unit with import and distribution can be done without paying bribes at all! "Your worst enemy is always time. Because the procedures are rapidly changing or the staff at the administrative bodies is regularly being

replaced, it is impossible to predict when you will get your next permission", he says. "In my view, flowers, chocolate and bottles are totally acceptable and I feel absolutely relaxed about this. When I lived in Denmark, I saw bigger presents for Christmas and New Year", he says.

When journalists approach Thomas Jarnum they often try to depict a more negative situation: "I have been contacted by journalists who started our conversation by asking how much we had paid in bribes", he says. "It seems that they want to maintain a negative picture of the country, but the truth is that things are changing for the better. Bad news probably make a better story than a long, boring and time-consuming story on how to legally obtain all permissions and consents without the involvement of heroes or Mafiosi's", Thomas Jarnum says with a smile.

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