

GLOBAL RETAILERS AND CORRUPTION RISKS

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Let's be honest. Was anyone really surprised by the recent focus on anti-corruption compliance for global retail operations? A number of us in the FCPA cottage industry have been commenting on the risks. It does not take a rocket scientist to figure out why and how this came about. The risks are very clear and one-by-one we will be hearing from the major global retailers about their ongoing anti-corruption efforts or audits.

Global retailers are expanding into markets where consumer demand is growing. The usual suspects lead the pack – China, Russia, and India. In the next ten years, the largest growth in consumer spending is going to occur in Russia. Retailers are responding to that demand and expanding into these high-risk countries where the payoffs are going to be big. The corruption risks, as we know, are significant. Proactive compliance programs are a must for retailers.

The corruption risks for global retailers boil down to several significant issues:

- 1. Retail space around the globe requires real estate.** Retailers need retail space. This requires a global effort to identify, acquire and/or lease, large amounts of real estate. Retailers face significant challenges in each local market, requiring sensitivity to corruption risks. Training and communication are even more important in this context. The real estate market in every country is heavily-regulated, requiring significant interactions with local officials, and creating lots of opportunities for graft.
- 2. Interactions with foreign regulatory agencies.** Retailers face a number of regulatory issues in every country – health, safety, and environmental concerns are the most obvious. Each retail operation will be inspected in some form or another by local regulatory agencies. Even operating the business itself will require a license to conduct business, which in high corruption countries is an opportunity for bribe-taking. Security in operations usually requires an effective relationship with local law enforcement. As everyone knows, local police can be at the forefront of local corruption.
- 3. Large number of employees to conduct retail business.** Retailers need a large number of employees. Finding employees may be difficult and require local assistance. Regulation of labor conditions occurs in every market. Controls for these interactions need to be implemented.
- 4. Shipping and transportation of large volume of consumer products.** Retailers depend on volume sales. They depend on rapid movement and delivery of products for sale. The Panalpina case, and many others, show that customs agencies in many countries are high-risk for corruption. In the consumer product arena, it is easy to imagine how customs can become a critical point for retailers to avoid paying bribes.
- 5. Competitive response by local or regional retailers.** One of the most significant risks is not one that is usually on everyone's list. Global retailers usually face a backlash from

established competitors. The local or regional competitors already have dealt with the issues outlined above and may be paying bribes to reach accommodations. They will respond in the competitive marketplace with everything they have to derail the entry of global retailers. This means they know how to ensure that pressure points are pushed. Local police may become more aggressive in demanding security payments. Local regulators may not cut corners but will become sticklers for compliance. The local competitor will press every lever it has to challenge the global retailer. Corruption is just one of several important tools.