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Observations of a Latvian Practitioner

*Valentin Blueger**

After having heard so many distinctive speakers, I thought of what might be of interest more specifically on a few issues. You can certainly understand that there is a lot in common among all of the countries of Eastern Europe right now. There are a few topics that were mentioned in every speech. There is privatization, the monopolization of the economy, and the transformation of the system into a free market society.

In the Soviet Union, there has been a very contradictory process going on within the last six months. Everything said before in terms of changing the system appears to be nothing more than cosmetics or light painting on the existing system, and it makes it very hard now to understand where are we really going, or where shall we go in the near future.

Everyone from the panel today made it clear that the countries they represent are on a very precise, strong, and firm way towards converting to the market economy. We are always mentioning Poland as an example because they were on the frontier of all these changes. It is also obvious that they have taken steps towards making the capitalist system work. I would not say they are capitalists, but that all of our countries have in common a need to go from that nonworking, nondemocratic, and inefficient system to a modern, working, efficient, and normal system like that you have lived under all your lives.

We do not even want to use the words capitalistic or socialistic that the governments of our countries, particularly the Soviet Union, are reluctant to use, although that is what is taking place in Eastern Europe. It appears that now what we have had in the Soviet Union was some sort of attempt to make small changes that fundamentally would not affect the entire system. We are now kind of reaping the results of this uncertain policy within the last few years.

In addition to what Mr. Osakwe said very accurately in his assessment of the processes in the Soviet Union, I must mention a few very important things that should be considered while thinking of going to the Soviet Union. We used to say, as I said at Vanderbilt last year, that going to the Soviet Union is not only taking a risk, it is really a gamble.

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Well, right now the word gamble would not be proper. If you are thinking, as Mr. Sumann was saying in his speech, you would not expect fast returns on your investment in Eastern Europe; I am about to say you would not expect it at all from the Soviet Union now. The situation is so uncertain, and so unstable, every day the developments show us that it might be a collapsing system.

One very important thing is that there is no more Soviet Union as it was a few years ago. We do not have federal laws. Mr. Osakwe is also counsel to the Federal Republic of Russia, but not to the Soviet Union. We do not have federal laws that could be applicable in the territory of the entire country. We have the war of laws. In Latvia, for instance, no Soviet laws are recognized anymore, and none of them can be applied unless they were approved by the local government.

We do not have Soviet-American or Soviet-German joint ventures anymore. We have Latvian-American joint ventures, we have Georgian-American joint ventures, and we have Lithuanian-American joint ventures. We no longer have any co-ops like they have in Moscow, because we have a new law saying you have to determine what kind of ownership you will have. Either it is a joint stock company, a company with limited liability, or a state-owned company. All the co-ops we had are supposed to be transformed into corporations of a certain type of ownership by July 1, 1991. All the laws that were passed by the Federal Government are not applied in Latvia. So in many cases, it causes a terrible problem, a huge problem for those enterprises. When you go to the border and face customs, some of the customs will apply federal laws, and some of the customs will apply local laws. It causes a real mess in determining what type of law you should be guided by in developing a contract or transaction. So this is another very, very big problem in dealing right now with the Soviet Union.

Of course, the third part, one in my mind right now, is the absence of the Federal Government that would be able to create some new opportunities. The latest developments, the most recent steps undertaken by the government, proved the knowledge and education of the government, starting with the Prime Minister. What I am saying is that the jokes I have heard in this country about Dan Quayle are nothing compared to what our people feel about our government. Johnny Carson is a kid compared to what we have in our country, openly, in every magazine, seeing the face of our Prime Minister. You are familiar with his last statement when he accused the foreign banks of trying to collect and accumulate big bills, one hundred fifty ruble bills and then go buy out the Soviet Union. That was ridiculous. So every step they take, they have no trust from the people, they have no trust from the enterprises.

It is a very strange situation when people, like all of the enterprises, are on hold. They are waiting every day for some big, huge, massive changes, which might happen, in fact it might happen this Sunday when they have this referendum. This is a huge fight between the federal government and the others.

So, basically, what we have now, we have fifteen republics, six are more progressive, the other nine are less progressive, but they are all moving one way. And we have the Federal Government in Moscow, moving in the other way. We are just looking for the point where they will all meet. We are hoping to have some kind of solution that can be reached. Either the Federal Government will be toppled or all the other republics will be vigorously transformed.

This is my second attempt to address you today. Well, I would say that after the wonderful presentation made by Richard Dean, from the point of view of an American lawyer, I would share some of the pessimistic notes made by him.

Well, I do not want to go specifically into a really detailed update on what is going on right now in the Soviet Union, from a political, economic, and cultural point of view. I just want to present a Latvian lawyer's point of view on the events happening in our country, the recent developments, and their effect on investment and trade opportunities.

What I am saying in emphasizing my being a Latvian lawyer is how you should define the whole process in the Soviet Union. There are almost no Soviet lawyers at all. There would be Russian, Georgian, Lithuanian, or Latvian lawyers. In recent reports on television here in America, I have heard people saying that the name of the Union of Soviet Socialist Republics is about to be changed because nine out of fifteen republics have already abolished the word Socialist and Soviet. That reflects the entire process in the country and the receptiveness for the foreign investment in businesses.

People are looking for deals. Whatever kinds of deals, trade, buy something; sell something, they are looking for profit. Even a year or two ago that was something for which there was a criminal penalty. People are looking for profit, and it is really hard to get any deals closed because you have to go through three different layers: local, state, and federal authorities.

When you go to Moscow and you say, well, I am about to close a deal, but the Latvians are completely against it. They would say, "Where is the place I should put my signature?" Now, the Latvians, we are the same way saying that we get everything but the Federal approval. We say, "We do not care about federal approval, you have got it." So that is the way we work it, and that is the mess that is a war of

laws. It is pretty remarkable nowadays in terms of doing business. Of course, it is very hard to deal because you never know where to go and how to deal.

In general, it is really very hard to do now, because it is absolutely unpredictable, and it is so unstable that one day you get federal approval for doing something, and the next day you have the state legislature passing something absolutely contrary to what they did before, and the deal you have structured has already completely failed. We really do not have much investment coming in terms of what I see from having gained an experience in the United States. We basically now have people coming really for short-term deals, selling something, or buying something, or, as it was before and really almost impossible to get now, accumulating rubles and trying to buy something for roubles to get it out of the country. It is almost impossible to get something out of the country now, whether it is important for the country or not. Everybody is still saying no. That is because of the general policies.

But what should be mentioned today is that there really are possibilities for making investments, for doing business, because there are trade opportunities. I had not been in Riga for a year when I returned from the United States. When I got back home, I did not recognize the city because we probably had more currency stores than ruble ones. And all of these currency stores were, of course, filled with all kinds of commodities and everything. The dollar trade, the hard currency trade, was something basic that was absent even a year ago in terms of doing business.

So, what people are doing is opening dollar stores, and even with small margins of profit, they are operating in dollars. If you want to understand somehow the market of your product, you can already approach very small, but pretty stable, markets because the only thing you can legally and normally do now is organize some trade, and trade in stores where you immediately can get profits in dollars. That was possible because of the Latvian legislature, compared to the federal legislature, which passed a bill allowing every person and every company to carry dollars. You can now exchange rubles for dollars at the market rate, or in other words, at the normal rate. This helps in many cases to solve this huge problem. In Moscow, even now, it is a criminal felony to make an exchange of rubles into dollars. We have a flow of dollars into our republic.

As to the attitude of the federal government in terms of doing business with the Western foreign investors, it also should be mentioned that they kind of let you go on your own. This also creates a certain amount of chaos, because each state, each area, each region just interprets the law

and creates its own foreign policy. This is unacceptable, because there are a lot of collisions and conflicts.

In Latvia, for example, they are working very hard on taxation right now, as Mr. Newcity mentioned here. I was on the panel, actually it was a committee, on the new tax law. They created so many different acts to determine the whole package of tax law in the country, in the state. When we finally considered what the percentage was of putting all of these taxes together, it was something like 102 percent. That is how it actually works.

We talked about the percent of taxation for currency operations. What they want to do is just get a bigger piece of the cake. And then when you finally figure out what the enterprise that is producing this profit is getting, it is something like five percent. That is the way they are encouraging the growth of business.

But, in general, what we do hope right now, and I think the most realistic hope we have, is that finally, regardless of the results of the referendum on Sunday, things have gone too far in many areas of the Soviet Union. It is going to collapse. Whether it will start with Baltics or with Georgia, some of the states will go out of the Union. It will be the beginning, as Professor Kavass said today, of brand-new times for investment and business. It will be probably a lot of chaotic times in terms of how it is will happen, but hopefully, that is where it is moving slowly right now.

On one hand, you should be pretty pessimistic having heard Mr. Dean's update on recent developments in the Soviet Union, which I completely share. But on the other hand, it is also clear that it will not last long in the state it is now. We are about to be in the new age of business opportunity with the new state or country that will not be called the Union of Soviet Socialist Republics.

