Dean Francis LeBaron

Russian Adventures

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Moments, memories, and pictures presented with love
and a lot of help from Donna Carpenter LeBaron.



In August 1990, Dean spoke at

Swords Into Plowshares,

a conference held at Harvard University that focused on how to convert American and Soviet military enterprises to civilian production. He proposed two simultaneous initiatives: the privatization of Soviet companies and the creation of an investment fund that would allow American, European, and Japanese investors to buy shares in the newly privatized businesses. The next day, Vladimir Koblov—first deputy chairman of the state commission overseeing millions of workers in the military sector, and soon-to-be chairman of the State Commission on Military Industrial Production of the USSR—called Dean, asking to set up a meeting.

—Donna Carpenter LeBaron





Desperate to stave off an economic free-fall,

the Soviets wanted all the help I could provide. The concept of privatization was simple, but I knew its execution would be devilishly difficult.

I cleared my calendar.

—Dean LeBaron

The next evening, Dean invited the entire Soviet delegation to dinner at his home in Brookline, Massachusetts. One of his guests—a burly, square-faced Russian—said to him, "You know, I have been in Boston before."

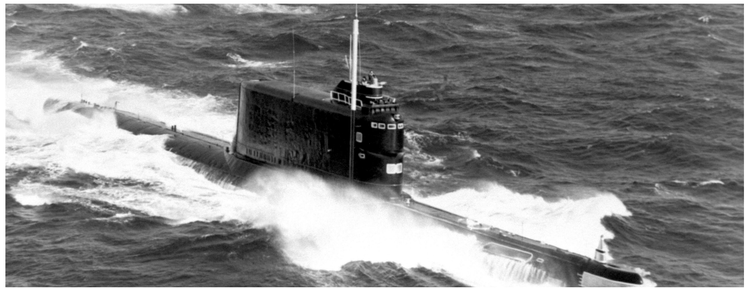
"Oh," Dean replied, "when was that?"

"About five years ago."

"Where did you stay?" Dean asked.

The Soviet grinned. "Nowhere. I saw Boston Harbor through the periscope of my submarine."

—Dean LeBaron



A week later, I received a fax from Mikhail Gorbachev's government, inviting me to the USSR to explain my ideas in detail.

—Dean LeBaron

**Life expectancy in Russia was less than 65 years.
Fewer than one in 20 people owned a car.
But Dean discerned hidden assets.**

—Donna Carpenter LeBaron


"All the News That's Fit to Print"

The New York Times.

LATE CITY EDITION

SOVIET FIRES EARTH SATELLITE INTO SPACE; IT IS CIRCLING THE GLOBE AT 18,000 M. P. H.; SPHERE TRACKED IN 4 CROSSINGS OVER U. S.

HOFFA IS ELECTED TEAMSTERS HEAD; WARNS OF BATTLE

COURSE RECORDED

Navy Picks Up Radio Signals—4 Report Sighting Device

560 MILES HIGH

Visible With Simple Binoculars, Moscow Statement Says

Device Is 8 Times Heavier Than One Planned by U.S.

FAUBUS COMPARES HIS STAND TO LEE'S

Flu Widens in City; 10% Rate Predicted; 200,000 Pupils Out

ARGENTINA TAKES EMERGENCY STEPS

SATELLITE SIGNAL BROADCAST HERE

The Soviets had impressive research and production capabilities, and their achievements during the Cold War suggested they knew how to use them. They had, after all, launched the first space satellite—Sputnik—in 1957, humiliating the United States and triggering a decades-long space race. Maybe it took an optimist to believe that the USSR had companies worthy of Western investors.

I was that optimist.

—Dean LeBaron

Before I accepted the Russians' invitation to come to their country to explain my ideas in detail, I had to ask myself a hard question:

Did I really believe significant profits could be made in Russia?

The answer was yes. I listed my reasons on a legal pad.

First, if the West did not invest, the Soviet economy would stagnate and maybe even collapse. Either way, everyone would suffer.

Second, creating a thriving Soviet economy would open new markets for Western businesses. In that sense, helping the Soviets meant helping ourselves.

Third, a Soviet Union with a functional market economy could become a reliable source of crude oil for Europe, the United States, and Japan.

Fourth, the smoother the transition from Communism to capitalism, the smaller the risk of nuclear weapons falling into the wrong hands. The risk of terrorists targeting Soviet nuclear power plants would also be reduced.

My **fifth** reason was moral. For 70 years, Westerners had been trying to persuade the Soviets that our system was superior. We told them that it worked better, did more for the average citizen, and raised the standard of living for all. Now that they had accepted that Marxism and Leninism had failed, did we not have a responsibility to help them establish a workable alternative? I believed we did.

—Dean LeBaron





So, there Dean was, on his way to Russia, heading up a small Batterymarch delegation with Paul Rugo, his friend and attorney; Rich Gula, a Batterymarch investment manager; and the company's two pilots. Jeff Braemer, another Batterymarch staffer, had arrived a day earlier to arrange the itinerary.

—Donna Carpenter LeBaron

In a highly unusual departure from protocol, the Soviets allowed us to fly our Gulfstream II into Moscow. From the air, people could see things not visible from the ground—the layout of city streets, for one—which was why tourists were

forbidden to photograph

from Soviet airspace until the late 1980s. A few years earlier, an attendant on the Soviet airline Aeroflot had reported a friend of mine who ignored that dictate. On the ground, he had been detained for several hours by security police, who confiscated his camera and tailed him for the rest of his stay.

—Dean LeBaron



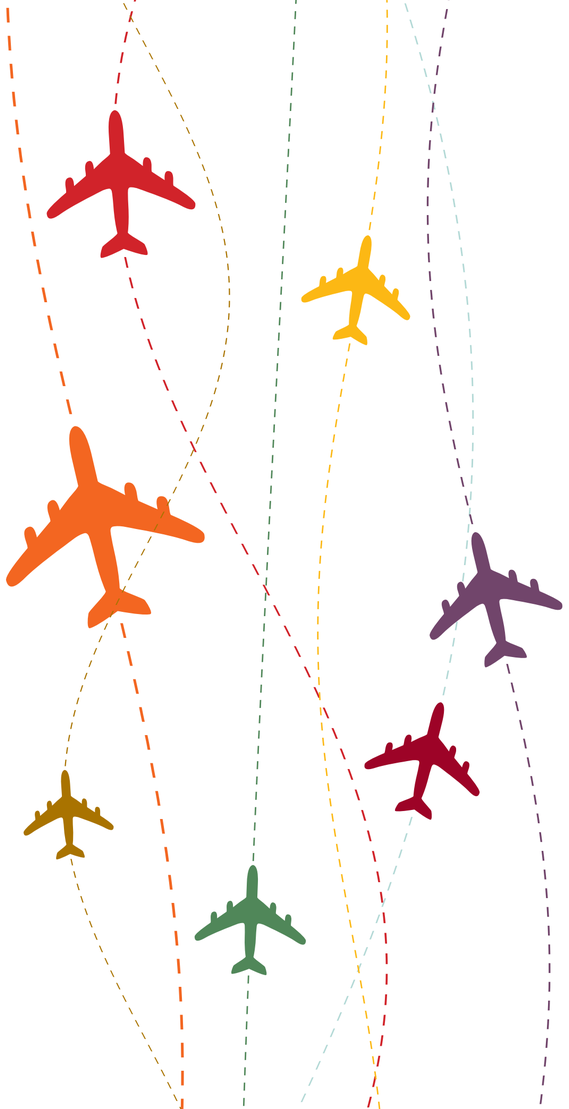
Our plane touched down at 2 a.m. My first glimpse of what the Russians called *Soviet reality* was discouraging.

—Dean LeBaron

The bumpy runway was overgrown with grass. I wasn't seasoned enough to appreciate that this airport—Sheremetyevo 2—had a crucial advantage over smaller airports, where the potholes were large enough to blow out our tires and damage our landing gear.

—Andy Sullivan





One of Aeroflot's greatest problems—one of its greatest opportunities, from Dean's perspective—was its failure to take advantage of potential customers. In 1990, the Ministry of Aviation Industry of the USSR reported that the company—giant Russia's only commercial airline—turned down 30 to 40 million requests for domestic flights from customers every year. Despite that, Aeroflot was the world's largest aviation network, flying 100 million people 660 million miles annually.

—Paul Rugo



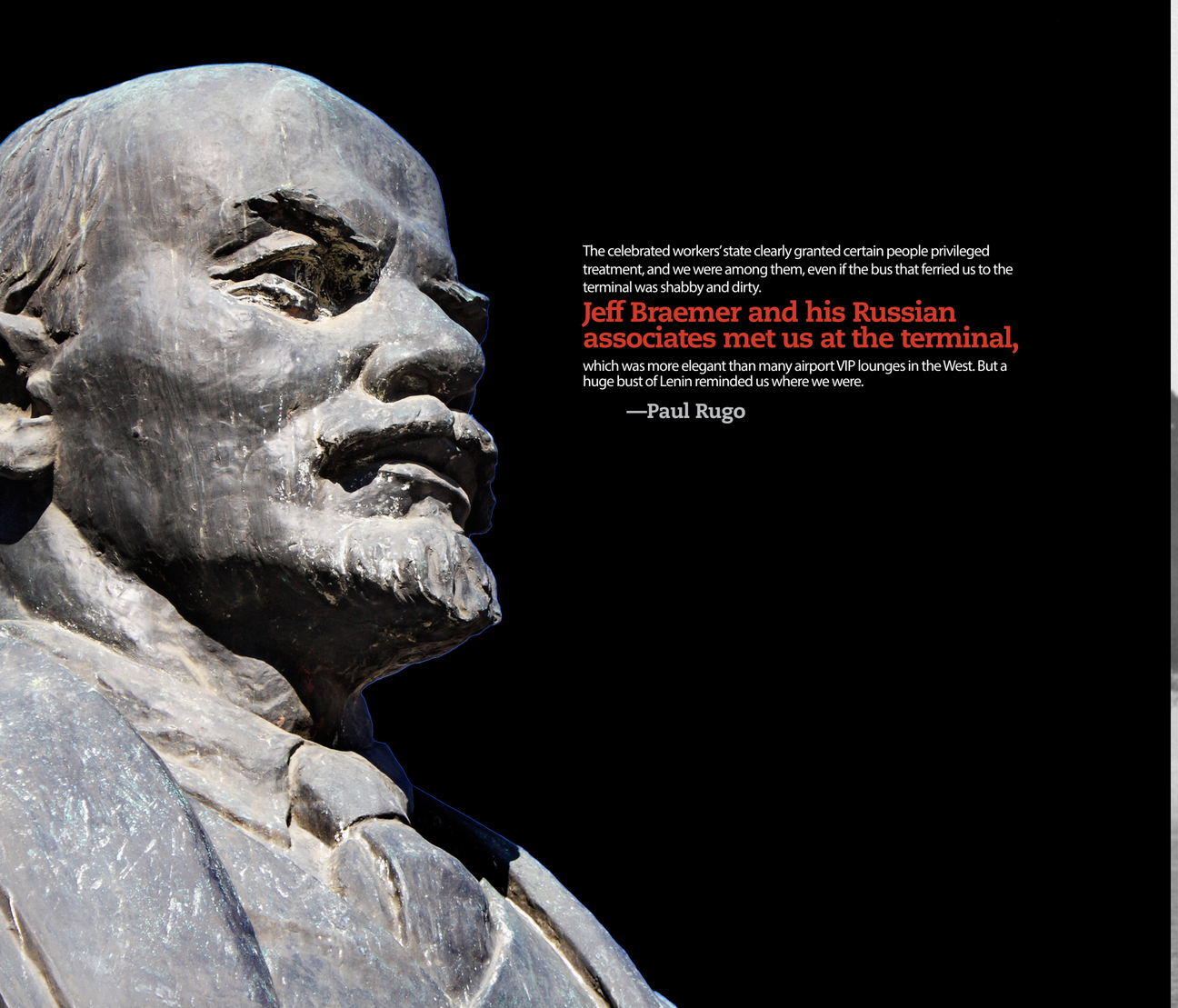
As we taxied toward the gate, it struck me that Aeroflot, currently a monopoly, would be a prime candidate for privatization since it could be broken up into a number of competing regional carriers.

—Dean LeBaron



As instructed, I taxied our plane past the regular international terminal to a VIP building.

—Andy Sullivan



The celebrated workers' state clearly granted certain people privileged treatment, and we were among them, even if the bus that ferried us to the terminal was shabby and dirty.

Jeff Braemer and his Russian associates met us at the terminal,

which was more elegant than many airport VIP lounges in the West. But a huge bust of Lenin reminded us where we were.

—Paul Rugo



After a perfunctory document check, which took less than 10 minutes,

we walked down a stairway to four vehicles waiting at the curb.

The status of Soviet officials could be determined by their cars. The top of the line was ZiL, followed by Chaika, and then Volga. President Gorbachev rode in a ZiL limousine.

—Paul Rugo

The small fleet awaiting us consisted of one Chaika, two Volgas, and a BMW—all black, except for the white police car dispatched by what the Soviets called the *special police force*—a euphemism for the KGB. With the white KGB car in the lead—its siren blaring—our motorcade sped toward Moscow, ignoring red lights and taking the center lane reserved for Communist Party officials.

—Jeff Braemer



Like the czars of old had raised the golden spires and swelling domes of Moscow's Orthodox churches, Joseph Stalin—the second man to lead the Soviet Union—had redesigned the capital city with the intent to overawe its people with the supreme power of the state. Built in the Gothic style he favored, seven bizarre skyscrapers dominated the city skyline. The largest, Moscow State University's main building, overlooked the city from the summit of Lenin Hills.

—Donna Carpenter LeBaron





Our *dacha* (country house) in Lenin Hills—which Tolstoy readers might recall as Sparrow Hills—was built during the Stalin era for the exclusive use of visitors. An armed soldier protecting the gated entrance waved us through. The house itself—an enormous two-story structure on two acres of beautifully landscaped grounds, completely hidden from the street—was where President Reagan had stayed in 1988 when he and Gorbachev took their famous stroll in Red Square.

—Paul Rugo

Even though it was 4 a.m., a dozen Soviet officials—ministers, translators, and most likely, a KGB agent or two —were on hand to greet us. We were exhausted, but our hosts proposed a toast—the first of countless ones the Soviets would offer during the coming days—to the success of our venture.

Visitors quickly learned that what was said over drinks in Russia was often as important as what was said at meetings. Everything seemed slightly surreal. The bite of the vodka, however, was very real. So was my need for sleep. I drank fast. The workday would begin in five hours.

—Dean LeBaron





Vladimir Koblov had brought the Soviet delegation to the conference. His request for one-on-one meetings with my team showed admirable initiative—initiative he repeated by securing us the government invitation when he returned home.

Understanding gestures in my own country was easy. I knew what it meant when someone saw me to the door or elevator. While some gestures were similar in the Soviet Union, determining their meaning was tricky. Still, it seemed clear when Koblov showed up at the dacha for breakfast the morning after our arrival that he really wanted to talk—a show of great respect from the highest level. Koblov, with his shock of white hair and warm smile, was informal and informed. Still, I knew he had to be tough to have risen to the top.

—Dean LeBaron



Koblov reminded Dean of what someone had once said of Gorbachev: "This man has a nice smile, but he has iron teeth."

—Donna Carpenter LeBaron

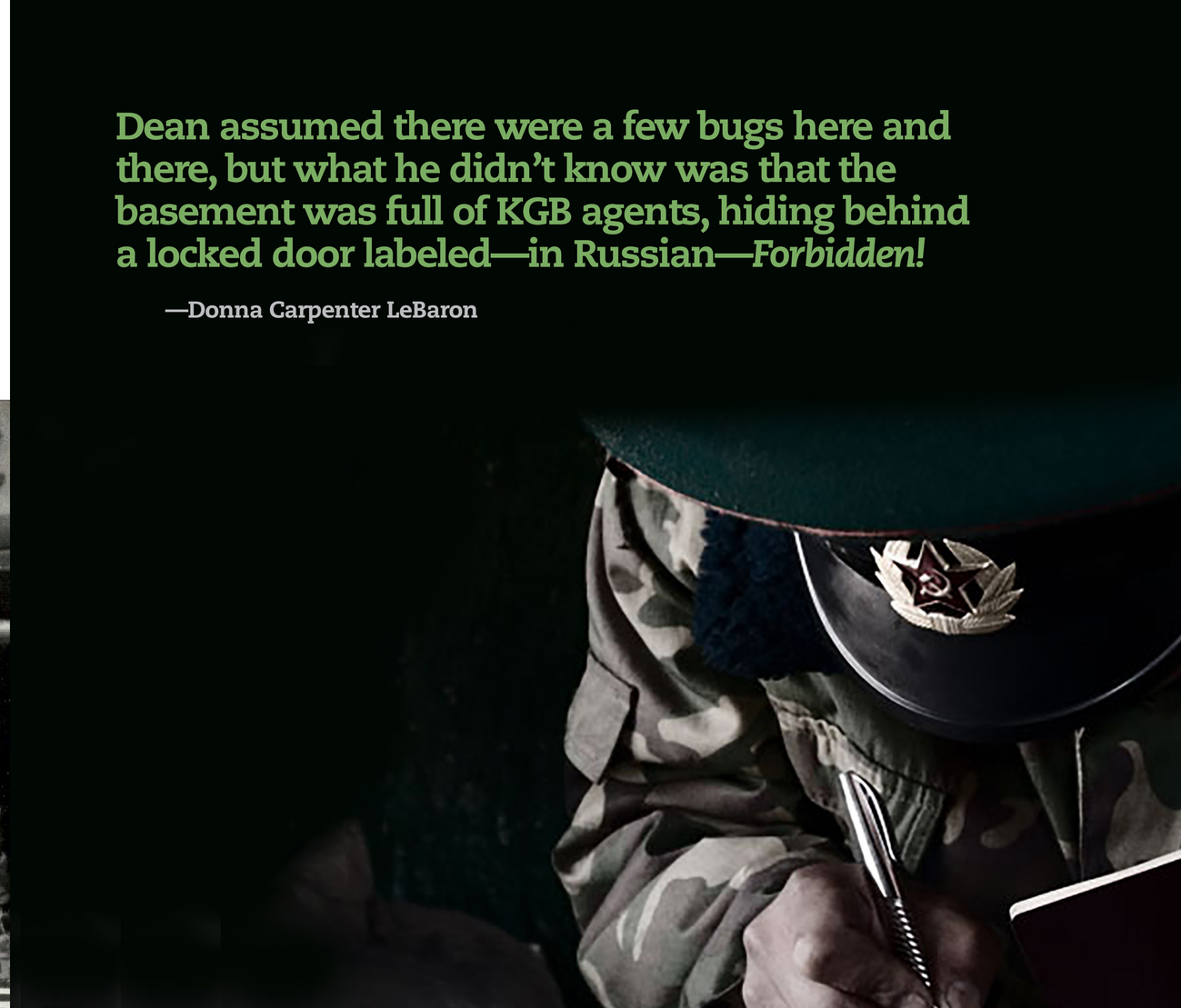
We feasted on meat, fish, cheese, bread, jam, juice, and coffee in the dacha's sun-filled dining room. While **most Russians stood in line for bread,** the government provided lavish rations for foreign visitors. I wondered how Koblov would deal with such disparities, but now was not the time to ask. This trip was theirs to orchestrate. I wanted to see what they wanted to show me, listen to what they wanted me to hear, and learn what they wanted me to know.

—Dean LeBaron



Dean assumed there were a few bugs here and there, but what he didn't know was that the basement was full of KGB agents, hiding behind a locked door labeled—in Russian—*Forbidden!*

—Donna Carpenter LeBaron



An hour later, we were streaking down the VIP lane on our way to our first appointment. My first impression of Moscow was that it was potent, massive, and ugly. Every now and then, however, a glimpse through alleyways bordered by crumbling brick tenements and stained concrete apartments would reveal a church from a Russian fairy tale, its blue, white, and orange cupolas and its gold crosses flashing in the sun. Then, suddenly, it was gone, and all I could see was the heavy, lumbering traffic with its drab trucks and mud-streaked buses.

—Dean LeBaron



Like Paris, Moscow was built in expanding concentric circles, but its boulevards are wider, some broad enough to accommodate 20 cars abreast. These boulevards are intersected by avenues radiating, spoke-like, from the Kremlin. While there is plenty of green space, there are few large trees. When I asked why, I was told that at the onset of World War II, Soviet scientists had feared that leaves and other foliage would retain poisonous fumes if the Nazis resorted to gas attacks. Not waiting for this theory to be tested, they had chopped down most of the city's large trees.

—Donna Carpenter LeBaron

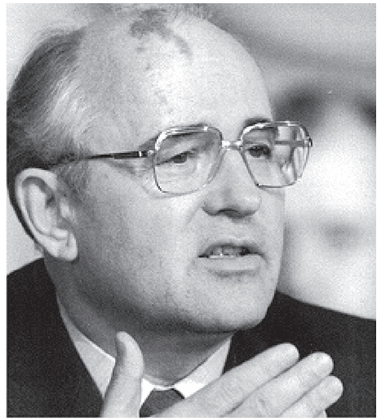
On a side street, I noticed a Russian man attaching his windshield wipers, which he had obviously locked in his glove compartment for safekeeping. He did this automatically, in the same routine fashion in which he opened the door and switched on the ignition.

The explanation I read in the newspapers was that wipers left out overnight were stolen and traded on the black market. As the state was the sole manufacturer of windshield wipers and didn't produce nearly enough to satisfy demand, they were a precious commodity.

Here, the consumer was not king, but beggar or thief.

—Dean LeBaron





Gorbachev recognized that the country could not maintain its superpower status without fundamental shifts in the Soviet political and economic systems.

The centerpiece of his reform was *perestroika*—the Law on State Enterprise, which had taken effect in 1988 as part of the new five-year plan.

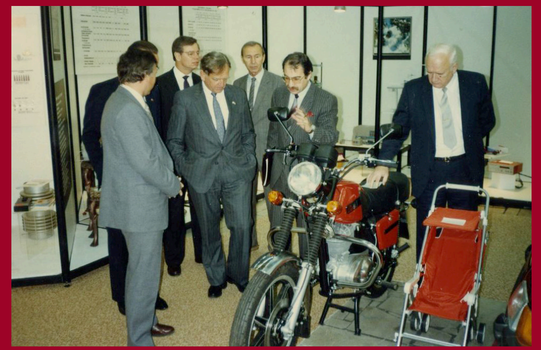
The idea was that government planners would concentrate on long-term strategies, leaving day-to-day decisions to lower-level managers. Following only broad guidelines from Moscow, these managers would draw up their own plans instead of having them imposed from above. Part of their output would fill state orders that satisfied the country's most basic needs. The rest they could sell.

—Dean LeBaron

At the root of Russia's colossal economic madness was politics: the Communist Party's determination to maintain total control. In his appointment with Boris Sergeevich Belousov, head of the Ministry of Defense Industry, Dean was about to crash headlong into that reality.

—Donna Carpenter LeBaron





Ministry-controlled enterprises produced a plethora of products: microscopes, motorcycles, oil rigs, tractors, and even ships and power stations.

As an investment manager, I was intrigued and impressed by the Communist attempt, however unsuccessful, to replace the market's ability to set a price for a product.

I was eager to talk to the man who had attempted to keep such an ambitious system on track. The Ministry of Defense Industry, called Minoboronprom or MinDefInd, was housed in a generic Moscow office building—a boxy, concrete structure that looked old from the day it was built. As we walked down darkened corridors, none of the people sitting at their desks seemed troubled by the number of burned-out lightbulbs. With obviously little work to do, they stared at us through their open office doors.

—Dean LeBaron

Our escort, Evgeny Vitkovsky, a deputy to Minister Belousov, had driven with Paul, Rich, Jeff, and me from the dacha. Well over six feet tall, Vitkovsky—whose close-cropped, gray-flecked hair went well with his strong jawline—carried himself like the general he once had been.

With 10 minutes to spare before our appointment, he ushered us into his office, where his desk was festooned with a rainbow of eight rotary dial telephones. I would soon learn that

you could judge the status of a Soviet official by the number of phones on his desk.

—Dean LeBaron





At the time, the Soviet Union had no city phone books, and only cumbersome directory assistance was available. High-ranking party members used a separate system for their important communications and had directories listing all members.

Vitkovsky showed us Gorbachev's entry, which included both his office and home numbers.

—Dean LeBaron

Vitkovsky's spacious office was wood-paneled and attractively furnished with leather-upholstered armchairs positioned around a large conference table sitting perpendicular to his desk, forming a T. Portraits of Lenin and Gorbachev hung on the wall. When our 10 minutes were up, Vitkovsky led us down a long hall, through a large wooden door, into an even bigger office and introduced us to his boss, Minister Boris Belousov.

Belousov—a large, square-faced man in his mid-fifties who did not smile easily—was obviously used to giving orders, and we sat where he told us: Americans on one side of the table, Russians on the other.

The setting seemed more appropriate for arms negotiations than for a business meeting.

"Would you like to say something?"

he asked.



I replied that we had heard about the economic transformation and we wondered what role, if any, we could play.

Then it was his turn.

—Dean LeBaron



Unlike American business meetings, where people actually talked to each other, he read a prepared statement about the difficulties of converting plants from military to civilian production. Maybe he had never attended a business meeting before, or perhaps he felt the formal approach was more appropriate; possibly, he was just uncomfortable in the presence of foreigners. In any case, we felt awkward.

With some bluster, he declared that Soviet production targets were consistently met, but we all knew that was not true. Stressing the Soviet Union's need for Western investment to fund its conversion of military plants, he conceded that the country was in dire need of Western cash.

—Dean LeBaron



Belousov warned us that he did not think the country had much time.

—Donna Carpenter LeBaron

I felt that the current wave of unrest could capsize the still-fragile vessel of emergent Russian capitalism.

—Dean LeBaron



Of course, the Russian people shared that anxiety, but they downplayed their fears with humor. Jokes were as plentiful as the work ethic was scarce. Nearly every Russian I met had a joke to tell, some about shortages or even the KGB.

One joke I heard combined both: A visitor to Moscow was going from store to store, asking the prices of various goods. Everywhere he went, the clerks told him, "We're out." As he left each store, the man pulled out a notebook and wrote down what that store was supposed to be carrying but was not. A KGB agent, suspecting Western espionage, approached the man and asked what he was doing.

"Never before have I found prices so high and goods so scarce," the man said. "No sugar, no meat, no soap, no socks, no razor blades, no salt, no butter, no nothing."

"Well, comrade," the KGB agent replied, "in the old days, we would have shot you for being so curious."

"So," the visitor asked, **"why don't you?"**

The KGB agent shrugged.

"No bullets."

—Dean LeBaron



One Russian told me that going from capitalism to a planned economy was simple,

like making fish chowder.

You catch some fish, chop them up, and cook them in broth. There's your chowder. Going from central planning to a free market was even simpler, he assured me. Just turn the chowder back to broth and bring the fish back to life.



Dean had some eye-opening tours on that trip, some of them stomach-churning for a businessman. By American standards, Soviet enterprises were a bit like the fake villages that Catherine the Great's minister, Grigory Potemkin, had set up to impress foreign dignitaries.

—Donna Carpenter LeBaron





In a Soviet aircraft factory, I saw a board displaying incorrectly made parts with the name of the worker responsible next to each. I realized that if a disaster befell this economy in its transition from Communism to capitalism, people conditioned to seek a culprit would do so. As a meddling capitalist, I would be a prime candidate.

—Dean LeBaron



The yardstick of achievement for Soviet enterprises was purely quantitative—the number of tiles laid, the boxes of soap produced, the weight of nails manufactured.

No one was deceived. The workers joked sarcastically about manufacturing the "world's fastest watches and largest microchips."

Since the production quota for chandeliers was set in tons, ceilings collapsed under their weight. *Krokodil*, the country's leading satirical magazine, summed up the situation in a cartoon that showed a nail factory proudly displaying its "record output": a single gigantic nail suspended from an immense crane. Another cover portrayed a central planner asleep at his desk.

—Dean LeBaron



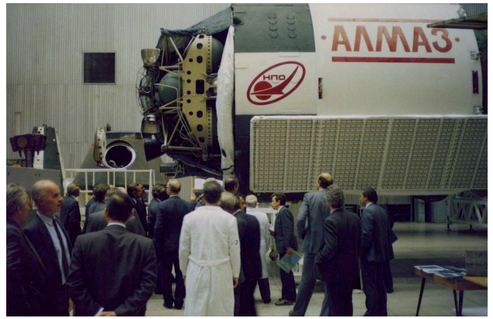
Soviet enterprises produced opaque sunglasses, ugly and uncomfortable shoes, and appliances that frequently caught fire.

—Donna Carpenter LeBaron



Military engineers at one plant created a sausage machine but failed to age the sausage, which came out green. Other engineers designed a washing machine with 37 cycles—30 more than anyone would ever need—and a television so small that it came with a built-in magnifying glass.

—Dean LeBaron



The country's leading producer of rockets was making children's sleds. There, I saw workers attaching runners made of titanium to the sleds. The factory, which still manufactured rockets, had titanium but no steel. Its choice was to halt sled production until more steel arrived or use the titanium on hand to make the runners.

—Dean Lebaron



One day, our motorcade took us through the Russian countryside on our way to Zagorsk, about an hour away, that had us speeding through ramshackle peasant villages. Suddenly, the potholed and dusty road out of Moscow became as smooth and even as any US interstate.

"Oh, yes, it's quite nice from here to the border," explained one of the Soviets.

"The roads we build start falling apart in six months. When we want something good, we bring in the Germans."

In Zagorsk, we drove not to a factory, but to the city's famous cluster of chapels, cathedrals, and monasteries. Our astonishment was clearly part of Koblov's strategy, though we had no idea what he was aiming for.

We forgot about business as we approached the white walls with their towering cupolas—some sheathed in gold, others in blue with gold stars. Inside the cathedral, hundreds of candles illuminated ancient Russian Orthodox icons, an image even more striking.

—Dean LeBaron



An old Russian chronicle said that in 988, Vladimir Sviatoslavich, Grand Prince of Kiev, the ruler of Russia, decided that he and his people should give up their pagan gods for a new faith.

Vladimir sent emissaries to the Middle East to study Christianity, Islam, and Judaism. Islam appealed to the prince until he discovered that drinking alcohol was forbidden by the Quran. Abandoning their pagan gods was one thing, but Vladimir knew that his people were unlikely to give up drink. He even wrote a couplet on the topic: *The Russian cannot bear to think / Of life devoid of all strong drink.*

—Dean LeBaron

After the churches, we visited a plant that manufactured plastic casings for water desalinization filters, springs, and satellite dishes, to name a few. The products looked good, and the general manager—an engineer—was well informed about them. Unfortunately, he knew nothing about his manufacturing costs, the price of raw materials, energy, or labor. Furthermore, he didn't know how his products compared—in either price or reliability—to his competitors.

—Dean LeBaron





The plant manager did, however, know how to do lunch. Three women served an elegant four-course meal at a long wooden table flanked by benches. The conversation, lubricated by ample amounts of vodka, was easy.

Ordinarily, the plant manager confessed, it would be illegal to serve vodka at lunch. **"But this a special occasion," he announced.**

Not too special, we soon concluded, as vodka would be poured at nearly every subsequent meeting and meal.

—Dean LeBaron

There was no shortage of business acumen among Russians, Ukrainians, and other Soviets. What they lacked was knowledge of modern business methods.

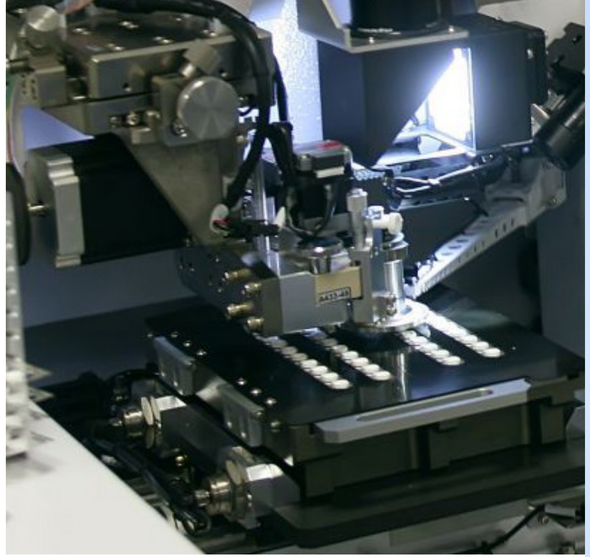
—Paul Rugo

All our visits to factories and plants were brief. First impressions had to count because they were all we had. Some locations were filthy, others quite clean. Staff at some plants tried to be efficient, but most had no idea of the kind of efficiency international competition would demand.

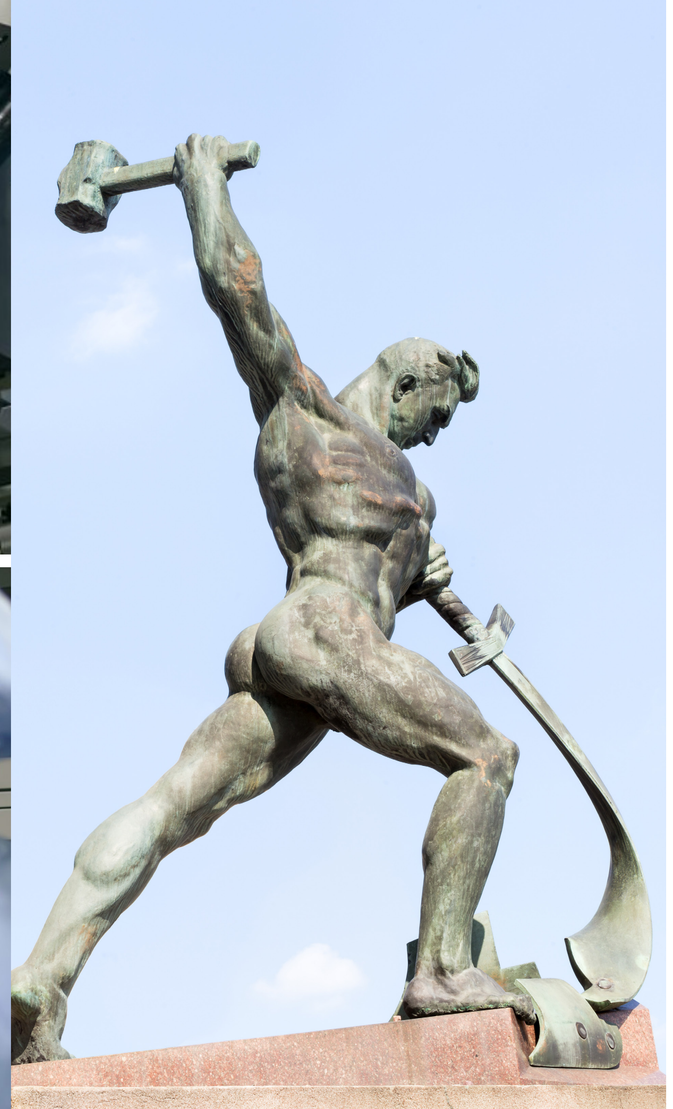
For example, at Almaz, a semiconductor plant, managers bragged about their products' reliability, but the factory's test facility—located miles away—fell far short of Western standards.

Despite this, the workers obviously had a lot of technological expertise and were eager to learn. I had met the officials and seen a smattering of the goods. Now, it was time to decide whether to form a team to investigate selected enterprises in greater detail or to say thank you and *dasvidaniya*.

—Dean LeBaron







But when I looked at my list of reasons to invest in Russia again, I was immediately struck by its shortcomings. While each item on my page offered a good argument as to why the American, European, and Japanese governments should encourage investment in the Soviet Union, none addressed the individual investor's needs. What kind of funds would investors prefer? Should it be one that, like a conventional mutual fund, bought shares in a portfolio of companies? Or should it be a more active fund for direct investment, one that would allow investors a say in making strategic decisions? Could we combine the two?

Those questions were premature until a simpler one was resolved: Had we seen enough potential to merit creating a team that would take a closer look? I believed we had.

Swords could be beaten into plowshares, and at a profit.

—Dean LeBaron

My friend and attorney Paul Rugo, who accompanied our delegation on this trip, helped me compose a letter of intent to establish the Soviet Companies Fund, an equity fund of up to $1 billion that would invest in Soviet joint stock companies. Under the terms of our letter, Batterymarch and the State Commission on Military Industrial Production agreed to work to attract "investments of industrial enterprises from different countries to be invested in the reallocated Soviet defense production industry"—in particular, in the areas of advanced technology, aerospace technology, and so on.

The Soviet side, in turn, would list 100 military factories that could be fully or partially privatized to compete in the world market. Batterymarch would closely scrutinize those enterprises as we worked to create a fund for subsidizing their conversion and privatization. So, it was agreed. All Russians and Americans involved attended our final meeting in the dacha. Koblov signed the document for his side, I for ours. It was a grand evening. We sealed the deal with a handshake and the clink of glasses icy with vodka.

—Dean LeBaron





That first trip to Moscow ended with one more token of our hosts' willingness to move away from the Soviet system. A government official drove me to Red Square and parked his car, but instead of taking me into the plaza, he guided me down a street leading away from it.

"I thought you were going to show me Red Square," I said.

"Not the square, not exactly," he replied.

"This is what I want you to see."

He pointed down Ilyinka Street to a small, stout, three-story building with enormous Ionic columns. The once-grand building was sorely in need of repair, but the lions carved into the massive wooden door were intact. That, my guide confided, was *Birzha*, the Russian stock exchange.

"Look," he said,

"we Russians may have made a mess of it for a time, but I wanted you to see that you're not the first capitalist to conduct business in Red Square."

—Dean LeBaron

I returned to the States full of optimism. Two months later I was back in Moscow, ready to make a more serious commitment.

In accordance with Batterymarch's agreement with the State Commission, we now had an office near Red Square in a building that had once been a stable. It was our responsibility to provide staff, pay legal expenses, and cover transportation for potential investors—in short, everything requiring hard currency.

—Dean LeBaron





Using Moscow as a base, Dean and his Batterymarch team fanned out to explore enterprises in cities across the Soviet Union. The trips were educational, occasionally tedious, sometimes intriguing, with a dash of low comedy.

—Donna Carpenter LeBaron



On one trip to Leningrad, we checked into our hotel and found we were given the entire floor, complete with a floor matron stationed between the rickety elevators. Americans were assigned rooms on one side of the hall and Russians on the other, with placement according to rank. My room was at the far end, directly opposite Evgeny Vitkovsky's. In case I needed a translator, Batterymarch's newest employee—a young woman fluent in Russian—was in the room next to mine.

In the middle of the night, I got up and headed to the bathroom. Bleary-eyed, I opened the door; it seemed odd that the light was on, but thinking nothing more about it, I closed it. I heard a click. The door had locked behind me.

There I was, standing in the hall, naked. My drowsiness instantly evaporated.

I needed cover, but there was nothing in sight, not even a curtain I could take down and wrap around my waist. Even the floor matron was gone. Thinking I might get a towel but not wanting to awaken Vitkovsky across the hall, I rapped softly on the door of the new Batterymarch employee in the room next to mine.

Whether she heard me or not, I didn't know. Quite possibly, an employee on her first assignment looking through the peephole and seeing her boss standing naked in the hall might have concluded that her wisest decision would be not to respond.

There was nothing for me to do but adopt the attitude of a Soviet leader: when you are stuck without cover, pretend you don't need it.

Shoulders back, I headed to the elevator and rode down to the lobby. I walked to the front desk and asked for assistance, apologizing for my lack of identification.

"It happens all the time," the woman behind the desk replied with a smile as she handed me a key.

Taking it, I strode back to the elevator—acutely conscious of maintaining my best posture—and returned to my room.

—Dean LeBaron



In December 1990, we were driven to the Ministry of General Engineering, where we were to meet several members of the Russian Academy of Sciences—the Soviet Union's most prestigious honorary society, whose 1,250 members were known as academicians. If an academician had an idea that led to the creation of a new enterprise, he or she was designated to lead it. Their rewards included country dachas, spacious apartments, cars and drivers, foreign travel, and entrée to stores not open to the general public.

- Jeff Braemer

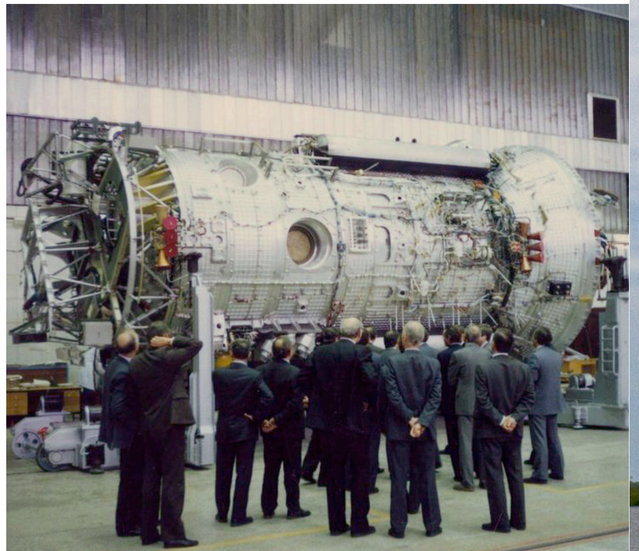
The meeting at the Ministry of General Engineering was highly educational. I was beginning to understand the Russian mindset when it came to business.

The criteria I planned to use for investment analysis were similar to those I used for other emerging economies. In the Soviet Union, however, I would be looking first for what I called *diamonds in the mud*—companies with unexpected competence in technology. I wanted to identify products that would have immediate appeal to Western buyers.

Another of our early destinations was Khrunichev, the country's principal manufacturer of launch rockets. If the generic Soviet ministry building is concrete, squat, and ugly, the generic Soviet manufacturing plant is huge, sprawling, and surrounded by thick walls topped with barbed wire. Khrunichev fit the bill.

—Dean LeBaron





Khrunichev would soon become a regular stop for Westerners, but we were among the first foreigners to tour the plant.

—Jeff Braemer



I was eager to visit Khrunichev because of my experience with aerospace stocks. In fact, I thought that if I ever had a chance to ride into space, I wanted to do it in a Soviet launch.

—Dean LeBaron

Our greeting—equal parts military parade and Chamber of Commerce presentation—was typically Soviet. A row of men in business suits stood at attention as we pulled up.

After shaking hands with our hosts, including Director Anatoly Kiselev, we were led inside to a large conference room.

—Rich Gula



I pointed to a row of photographs of Soviet rocket launches. "Please ask Director Kiselev to explain what is taking place in these," I said to the interpreter.

The photographs interested me less than our host's response. Russians were—and remain—notorious for a strutting display called *pokazukha*, a show designed to impress or deceive.

I wasn't expecting a Potemkin village, but I did wonder if we would be treated to pokazukha. Kiselev seemed above that. Moving from one photograph to the next, he quietly described each type of rocket, its capabilities, and its launch date.

Kiselev thought that Khrunichev's conversion to civilian production should focus on the commercial space-launch business.

—Dean LeBaron



We then toured an immense rocket assembly facility, where several giant ELVs—expendable launch vehicles—were under construction.

- Jeff Braemer

The Khrunichev plant had about a dozen similar buildings, two of which were as long as several football fields. Numerous signs exhorted workers: *Your Work Is Important for the Country!*

Our hosts gave us free rein to wander through this once-secret installation.

"May we take pictures?"
I asked.

"Of course,"
Kiselev replied with a smile.

"The CIA already has photographs of everything you see here."

—Dean LeBaron



Once they had decided to open their doors to Westerners, the Soviets were far less guarded. Still, when it came to intelligence-related matters, my work in Russia provoked unwanted inquiries—and a whiff of drama—from both sides.

A businessman I knew in Cambridge, Massachusetts, telephoned me to say that

“people in the building” —

a code phrase for the Pentagon—“

“would consider it a favor if you could persuade the Soviets to reduce their production of tanks and invest in plants that could be converted to civilian production.”

I said I wasn’t in the business of making investments as favors for the “people in the building.”

—Dean LeBaron

I was also contacted by the FBI and CIA, whose agents asked me if I would provide information about the Soviets involved in the Batterymarch project.

“No,”

I said,

“but I’d be happy to introduce you to them.”

They declined. “We’re not ready for that kind of openness,” one of them said.

—Dean LeBaron



On one occasion, I fended off a more ominous Soviet request. After Batterymarch became engaged in the USSR, one of my assistants visited the New York offices of the Council for American-Soviet Trade, where he was handed a slip of paper with a name and a phone number.

"Have Mr. LeBaron call him," the Soviet official said.

I called Nikolai, and we arranged to meet at the Trade Council offices.

He arrived, wearing an expensive Italian suit. Through an interpreter, he told me that people "at the highest levels" of the Soviet government wanted to change the terms of the agreement we had just signed. Instead of all cash, Batterymarch was to provide a portion of its investment capital in the form of consumer goods.

"You must understand,"
he said,
"that the people you're dealing with now may not be in power in six months. The situation in our country is highly unstable."

The unspoken threat hung heavy in the air, and I was feeling distinctly uncomfortable. If I didn't play along, might I trigger another Cold War?

Explaining that I was a financial person, not a trader buying and selling shampoo and toothpaste, I politely refused. From all accounts, had I imported any consumer goods to the Soviet Union, the likelihood of them reaching the public would have been minuscule; with official aid, the goods would have been sold on the black market at a huge profit.

I never heard from Nikolai again.

I assumed he worked for the KGB.

—Dean LeBaron



At the Khrunichev plant, the workers wore clean white lab coats. That small sign was a good one because people who cared about their appearance usually cared about the quality of their products.

—Larry S. Speidell

Another good sign was that Kiselev answered all of my questions with apparent candor. When I asked about the defect rate of his rockets, he said that 14 rockets were assembled for each one that was eventually used.

"That is," he elaborated,
"we make 14 rockets, test them, then shoot only one because only one passes all our tests."

That approach to quality control was common in Soviet plants. "If we produce something in large enough numbers," the thinking went, "some are bound to come out right."

—Kim Malone



Another cavernous cement structure at Khrunichev displayed a model of the 20-person Mir space station, which had been launched in 1986. The name Mir, meaning peace, was itself a bit of pokazukha, designed to obscure the mission's partially military purpose. When we visited, the Soviets were still working on a shuttle fleet to resupply the station, which they hoped to use as the major staging arena for missions to Mars and the moon.

The Mir model, elevated above the floor on a platform, was the exact size of the space station itself—43 feet long and 14 feet wide. We walked up a short flight of steps into the spacecraft. Each sleeping compartment had a folding chair, mirror, porthole, and sleeping bag.

—Jeff Braemer

The Soviets were clearly more concerned about their cosmonauts than their earthbound fellow citizens. Cosmonauts' complaints that they got on each other's nerves after weeks of close confinement led engineers to design a closet-sized room in which Mir voyagers could read, watch television, or simply enjoy some privacy. Many ordinary Soviet citizens, about a third of whom lived in communal apartments shared by several families, lacked that luxury.

—Dean LeBaron

If not for Khrunichev's ELVs and a space station that had economic potential, we wouldn't have considered investing in the plant despite its advanced technology and small army of skilled engineers and workers.

The ministry, however, had a different idea. A large room in the next building we visited displayed its idea of the conversion projects Khrunichev should be working on: camping equipment, folding bicycles, sleds, cow-milking machines, four sizes of saucepans, and ski poles.

"Why are you making these things?"
I asked Kiselev.

"The Ministry told us to,"
he replied with a shrug.

"But you're Khrunichev,"
I protested.

"You build fantastic rockets. There are customers for your product."

That, he said, was his hope too. But his resigned shrug conveyed a strong sense of Soviet fatalism.

—Dean LeBaron



Driving to Mashinostroyeniya, our next stop, I wondered if a

brain drain could imperil Soviet potential. The nation had more scientists and engineers per capita than any other country, and their skills could be readily marketed internationally. If a significant number of these Soviet luminaries were to leave, our investment could be severely threatened.

I filed it among the long-term risks to keep in mind—somewhat more likely than an asteroid hitting Russia, but less likely than a military coup.

—Dean LeBaron



Mashinostroyeniya , a half-hour's drive from Khrunichev, was a research facility for space experimentation: a combination of Bell Laboratories, the RAND Corporation, and General Dynamics. It was as good as any company in the West—or in the East for that matter.

Its general manager, Gerbert A. Yefremov, was a tall, strong, healthy man in his late fifties.

- Rich Gula

"Will we be allowed to videotape our tour?"
I asked.

"Certainly,"
Yefremov said, smiling.

"If anything happens, they'll just arrest us both."

—Dean LeBaron



Yefremov was an accomplished aerospace engineer, a Hero of Socialist Labor, a Lenin Laureate, and the winner of other state prizes. Also active in politics as a representative in the Russian Republic's Congress of People's Deputies, he proudly sported his deputy pin.

Yefremov's son, holder of the Soviet equivalent of a PhD in economics, later told us: "You're the first capitalists I've ever met."

—Paul Rugo







Yefremov was also proud of a young team of Mashinostroyeniya astro scientists who were participating in an international competition to put a satellite into orbit. Eager for Batterymarch funds, the young scientists had asked Yefremov for permission to give us a presentation. He had agreed.

In addition to arguing their case for funding, the team led us on a tour of the plant and briefed us on their other activities. Although Yefremov was slightly annoyed, I was impressed by their initiative.

—Dean LeBaron

Reutov—a city built for Mashinostroyeniya workers on 250 acres near Moscow—had apartments, a health club, and a movie theater. We would soon see other projects designed to improve workers' standard of living.

Many leading enterprises provided benefits to their employees, including health care, education, and recreational facilities. We saw nurseries and kindergartens, reception halls for weddings and parties, and clinics with special

steam baths and massage rooms.

—Dean LeBaron



Salaries, on the other hand, averaged around 218 rubles (about $8) a month—less than many assembly-line workers.

—Marilyn Pitchford

Our visits to Khrunichev and Mashinostroyeniya prompted a reappraisal of our investment criteria. As we were driven back to our dacha late that afternoon, I decided we should add two more points.

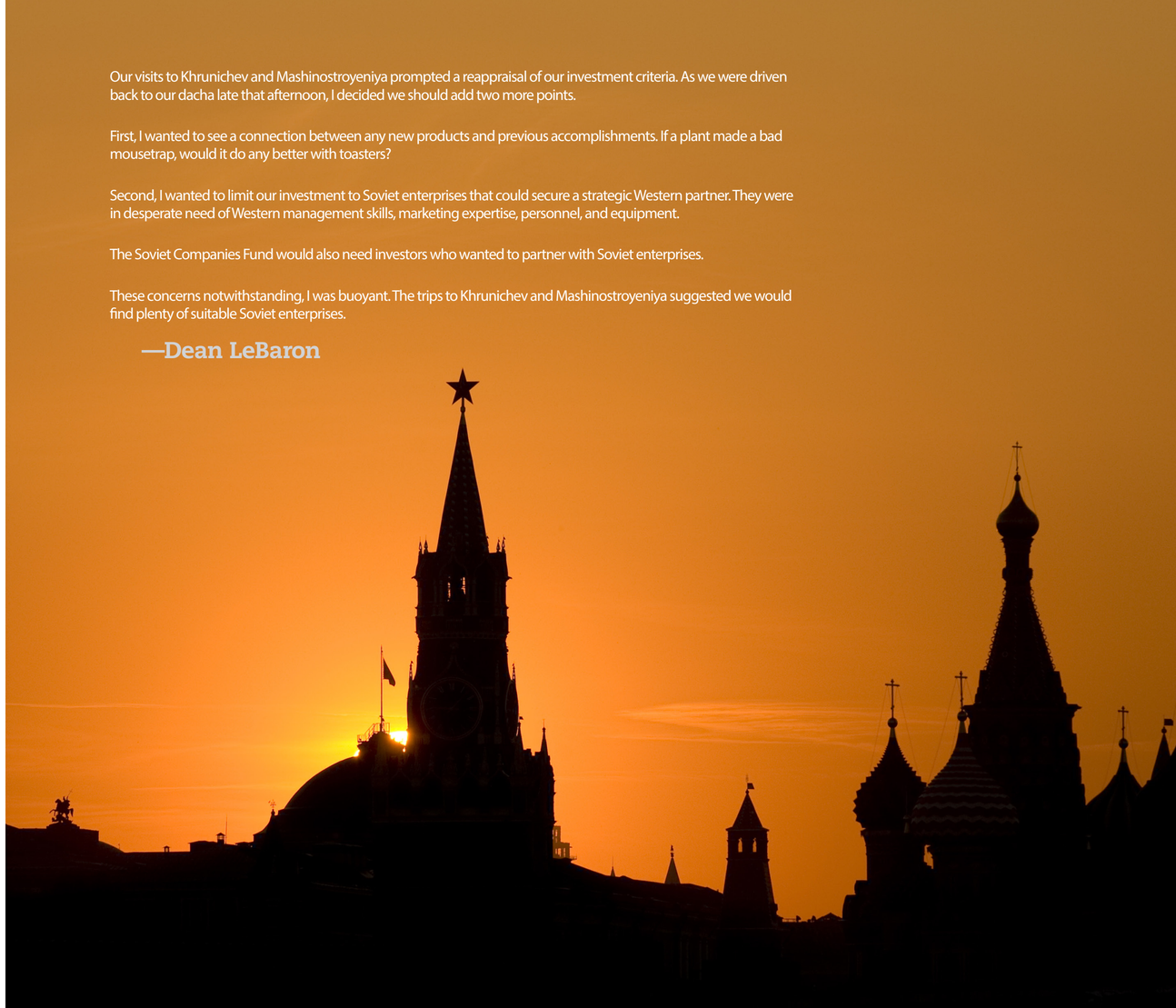
First, I wanted to see a connection between any new products and previous accomplishments. If a plant made a bad mousetrap, would it do any better with toasters?

Second, I wanted to limit our investment to Soviet enterprises that could secure a strategic Western partner. They were in desperate need of Western management skills, marketing expertise, personnel, and equipment.

The Soviet Companies Fund would also need investors who wanted to partner with Soviet enterprises.

These concerns notwithstanding, I was buoyant. The trips to Khrunichev and Mashinostroyeniya suggested we would find plenty of suitable Soviet enterprises.

—Dean LeBaron



On our first Russian foray, we'd noticed a McDonald's in Moscow that was about to open. Curious as to how it was faring, we paid a visit.

—**Rich Gula**

The huge restaurant was bustling but had its share of problems. One was the Russians' tendency to join the longest line at the counter even though 27 stations were available.

—**Jeff Braemer**



Years of experience had taught Soviet consumers that the longest line formed in front of the most desirable goods. McDonald's finally had to deploy ushers to reassure customers that all the lines offered the same food.

—**Marshall Goldman**





Even when all the lines were more or less equal, they were still long. I did some basic market research. Through an interpreter, I asked people why they were eating there. Their number one reason surprised me. It wasn't the food or even the low prices, but the courteous service. McDonald's was one of the few restaurants in Moscow where customers were sure to be greeted with a smile and a friendly offer of, "May I take your order, please?"

I concluded that this was a good introduction to capitalism for the Soviets.

—**Dean LeBaron**



Fortunately, Dean didn't have the slightest inkling that the next day's trip to Leningrad would bring him crashing back to earth.

—Paul Rugo

Like our interstate system, the Soviet air network was part of the country's defense infrastructure. Consequently, everything related to air travel—planes, airports, air traffic control, air safety—fell under the purview of the Ministry of Aviation, which reported to our sponsor, the State Commission on Military Industrial Production.

Primitive is a good word to describe Soviet air traffic control.

In the United States, radar tracks every commercial flight. In the USSR, radar tracks only the aircraft in the vicinity of major airports. For the rest, air traffic controllers relied on pilots to radio their positions. Functionally, Soviet ATC was useless for much of the country—hardly a comforting thought.

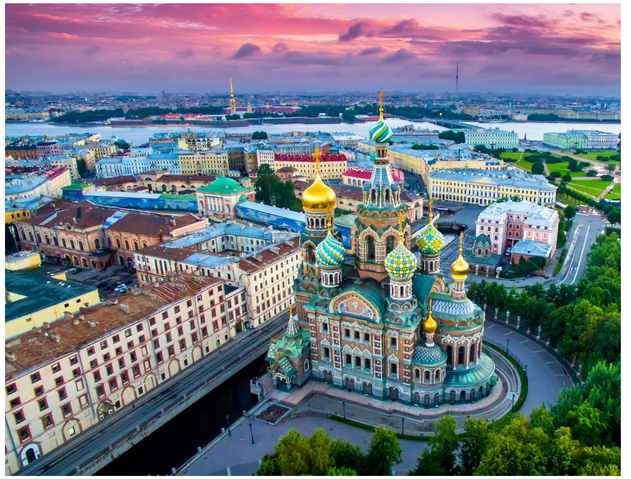
—Dean LeBaron



On our flight to Leningrad, I asked to see the plane's cockpit. Opening the door unannounced, we found one of the two pilots asleep in his seat, a bottle of beer in his hand. After that, it seemed superfluous to learn that not every seat on a Soviet airliner had a seat belt. A triple-bump landing, however, still got my attention.

Leningrad was just an hour's flight from Moscow but years away in its look and feel.

—**Dean LeBaron**



Leningrad had dignity. Its atmosphere was crisper, more bracing than Moscow's, and not just from the brisk winds blowing off the Baltic.

The formerly majestic capital was confident it would soon be great again. This was the city that had seen the end of the czars and the storming of the Winter Palace and had withstood the 900-day Nazi siege. Ten thousand people had died daily from starvation during the worst of that blockade, and the frozen earth had been blasted with dynamite to bury the dead.

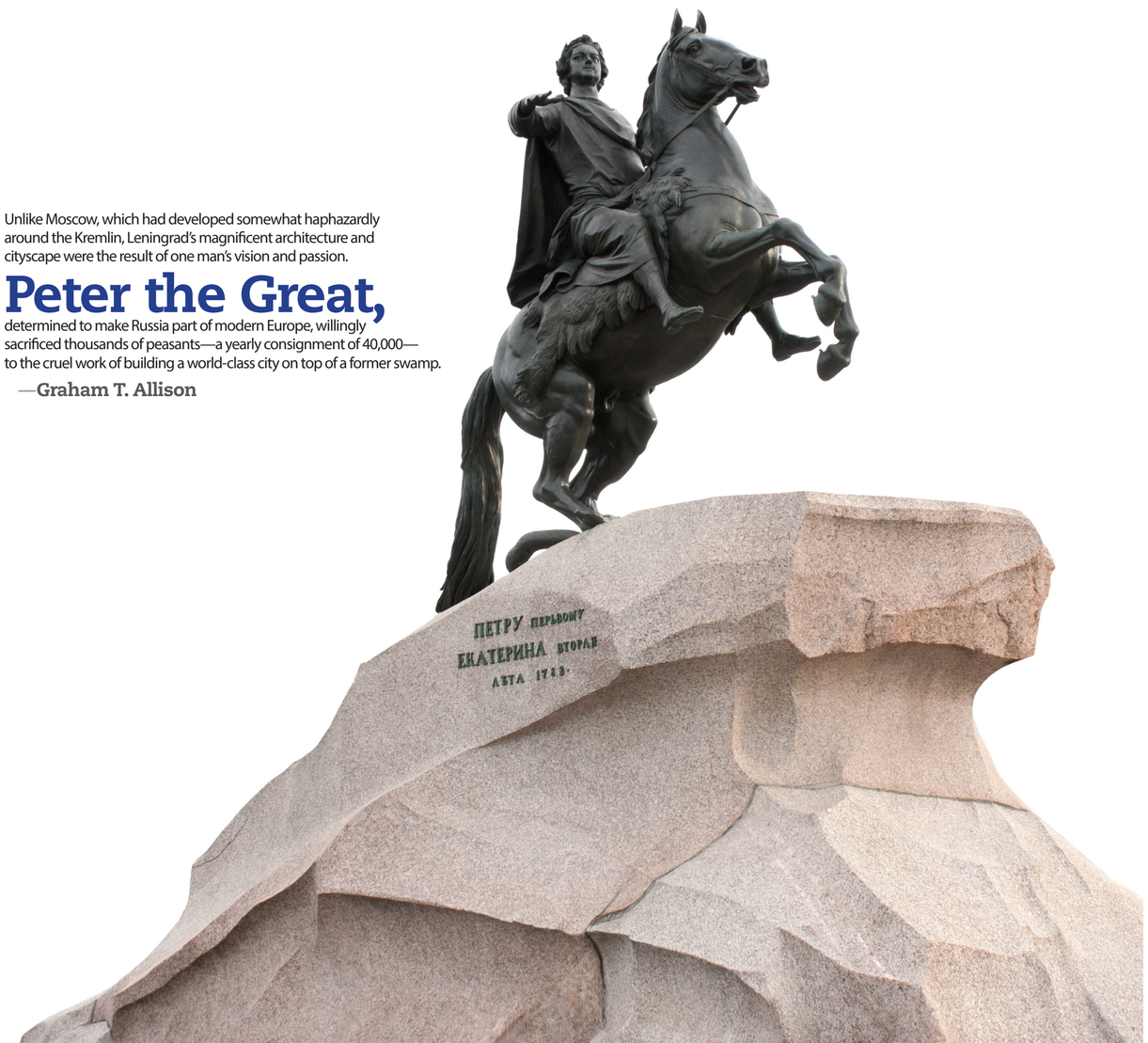
—**Larry S. Speidell**

Unlike Moscow, which had developed somewhat haphazardly around the Kremlin, Leningrad's magnificent architecture and cityscape were the result of one man's vision and passion.

Peter the Great,

determined to make Russia part of modern Europe, willingly sacrificed thousands of peasants—a yearly consignment of 40,000—to the cruel work of building a world-class city on top of a former swamp.

—**Graham T. Allison**





Our first stop was the Kirov Plant.

—**Jeff Braemer**

Kirov had built its reputation as a tank manufacturer. But now, it produced primarily tractors.

Even by Soviet standards, Kirov was immense. Some 60,000 people labored in the 12-building complex, which was guarded by high stone walls topped with an iron railing.

—**Rich Gula**

Because Kirov was not a candidate for the Soviet Companies Fund—the terms they had dictated to us were not acceptable—we asked one of the officials accompanying us why it was included in our tour.

“Kirov,”

the official replied,

“is like the general you must invite to the wedding.”

In other words, the venerable plant was too big and important to be slighted.

—Dean LeBaron

Kirov was the poster child for the perils of overstaffing—namely, reduced productivity. With five people performing a one-man task, speed and efficiency went out the window. Russians were attempting to cut the swollen ranks but with little success. Everyone knew that the transition to a free-market economy would put millions out of work, which led to a lot of anxiety and foot-dragging.

Overstaffing was only one of Kirov’s problems. The structure, hierarchy, and management of virtually every Soviet enterprise were intractable and inflexible.

—Dean LeBaron





Kirov’s director, Pyotr Semenenko—a big, burly man with thick, dark hair, dark eyes, and a booming voice—had worked his way up from the assembly line.

—Rich Gula

Semenenko led us through the production lines, where litter covered the floor. Without thinking, I reached down to pick up a piece of paper. Semenenko and his minions looked aghast. Russians of rank apparently did not stoop to perform such trivial tasks.

—**Dean LeBaron**



We never saw workers taking even the most elementary safety precautions, such as wearing steel-toed shoes.

At the mill that made steel for Kirov, the catwalk hovering above a huge vat of molten steel had no guard rail.

—**Dean LeBaron**

At the end of Kirov's production line stood 100 tractors or more.

"Half are waiting to be shipped," Semenenko explained. "The other half are complete, except for batteries."

A finished tractor—even battery-free—was a good tractor

because it meant the factory was closer to meeting its quota. The batteries relied on another factory's quota; getting the tractors up and running was secondary.

—**Dean LeBaron**

Kirov didn't make its own rubber, but after once running out of tires, its managers had bought a 15-year supply. To Soviet managers, the tires, stacked everywhere imaginable, indicated foresight and good planning.

—**Jeff Braemer**





The Soviet distribution system was a Rube Goldberg contraption. But Semenenko had mastered the crazy system, and despite all odds, his production line actually manufactured tractors.

—Dean LeBaron

Semenenko was eager to show us the K-20, a 35-horsepower diesel mini tractor that he and his colleagues believed would reap big export sales. Kirov had already spent 51 million rubles on research and development, ₽5 million for "preparations for mass production," ₽6 million to produce 300 prototypes, ₽4 million for testing, and ₽460 million for plant modifications.

—Jeff Braemer

Some 2,451 pieces of equipment, 60 painting lines, and seven conveyor belts - covering 140,000 square meters - were dedicated to production. Each mini tractor would require 283 worker hours to build.

If we weren't overly impressed by Semenenko's statistics, it was because we didn't know how to interpret them. We had no way of comparing Kirov with tractor makers in other parts of the world. How did Kirov's manufacturing operations differ from John Deere's? How did their products compare in quality? Semenenko couldn't tell us, nor could any of his managers.

In fact, they had never considered how their operation compared to the competition.

—Dean LeBaron

In addition to tractors, the plant manufactured weight-training equipment.

“Why weight-training equipment?” Dean asked.

“Ministry orders,” came the answer.

By then, we half-expected it. The ministry had convinced itself that any good factory should be able to produce nearly anything.

—Jeff Braemer



Dean suggested that Kirov hire a group of former Soviet Olympic weight lifters to promote its products. Semenenko nodded unenthusiastically.

—Paul Rugo

If grim determination had once been Leningrad's distinguishing feature, its fit and athletic mayor, Anatoly Sobchak—a worldly, no-nonsense man—embodied its spirit.

Like Gorbachev, Sobchak was a lawyer—a challenging profession in a country where the Communist Party made the laws.

Yet, studying the law had trained both men how to make an argument—in their case, an argument for change—a skill Russian leaders desperately needed now.

— Paul Rugo



Sobchak had a vision.

Eager to separate Leningrad's commercial enterprises from the convoluted maze of Moscow politics, he was lobbying the Soviet government to turn the city into a free economic zone with its own tax and credit policies and a program to attract foreign investment.

While Gorbachev had an entire nation to turn around, Sobchak had a narrower focus. He believed his city—with its historical business practices and proximity to Scandinavia and Western Europe—could function most efficiently by operating independently.

Sobchak told me he expected to sell some of the city's businesses to private interests and planned to invite foreign banks and brokerage firms to help reestablish Leningrad's stock exchange, closed since the Russian Revolution.

He even suggested that we create a Leningrad fund and move our headquarters from Moscow to there. That was my first inkling of the fierce rivalry between the two cities.

—Dean LeBaron

By the time we met in January 1991, Sobchak had become an enthusiastic supporter of our efforts. Unfortunately, his encouragement and enthusiasm were hardly typical of the populace. The majority of the Russian people expressed little desire to swap their socialism for our capitalism.

—Jeff Braemer

Despite everything I thought I knew about the difficulties of the transition, I didn't understand the Russian state of mind. On this trip—my fifth to the Soviet Union—I was struck by how deeply the suspicion, sarcasm, and fatalism ran, and shocked by the number of people without hope.

—Dean LeBaron











Most Russians viewed privatization as a threat to their employment rather than an opportunity to improve their bleak lives. It was clear from our conversations that their need for security outweighed any desire for opportunity and that they had little understanding of the concept of private ownership in a free society.

—Paul Rugo

The next stop on our trip was Leningrad Optical-Mechanical Enterprises, Amalgamated (LOMO). LOMO was best known for its cameras, but it also manufactured optical devices—such as telescopic mirrors, high-quality microscopes, and flexible endoscopes—employing 20,000 people.

The brochure handed to us said it was founded in 1962, but portions of the business dated back to 1914, when its stock had traded—briefly—on the Russian Trading System.

From the outside, the beige brick building appeared no different from any other Soviet enterprise. Inside, we would be pleasantly surprised.

—**Jeff Braemer**



The first moment that prompted a private little *ah* of satisfaction came in the reception room, which featured a large, abstract map of the world. It was a sign that LOMO's leaders were thinking globally and, perhaps just as important, wanted people to know it.

—**Dean LeBaron**

Like the building, the conference room looked nearly identical to every other we had seen, as if a single firm had designed them all. There, we met Dmitry Sergeyev, a confident, soft-spoken man in his early fifties who had been LOMO's general director since 1986.

After introductions, we walked to another building where Sergeyev ushered us into an enormous, carpeted room with samples of LOMO's products displayed on Plexiglas pedestals. Compared to the dangerous and dirty conditions at Kirov, LOMO was immaculate.

—**Jeff Braemer**





Here, young, efficient-looking technicians in crisp white lab coats contributed to the sense of quality. The products were impressive too. LOMO had recently developed a line of sophisticated micro lenses that rivaled or surpassed any produced in Germany or Japan.

Even more surprising and encouraging was the number of executives who came to meet us. But what impressed me about Sergeyev and his deputy, a designer named Alexander Kuznetsov, was their understanding of their customers' needs. Sergeyev knew who bought his products and for what price.

—**Dean LeBaron**

When I saw a 900-power student microscope modestly exhibited in the display room, I asked Sergeyev how much it sold for. The price, he said, was 25 rubles—less than $1 at the time. It was totally incongruous, as if Intel or Microsoft were producing children's toys.

—Dean LeBaron







The microscope in the display room confirmed my belief that our Soviet Companies Fund—or any other investor for that matter—should not invest in entire enterprises, which would almost certainly produce more rocks than gems. It would be better to pursue a venture that dealt only with the research and production of world-class products that looked promising for overseas markets—in other words, cull pieces of the best factories, managers, and goods. Explaining this concept to the Soviets, I suggested that they could pioneer economic reform in their country.

I believed—and still do—that starting with winning products would improve the nation's emotional and educational health in addition to bolstering its economic strength.

—Dean LeBaron

In the beginning, we weren't privatizing Soviet enterprises as much as we were de-state-ing them. Businesses would be gradually weaned from central planning and encouraged to be competitive but without the state losing control. Quicker, more drastic change wouldn't work because Soviet managers had no experience in competition or other market demands.

—Paul Rugo



My daily briefings made it clear that the Soviet government didn't want much change and had no interest in surrendering power. The Soviets seemed to think that foreign buyers would take advantage of the weakness of the ruble and snap up manufacturing assets at discount prices.

The majority of the rank and file shared this attitude. "They pretend to pay us, and we pretend to work," was a favorite expression of the working class.

—Dean LeBaron



One day, shortly after we opened our Moscow office, our translator and I were riding a bus when we overheard a conversation that surprised me.

"Look at him," one old woman said to another, pointing to a young man. "It's ten o'clock, and he's late for work. In Stalin's day, they shot people for being late. The government ought to do that again. Then, you'd see people get to work on time."

—**Jeff Braemer**

With a staff of six Americans and about twice that many Russians working in our dacha and office, we—Batterymarch—entered negotiations with the government.

Our agreement required them to select 100 companies for us to examine. Many of their choices were struggling organizations in sore need of funds but with zero promise of returns for investors. The clock was ticking, but for once, time was on our side. We were first on the ground with no competitors. Still, that advantage would be useless if we could not overcome the old system's inertia and strike good, solid deals.

—Dean LeBaron



Identifying those deals required the skills of smart, experienced financial analysts, but I found it difficult to keep senior staff in Moscow. The Soviet Union was a fascinating place, but there was little to do except work. The hotels and restaurants frequented by foreigners were haunted by pickpockets and muggers. Most of the accommodations were Spartan—my description is kind—and the food only proved the Russian adage that

hunger makes the best sauce.

Also, people did not want to leave their families. Still, we were making progress, and to my great satisfaction, LOMO held up to closer scrutiny.

—Dean LeBaron

Our focus on LOMO let the Soviets know what we were looking for and that others would do well to emulate their business plan, which was intelligent and inspired confidence, in contrast to nearly all of the others we had looked at.

To illustrate what we needed, we sent copies of LOMO's plan to many of the other companies. Some took our advice so literally that they whited-out LOMO's name and numbers and inserted their own.

—Paul Rugo

There were obstacles to our progress, of course, one of which was the Persian Gulf War early in 1991. For the first time since the end of World War II, the Soviets supported a US foreign-policy initiative—ironically, one against Iraq, an old client state of theirs.

The war was bad for Soviet business in general and for our Soviet Companies Fund in particular. For months, the United States discouraged international travel because retaliation by Iraqi-sponsored terrorists was expected. I found it increasingly difficult to persuade prospective investors to investigate Soviet potential for themselves.

—Dean LeBaron



In December 1990, the Russians invited me to go boar hunting. It was a great honor. I told them I didn't know anything about hunting, but they said they would teach me.

Around 3 a.m. on a Sunday morning, a large truck pulled up in front of the dacha. Behind it was a car filled with men who would be going along on the hunt.

Oleg Gaponovich, a former naval commander, handed me a heavy coat and trousers, which I put on, and we climbed into the truck with the other Russian ministers, who were drinking vodka from a jug like Tennessee bootleggers.

A half hour later, we were in the woods. Gaponovich directed me to a foxhole dug in the snow and handed me a rifle. The men who accompanied us took sticks and began to beat them together, driving the animals to us.

"You can shoot forty-five degrees to the right and forty-five degrees to the left," Gaponovich instructed me. "If you exceed that range, you might shoot one of us."

It was not a comforting thought. I was lying in a snow-filled foxhole, holding a rifle I might actually kill something with, but it might not be a boar.

Hours later, one of the Soviets dragged a dead animal into the clearing, where he cut it open and told me to reach in and touch its warm heart. I didn't want to, but I didn't want them to think I was a wimp.







The men cheered, and we toasted with vodka. The message the Russians were sending me was:

"You are now one of us."

—Dean LeBaron

In January 1991, we got another reminder of the Russian thirst for power. Dean and I visited a graveyard behind Lenin's tomb in Moscow, along the foot of the Kremlin Wall. Our guide was the young son of a Central Committee member. Walking slowly from tomb to tomb, he told us about each man buried there.

When we came to the last grave, unlike the others, fresh flowers covered the marble slab that bore his name and dates. The bust above the stone confirmed that this was Joseph Stalin's tomb. Dean was puzzled.

"Why Stalin?" he asked, pointing to the flowers.

"Because he was a great leader," the young man replied.

Moments later, a man walked up and kissed the tombstone—a routine occurrence, we were told.

"Do the Soviet people know how many millions of their fellow citizens died at this man's command?" Dean asked.

"Oh, yes," the guide responded. "But Stalin was a strong leader. Many of my countrymen wish Gorbachev were as strong a leader. We need another great man like Stalin."

—**Donna Carpenter LeBaron**





This attitude didn't seem to bode well for capital investment in a privatized Russia.

—**Dean LeBaron**

Most leading political figures had accepted the necessity of moving from collective to private ownership, but there was substantial disagreement as to how much should be privatized and how much the state should continue to control.

The greatest obstacle to private enterprise was fear of the unknown. The collective was universally understood. But in a country whose language had no word for privacy and whose overall view of private enterprise was negative, privatization had a foreign—even evil—connotation.

—Paul Rugo







Of course, the average Russian had little comprehension of the rights and the conditions of private ownership in a free society. I had an illuminating conversation on this subject with Vladimir Koblov, our "godfather" in the defense complex, with whom I had become close friends.

—Dean LeBaron

In the spring of 1991, I invited Koblov and other Russian friends—Alexander and Vera Kuznetsov, Oleg and Natalia Gaponovich—to visit me at my home in Switzerland.

One day, we all went for a walk that took us through some fields belonging to farmers who lived near me.

"Why do the farmers allow us to walk across their property if it's private?" Koblov asked.

"The fields are private property," I said. "But certain rights, such as the right of way, remain with the public in perpetuity."

"I don't understand," he replied. "I understand private ownership, and I understand state ownership, but I don't understand how the two get mixed up together."

Decades of state ownership and management had made people who had grown up under the Soviet system suspicious of anything else.

"Won't private ownership mean exploitation of the workers?" Russian journalists asked me in their interviews.

It might take decades of living in a free market system for the former Soviets to overcome their distrust and to understand that any exploitation under capitalism was far less onerous than that inflicted by the old Soviet system.

—Dean LeBaron

Despite the inherent difficulties, we pressed ahead with our deals, concentrating on LOMO, though not excluding others. We hammered out a working agreement, and a detailed, realistic strategy began to take shape.

As stated in the Soviet Companies Fund's joint-stock proposal, LOMO would produce "high-quality, aggressively priced light and surgical optical microscopes and flexible medical endoscopes" for sale in Soviet and Western markets.

The key, of course, was LOMO's ability to produce quality equipment at a low cost. Some consultants worried that the presentation of the products—the look, feel, and packaging—while not essential to their function, might not meet world standards and would hamper international marketing. What LOMO needed—and what the Soviet Companies Fund was looking to provide—was a strategic partner that would handle marketing and sales while supplying Western management, equipment, and hard currency.

The leading candidates were companies already producing microscopes and endoscopes. Their cash would be used to train personnel, purchase top-of-the-line equipment, and fund research and development. LOMO would be competing for a share of a world optical microscope market of around $800 million and an endoscope market of $1 billion. The forecasts were promising. At zero inflation, export sales were projected to grow from $3 million to $16.8 million between 1992 and 1995; domestic sales would increase from ₽80.9 million to ₽121.2 million in the same period. The majority of LOMO's operating costs would be in rubles, which made the projected hard-currency earnings forecasts even more attractive.

—Dean LeBaron



We were also negotiating with other enterprises that had impressed us, including the Kiev Aviation Production Association (KAPA) in Kiev, Ukraine, which had built the world's largest cargo plane and the craft that carried the Soviet space shuttle.

In the coming months, we would learn more about Ukraine's desire for independence. At the time of our first meetings, however, we were simply happy to learn that people in Kiev spoke the same language as those in Leningrad and Moscow.

During one of our meetings, KAPA's chief engineer, a pleasant man named Yuri Roik, received an important phone call. We didn't need to speak Russian to get that the guy on the other end of the line was being chewed out like a recruit by a drill sergeant. I knew then that Yuri Roik, whose products were exceptional, was an old-school Soviet manager.

—Dean LeBaron



KAPA proposed a collaboration with the Tupolev Design Bureau in Moscow, which had produced some of the greatest innovations in Soviet civil and military aviation, including the Blackjack and Backfire bombers. Together, they would produce, market, and support the Tu-334 passenger plane, which incorporated the latest technological advances and would offer airlines something comparable or superior to any existing or projected 100- to 140-seat aircraft.

The potential advantages were heavy domestic and foreign demand, low-cost production, and a completed prototype. But I was not impressed by the interior of the KAPA plant and recommended a coat of paint before our next visit with potential investors.

—**Dean LeBaron**



When we returned, I noticed that they had followed my suggestion, but when I touched a wall,

my hand came away green.

I hoped that this was not evidence of the typical Soviet last-minute rush to meet production quotas.

—**Dean LeBaron**

What we always found odd—sometimes amusing and at other times troubling—was the Soviets' inability to comprehend our business mentality. To them, we were either saviors, sharks, or fools to be fleeced. They were wrong on all counts, of course.

- Dean LeBaron

Decades of propaganda had conditioned them to believe that profit was immoral, private ownership of property was theft, and that business in general was criminal.

One young woman, a Russian real estate broker—an entirely new concept in Russia—told me that when she had told her mother about her new profession, the woman had exclaimed: "You help human beings find a home, and for that, you charge money?"

This prejudice was confirmed when the laws governing private enterprise were relaxed, and the *mafiyas* moved in to buy or steal state-produced goods that they sold at inflated prices, using extortion and violence.

With their society collapsing and no promise of a stable future, some Russians decided to grab whatever they could. In our case, it took the form of our Russian drivers insisting we—not the Russian government—pay them in American greenbacks.

—**Dean LeBaron**





Soon, Dean was informed that he had to pay the telephone bill in hard currency too. Next, it was domestic air travel, which, by all rights, should have been payable in rubles. But this extra money paled in comparison to the more precious commodity of time, which was getting shorter.

—**Donna Carpenter LeBaron**

I wasn't terribly bothered by the murky, fragile Soviet situation and was amused to learn that an old Russian saying summed up my thoughts:

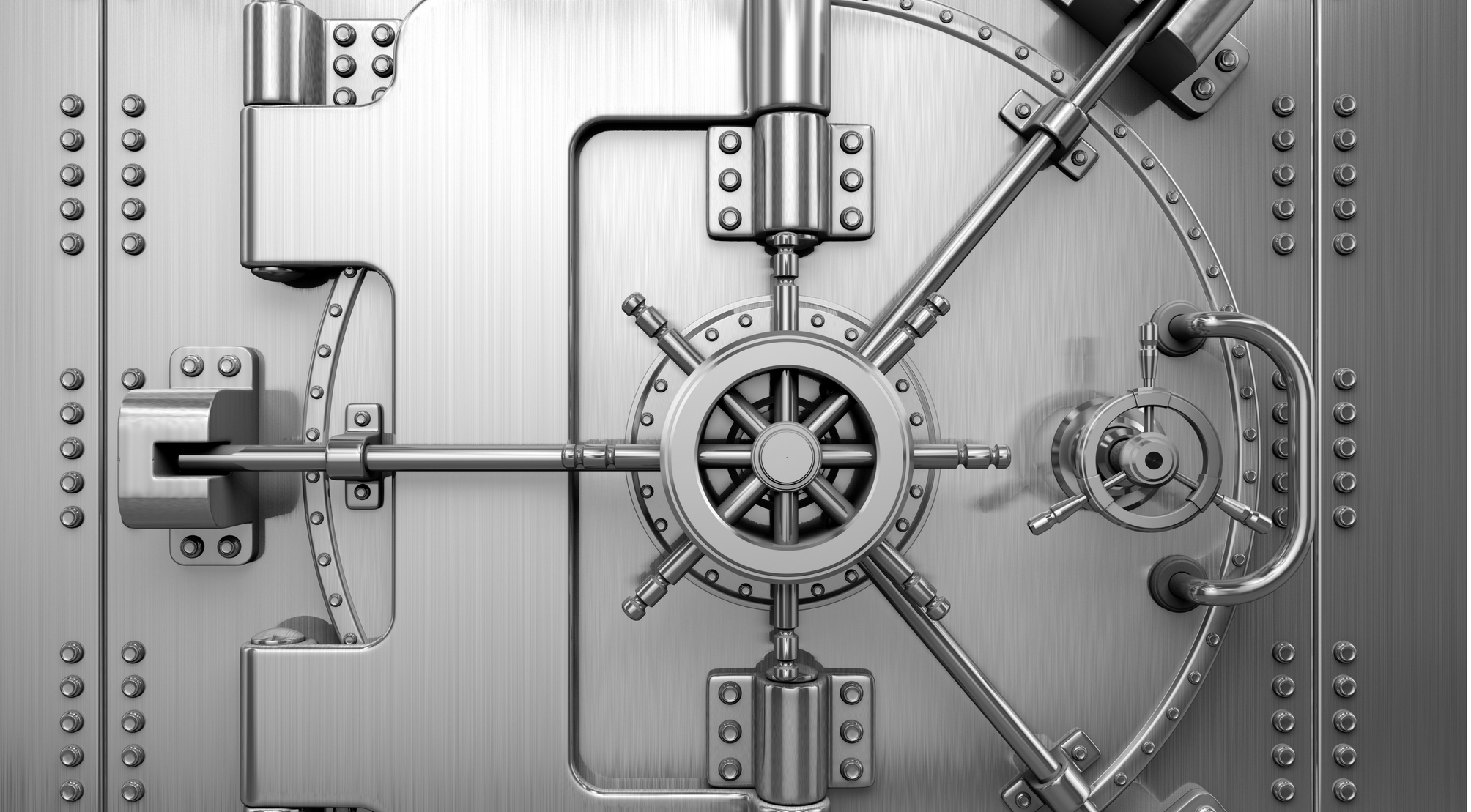
The fishing's best in troubled waters.

But I was worried that we would not yet be on solid ground when the troubled waters reached flood level.

Maddeningly, we were finding ourselves unable to rely on the Soviet government when it counted most. The gap between its words and its deeds was disturbing. The country wanted foreign capital, foreign investment, and foreign expertise, yet it offered precious little help in ways that would directly benefit its own desperate cause.

—Dean LeBaron





We could not even open a bank account—

at least, not one that would be recognized in the West. A $5 million deposit in a Soviet bank might or might not be available for us to draw against.

And communications were a nightmare. As we invited more and more investors to visit LOMO and other facilities, their itineraries read: 5:00 p.m., check into Grand Hotel Europe, Sea Glory Square, Leningrad (There is no direct dial; international operator assistance needed.).

After "needed," we did not add "but not generally available." Reaching an international operator was a feat in itself.

A less obstinate government would have made it easier for foreigners—whose dollars it needed—to do business in the country and potentially create millions, even billions, in profits. An enlightened government would have allowed—even assisted—the first hardy souls to undertake the Herculean task of facilitating this conversion.

The country stood to earn enormous profits if even part of its industry and research could be salvaged and brought to the international marketplace instead of being allowed to crumble with the rest of the economy. But the idea of large profits was overwhelming to the Soviets; indeed, any profit at all was distressing.

—**Dean LeBaron**

With astonishing speed, the country was slipping from its status as superpower to that of super-supplicant—a cause for jubilation on the part of some Westerners and bitter humiliation for the Soviets. Europe and the United States were sending relief packages. While the recipients were grateful, accepting charity was often difficult.

Every Soviet citizen felt the national shame, from street sweeper to intellectual.



"I grew up in this country," protested Grigory Yavlinsky, one of the country's leading young economists. "I think it's rich enough to take care of itself."

He spoke for everyone, but again, almost everyone was watching their standard of living plummet and was panicked that the country was headed for total collapse; they knew political turmoil was certain to follow.

—**Paul Rugo**



People like the dynamic, ambitious Yavlinsky—he later ran for president—wanted to use the country's resources wisely, but others, overcome by shame and inertia, asked why they, who were doing so badly, should make things easier for us, who were doing so well. There was more than a little childishness in this attitude and more than a smattering of resentment and hostility, from a people who in other respects—in their personal relationships, say, and their sacrifices in World War II—could be magnanimous. Not only Russians suffered from this faulty logic; many Western leaders and businesspeople also felt the same way.

—**Dean LeBaron**

Dean's bet was on the West.

—Donna Carpenter LeBaron



We thought that Western businesses and governments would jump at the chance to join with this formerly dangerous enemy to create a mutually beneficial economic partnership, if for no other reason than to ensure that it would not become dangerous again. Whether the Soviet Union would become a democratic society with a free market or a chaotic wreck—abandoned by those who could neither foresee the future nor forgive the past—was unclear.

With this in mind, I was baffled by the lack of common sense and basic humanity displayed by some of the executives I tried to interest in our project. Others considered their tour with Batterymarch a chance to gloat over the pitiful writhing of a once-formidable foe rather than an opportunity to witness history or make money.

Ironically, had they conducted business in the Soviet Union at that time, they would have been making history.

—Dean LeBaron



Dean's concern intensified in the spring of 1991, as the leaders of the Group of Seven (G-7)—Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States—prepared to assemble in London for their annual meeting.

—Donna Carpenter LeBaron

Graham Allison, dean of the Harvard Kennedy School, and I were in constant communication about the Grand Bargain. He wanted Batterymarch's ideas, which were now supported by some experience in converting Soviet military plants. I said it would work if willing Soviet companies had six things:

1. Sufficient cash to buy Western equipment;
2. Confidence that they could compete in world markets;
3. The necessary experience in finance, marketing, and organization;
4. The ability to adapt their business culture to Western modes;
5. The realization that while help would initially come from the West, they would ultimately have to stand on their own;
6. A firm commitment to reorganization, privatization, and a total withdrawal from government funding.

Some of the ideas Graham and I came up with found their way into a report for the G-7, which he was working on with economist Grigory Yavlinsky. This report was merely a blueprint for politically safe and economically sound relationships between the Soviet Union and the rest of the world, not a "giveaway . . . bailout, bribe, or blackmail," as the report made clear and as Graham emphasized to me.

"The central concept of the Grand Bargain was long-term, strategic interaction and support by the West on a step-by-step and strictly conditional basis, occurring if, and only if, the Soviet Union and its participating republics took practical and tangible steps toward democracy and a market economy."

The 52-page final draft, entitled *Windows of Opportunity: Joint Program for Western Cooperation in the Soviet Transformation to Democracy and the Market Economy*, which detailed the West's interest in the Soviet Union's future, opened with a quote:

There is a tide in the affairs of men, Which, taken at the flood, leads on to fortune. Omitted, all the voyage of their life is bound in shallows and in miseries.

"The time to start is now," the report concluded, and I could not have agreed more.

—Dean LeBaron

The weekend before the summit, Chancellor Helmut Kohl invited Gorbachev to a ski resort in Kitzbühel, Austria, to help him prepare for his London appearance. Fully aware of the supreme importance of the occasion, the two carefully reviewed Gorbachev's 47-page paper.

Then, the night before the meeting, Gorbachev sent a personal statement to the seven heads of state, acknowledging Batterymarch's role as an investment pioneer working to establish trust between Western investors and Soviet partners by combining "the capabilities of the best Soviet enterprises with the expertise of leading Western corporations in the areas of finance, technology, and marketing. . . ."

He added, "Models for such funds already exist, e.g., the October 1990 agreement with the Batterymarch Financial Management Company of Boston, USA, to establish a joint fund of up to one billion U.S. dollars for investment in Soviet enterprises."

Although that amount seemed ludicrous, it was a start.

I was gratified to learn that some of my ideas had helped shape Gorbachev's thinking

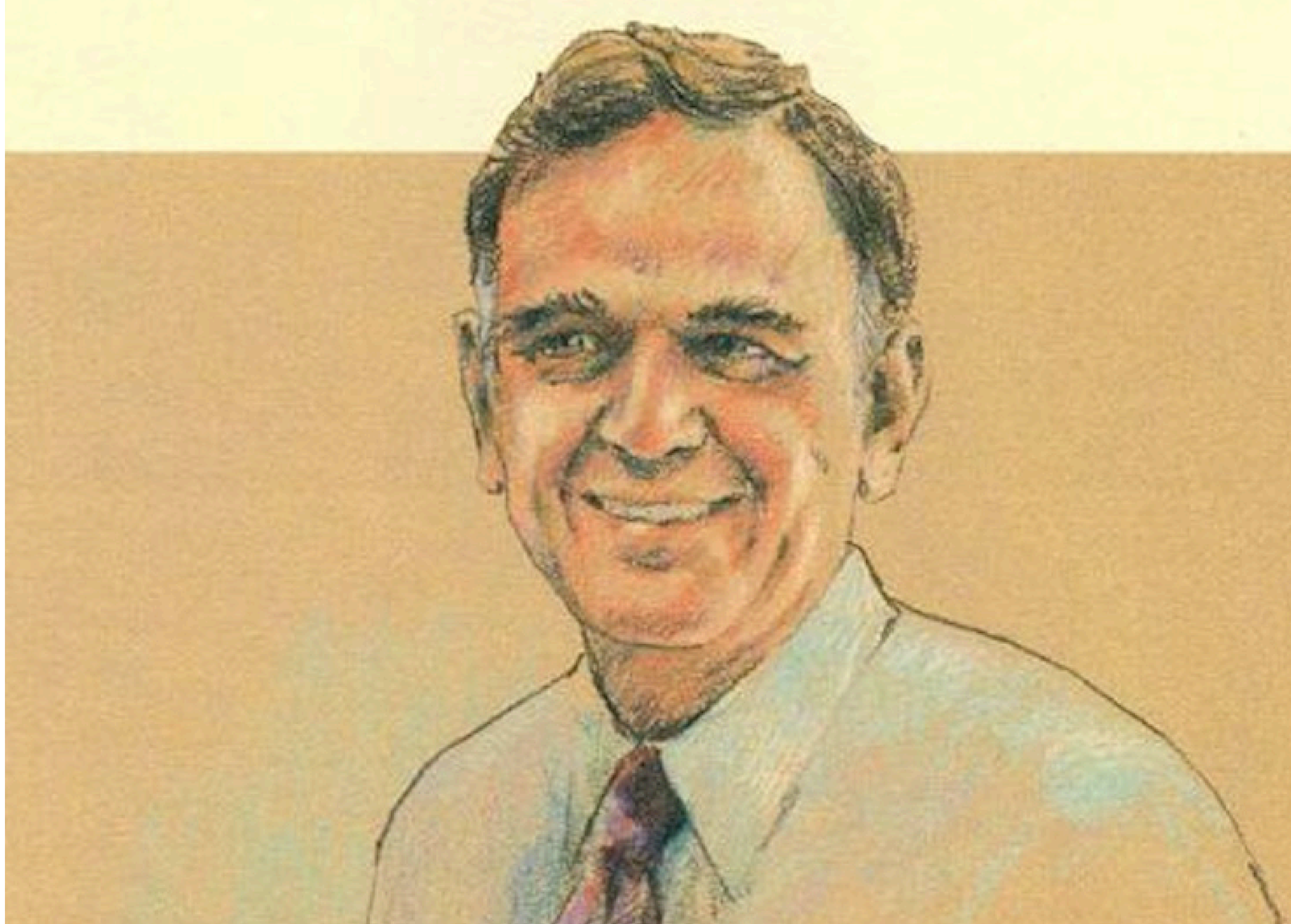
and even more pleased to hear Batterymarch's initiative receive public acclaim.

Of course, what really mattered were the results of this unique, dramatic summit. Would a Grand Bargain really be struck? Gorbachev's early message to the G-7, a forerunner of his London statement, began with a declaration that marked the end of 74 years of Soviet Communist rule.

The agenda for the future, he said flatly, was "recognition of the primacy of universal human values." He hailed the G-7 meeting as "a turning point in the efforts to bring about the Soviet Union's organic incorporation into the world economy." He wanted to "reform every aspect of Soviet society," which meant a multiparty political system, laws protecting human rights, demilitarization of the economy, and the individual republics' rights under a new constitution. Even more to the point for the G-7, he pledged a "radical shift toward a market economy . . . a de-statization and privatization of property . . . removv[al] of multiple bands and constraints . . . stimula[tion] of work effort and business activity . . . [and] support for entrepreneurship."

A Thomas Jefferson–Adam Smith collaboration could not have defined an emerging free market nation any better.

—**Dean LeBaron**



Gorbachev's dazzling picture of a reformed sinner eager to make the world a better place transformed the death of a failed socialist agenda into a dream of a high-tech, neo-capitalist utopia. As grandiose as his proposals seemed, they had real potential, and his London appearance might have been the pinnacle of hope for peace and international cooperation in our lifetime.

—Dean LeBaron



But he did not get the reaction he had hoped for. Perhaps it was because of the audience's cool reception that he limited his presentation to 25 minutes—scant time for a Russian speech. President George H. W. Bush was mainly interested in concluding the Strategic Arms Reduction Treaty while the Europeans were determined to prevent Iraq from obtaining nuclear weapons. To them, Gorbachev's vision of the future might have looked overly ambitious.

In any case, despite Gorbachev's ominous warning that failure to engage would produce a "Yugoslavia with nuclear weapons," Bush and Toshiki Kaifu—Japan's prime minister—shook their heads, and the others followed suit. No deal. The West missed a once-in-a-century opportunity, and I was haunted by Shakespeare's famous words before the meeting ended.

Though the press criticized Gorbachev's lack of coherence, the truth was that no amount of clarity or organization, even with his international reputation and Nobel Peace Prize, would have convinced the G-7. Offered only a vague promise of associate membership in the International Monetary Fund, he left London empty-handed. For Gorbachev, time was running out.

—Dean LeBaron

The night we arrived in Moscow, Sunday, August 18, 1991, we began with an enthusiastic overview. Our dinner guests at the dacha that evening included Vladimir Koblov, Anatoly Kiselev, and other American and Russian friends.

After dinner, we celebrated Aviation Day by watching fireworks outside. We were making plans to leave and return in September, but our timing could not have been worse.

At breakfast the next morning, Graham Allison told us that President Gorbachev was reported ill and had been replaced by his vice president. When we turned on the television, some channels were blank, others were playing music, and the government channel was running a film version of Swan Lake. Our Russian friends said this was a very bad sign.

Still, we had not seen or heard anything overtly disturbing. Feeling decidedly uneasy, we left the dacha. En route to downtown Moscow, we saw tanks guarding bridges as more roared by, their engines echoing like artillery. The air reeked of diesel fuel. Still more tanks patrolled the road, circling Moscow's electric utility plants. It looked to me like they were getting ready to move on the center of the city.

The situation seemed ominous, and far worse when we heard that a group of hard-liners opposed to the Union Treaty had kidnapped President and Mrs. Gorbachev and was attempting a *coup d'état*.

—Dean LeBaron



The atmosphere was charged with tension. The danger felt very real. Concerned for our safety, we canceled our appointments in downtown Moscow, and I told our pilot, Andy Sullivan, to fuel Batterymarch's Gulfstream II. There seemed to be enough military guards at the dacha to get us to the airport. I felt that as long as the airport remained open and the plane was gassed up and ready to go, we could wait, so we proceeded with our agenda.

Later that day, after a business meeting on the outskirts of the city, I arranged for everyone—including all of our Russian employees—to take advantage of whatever safety our dacha might provide. Perhaps I was remembering the evacuation of Saigon; in any case, I thought it would be better if everyone was in the same place if we needed to make a speedy departure. The alternative—chasing people all over the city—seemed too dangerous. With that accomplished, I felt relatively secure.

While some in our group remained apprehensive, others were excited to witness history in the making. But I was all too clear as to what kind of history was being made.

—Dean LeBaron



Strategic Moscow streets were blocked. Boris Yeltsin and his loyalists would remain barricaded for several days in defense of the White House, the seat of the Russian government. At one point, Yeltsin climbed aboard a tank to rally the crowd. It was his finest moment.

—Dean LeBaron



I believed that the G-7 and the Union Treaty were 100 percent responsible for the tanks in the streets. The West had "cheaped out."

Now, the real price would have to be paid.

Though our Soviet contacts were dismayed by what was happening, they didn't think it would affect them or our plans for a meet and greet that Monday evening at the dacha, followed by a banquet. My advisers from the State Commission on Military Industrial Production told me not to worry. They were right about the banquet; everything went as planned.

One of our guests was Vitaly Shlykov—former GRU (Main Intelligence Directorate) spymaster and founder of the Council for Foreign and Defense Policy—who had left the machine gun he was carrying at Moscow's White House and took a government car to our dacha.

Despite concerns about the country's political future, I was encouraged that the Russians' commitment to economic reform seemed to be holding firm.

The following day, we kept our appointments, though several times, we had to cross fields and speed the wrong way down one-way streets to escape angry crowds. I told the drivers not to stop for anyone. We were in Kremlin cars, and an anti-Kremlin feeling pervaded the air. Soviet drivers protecting American capitalists from Russian democrats made for a strange-bedfellows moment.

Later that day, we flew to Ukraine, where the feeling was that what went on in Russia was Russia's business. Only when we returned to Moscow did it become apparent that the junta was comically inept.

In the coup's critical opening hours, the usurpers did nothing to secure their position, failed to eliminate the leader, lost their moment and their momentum. Near the White House, we saw large crowds fraternizing with the soldiers, bringing them flowers, food, and vodka.

—Dean LeBaron









On Thursday, three days after the failed coup, we flew to Leningrad, now St. Petersburg again after a vote in June. The euphoria in the city reminded me of the heady feeling in the United States at the end of the Persian Gulf War. Here, day and night, people paraded through the streets with banners reading *Svoboda*, meaning freedom.

We met with Mayor Anatoly Sobchak and one of his key lieutenants, Vladimir Putin.

Sobchak, who hadn't slept for three days, gave me a drawing with the signatures of everyone remaining in Mariinsky Palace, the city's seat of government, where anti-coup stalwarts had congregated to defend the government offices there.

—Dean LeBaron





This memento was much like a Russian Declaration of Independence,

which, at the time he gave it to me, could still have been a dangerous document.

—Dean LeBaron





The mayor's message was so full of optimism that it was hard to imagine that the country had been on the verge of a takeover—possibly even civil war—only days before.

"The day after victory is the day reformers must get to work," he said.

St. Petersburg was about to create its free economic zone, and the government and state were eager for partnership and investment, which they knew was the only way to bring the Soviet Union into the world economy.

We all agreed.

Sobchak was impressed that we had remained in the city; our staying gave us an air of bravado and helped convince him of our sincerity. "We really need banks," he confided. "If you want to open one here, I'll see that you get a license."

Then, he said something that would prove chillingly prophetic. "We now have a six-week honeymoon. Watch what we do in the six weeks. If we make extensive reforms, constructive moves, that's good. If we don't and we waste this period, we're in for a bad time."

—Dean LeBaron



Back in St. Petersburg again after several months' absence, we were hopeful of establishing a new bank. But nothing happened.

The honeymoon Sobchak had predicted was over. After discussing the matter with former Bank of Boston president Larry Fish, who found it feasible, we proposed to open a bank if we could find a suitable building the city would provide us rent-free.

Given the funds our side had already invested, the contribution would have been more a sign of good faith than anything else. But Sobchak, succumbing to the mood of exploitation and get-it-while-you-can, demanded money for the building. The deal foundered.

Shakespeare's tide had not been taken at the flood. Everyone missed it—Gorbachev; the junta; Sobchak; the West; and Batterymarch.

After the failed coup, Gorbachev returned to a country that was falling apart around him. The real power shifted to Boris Yeltsin, now the president of Russia, the largest and strongest of the former Soviet Union's republics. Russia would survive, no matter what happened—survival was Russia's specialty.

But Batterymarch's star was hitched to the Soviet Union, not to Russia. Yeltsin was surrounded by impatient, young go-getters in their thirties. Although they would find a use for the type of men we had been dealing with—seasoned hands with a genuine zeal to reform, like Vladimir Koblov, our "godfather"—Yeltsin's people had another vision entirely.

The weakening of central authority also worried me. Despite its faults, some aspects of the command economy could have proven useful during the transition period. It's difficult to be democratic when the job is to allocate limited resources for future development rather than to satisfy immediate needs. The weakening of central authority damaged the reform process.

After the abortive coup, I found that I was occasionally meeting people I had met before, except now they were occupying different positions in government. At the business level, the coup seemed to have had no effect at all. Whatever party was in or out, the people leading individual enterprises for the most part remained in place. I continued to hope and to act.

—Dean LeBaron

An August 26 *New York Times* article—"Coup Barely Slowed These US Investors"—commended our persistence and quoted me as saying that everyone, on all sides of the conflict, was demonstrating that the coup would not affect the business arrangements under discussion. "The Soviet Union needed us before the coup and still needs us now."

That was true all right, except that the Soviet Union had exactly four months to live. The possibility of the vast empire's dissolution did not seem entirely bad, however. As Eastern Europeans had learned, the world you awakened to the first day after Communism looked remarkably like it had the day before.

LOMO would be making endoscopes no matter what flag flew over the Kremlin. In fact, the same *Times* article reported that Alexander Kuznetsov, LOMO's designer, was convinced that a successful coup would have inhibited economic reform, and many in the West agreed with him.

When *The Wall Street Journal* referred to our potential investments in the Soviet Union as a "mini gold rush," my contrarian instincts were troubled. Consistently operating on the principle to "find a crisis, then invest," I now began to feel a gnawing doubt, even though I surely had both a crisis and investors. But unless I was going to cut my losses and run, I had to show the world a brave face regardless of my misgivings, which were heightened by another fateful date: the one-year anniversary of my first, somewhat impulsive, exploratory trip to the USSR was approaching.

From the start, I had told myself, "It's got to work fast to work at all." And it hadn't.

A driven man in violation of his own principles, I pressed on, blinded by optimistic signs.

—**Dean LeBaron**





In late August 1991, Alexander Kuznetsov—the first Soviet businessman to make a presentation on behalf of his company to US stock analysts—arrived in Boston with a 25-page prospectus and a five-minute video.

—**Paul Rugo**

If analysts expected to see a pasty-faced Soviet *apparatchik*, they were in for a surprise. Kuznetsov, 40, looked more like a rising young actor than a bureaucrat. And the message he carried was that in the new and still-emerging Soviet landscape, opportunities for making money from companies like his were substantial.

—***The Boston Globe***

Irving J. Arons of Arthur D. Little was impressed enough to write to me immediately, offering to help Batterymarch find a strategic marketing partner for LOMO. Spirits rose again.

—**Dean LeBaron**

In September 1991, Dean went back to St. Petersburg.

—Donna Carpenter LeBaron



At a reception in the St. Petersburg City Council building in late September, our delegation was hailed for its "Ode to St. Petersburg," sung to the tune of "The Battle Hymn of the Republic":

Our eyes have seen the glory of St. Petersburg today,
Its free and open market is really here to stay,
With global corporate partners from the good old USA,
It's Battery-marching on!"

—**Paul Rugo**

The next day, I opened a meeting at LOMO by joking that LOMO's proposal might have been more widely circulated than Tolstoy's novels. More to the point, the meeting was frank, businesslike, and effective.

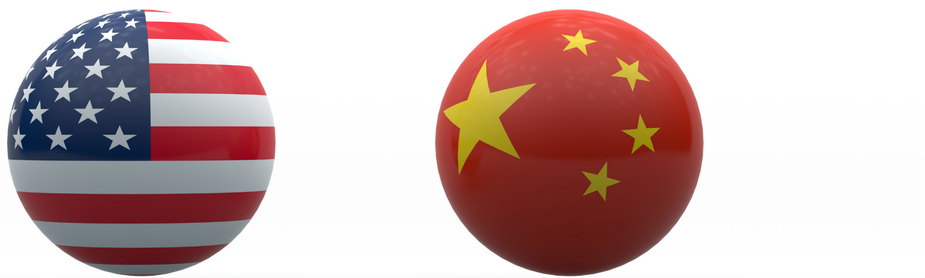
There were other good signs and real progress as well. In October, the Overseas Private Investment Corporation (OPIC)—moved by Gorbachev's reference to Batterymarch in his pre–G-7 message—agreed to extend its investment guarantee to Russia. OPIC, which described itself as a "self-sustaining US government agency whose purpose is to promote economic growth in developing countries by encouraging US private investment in those nations," proposed to insure Batterymarch up to $100 million against inconvertibility, expropriation, and political violence.

Encouraging, yes, but his words did not allay the dread I had been feeling ever since the G-7 talks had left Gorbachev twisting in the wind. The timing could not have been worse. While the end of the Cold War presented the West with a unique opportunity to ensure peace by expanding markets, due to the worldwide recession, the money was simply not there.

—**Dean LeBaron**

The recession also prevented US CEOs from making the snap decisions only they could make. Those skittish about traveling during the Persian Gulf War were interested in Russia now, but not through us.

—**Dean LeBaron**



I spoke with Harry B. Schacht, the chairman and CEO of Cummins Inc., but he was afraid he would be getting into the pond with another alligator.

Cummins eventually allied with KAMAZ—the big Soviet engine and truck manufacturer—a deal made in the back seat of a limo with not much money involved, but now, the chairman had an option that would keep his competitors out. At least he acted.

Only chief executives could make quick decisions; if they weren't quick, junior investment people and lawyers would enter. Protective of their careers, these people always moved slowly; lawyers were especially famous for complicating matters, as they insisted on unnecessary precautions.

Since it was impossible to offer protection and guarantees in the turmoil of post-coup Russia, they tried to exact them from me.

First, they insisted that I reimburse them—out of my own pocket—for any lost investment; then, they demanded I supervise the activities of the Soviet Companies Fund.

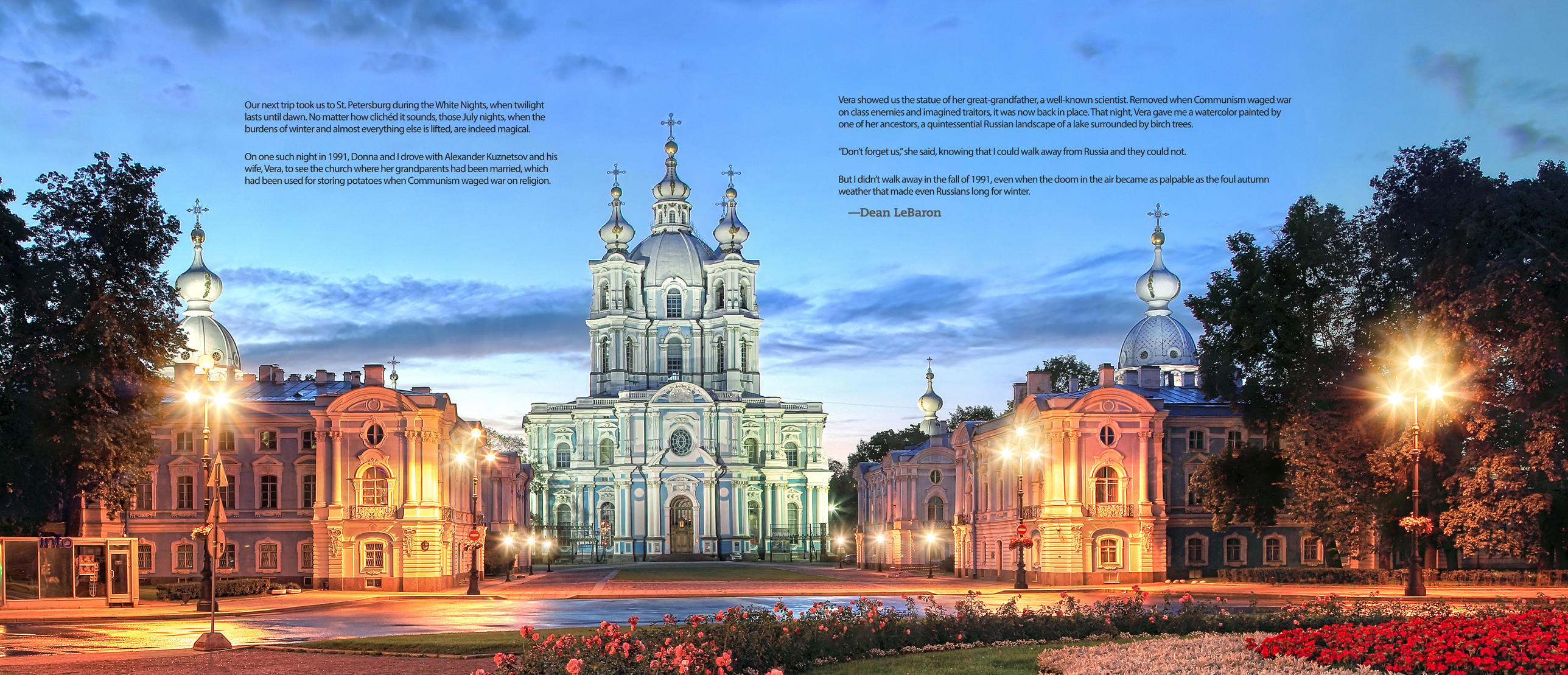
Responsible for billions of dollars belonging to the same people in other arenas, I foolishly agreed. Why? No doubt my enchantment with Russia played an inappropriate part: vast yet humble Russia, where nothing seemed to work, but people seemed larger than life, and the usual rules didn't seem to apply, where you felt somehow emotionally enriched despite—or perhaps because of—the political and economic mess you and your friends must endure.

I was hardly the first foreigner to have been captivated by the Russians

or to be flattered by their intense personal attention to Westerners. In any case, I felt that strong bonds of loyalty, trust, and affection had developed between many Russians and myself, and those personal feelings clearly influenced my business decisions.

—**Dean LeBaron**





Our next trip took us to St. Petersburg during the White Nights, when twilight lasts until dawn. No matter how clichéd it sounds, those July nights, when the burdens of winter and almost everything else is lifted, are indeed magical.

On one such night in 1991, Donna and I drove with Alexander Kuznetsov and his wife, Vera, to see the church where her grandparents had been married, which had been used for storing potatoes when Communism waged war on religion.

Vera showed us the statue of her great-grandfather, a well-known scientist. Removed when Communism waged war on class enemies and imagined traitors, it was now back in place. That night, Vera gave me a watercolor painted by one of her ancestors, a quintessential Russian landscape of a lake surrounded by birch trees.

"Don't forget us," she said, knowing that I could walk away from Russia and they could not.

But I didn't walk away in the fall of 1991, even when the doom in the air became as palpable as the foul autumn weather that made even Russians long for winter.

—Dean LeBaron



This was not the first time that Russia had more than one government, which, in that country, always meant a period of crisis. Three governments were operating in Moscow by early 1992: the Soviet government, the government of the Russian Federation, and the municipal government. Three governments, yet no clear authority.

Predictably, the void filled quickly as people scrambled for whatever they could, tomorrow be damned. The pressure on us for "gifts" mounted. Until now, the officials we had dealt with had asked—some discreetly, others directly—for goods, like jeans and cowboy boots, from the United States.

We interpreted these as acceptable tokens, although I would have preferred not to be asked at all. Now, the requests were for televisions and other electronic devices.

If jeans and boots could be considered souvenirs, requests for electronics were unmistakable attempts at bribery.

Unfortunately, it did not stop there. Since Russians were unwilling to accept their own currency, we had to pay more and more of our previously agreed upon ruble expenses in dollars. Everything involving Russian bureaucracy grew more and more suspicious.

Finally, my friend and lawyer Paul Rugo, the onsite project manager in Moscow, looked at me and asked, "What are we doing? We've always run our lives like an open book. And here we are, expected to be running around with bags of cash?"

—**Dean LeBaron**

As the new year and new era began, representatives of the Russian government insisted that our old agreement was no longer valid, but $100,000 would alleviate the problem.

Maybe it would have, but it was impossible at the time to determine who was truly representing the new Russian government. These guys could easily be opportunists out to fleece the capitalists, especially since they hinted darkly about money we owed for back rent.

Clearly, lots of money could disappear into this black hole without a trace, and our situation would remain unchanged. I refused to pay until things were clarified.

To make matters worse, complications arose with LOMO. We had managed to secure Zeiss, the highly respected German optical firm, as its strategic partner. When it was time to finalize the deal, however, we learned that endoscopes—one of LOMO's products capable of competing successfully in the West—would not be part of the package.



Behind our backs, they had negotiated with the Japanese optical firm Olympus Corp. to market the endoscopes. Since LOMO was the linchpin of the deal, this betrayal was a deal-breaker. Over time, the details of LOMO's double-dealing would emerge, but back then, the picture remained ambiguous.

—Dean LeBaron

I returned to St. Petersburg in February 1992, still hoping to salvage something from the wreckage of my dream.

A junior staffer in Moscow, breathless with anger and confusion, called me at my hotel. "We've been locked out of the dacha," he stammered.

"There's a huge padlock on the door."

The word *padlock* conjured up a replay of the whole experience inside my mind—from my initial vision of profitable cooperation replacing decades of enmity, the fateful year when hopes soared and Communism fell, and now, the latest stab in Batterymarch's back.

Of course, dollars could have opened the little padlock, but my mouth was bitter with the taste of betrayal and defeat. There was another taste too—of wisdom that comes too late; that's the taste of Russia I will remember.



"Get the staff together," I said. "Get on a plane and leave this country—now."

After spending a year and a half, some $5 million, and countless more in emotional investment, the tragicomedy was over; I'd brought the curtain down. My primary feeling was relief.

—Dean LeBaron

I often reminisce about the events of late 1991 and early 1992 and wonder if my decision to leave would stand up both to time and scrutiny.

The restoration of Russian pride and nationalism began in 1995, and the wounded bear would remember that the West had not fulfilled its promise of aid. The election that brought Vladimir Putin to power in 1999 was a call to reinstate central control.

Rather than revert to Communism, Putin's nationalist party monopolized power and blended capitalism, social freedom, and authoritarian rule—easy economics steered by an iron political hand.

Within this "tight politics and easy economics" policy, the ruling elite, in collusion with the government, enriched themselves at the expense of privatization. Ironically, this made future investment prospects in Russia attractive.

But I knew that investing in countries undergoing structural change required direct, personal relationships and a major commitment of time, resources, and energy. I had made those investments without success, and now it was time to move on.

—Dean LeBaron