

Community Relations

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Jasper Ian was the new country communications and community relations manager for Azoic Corp (NYSE: AZIC). He had worked for the last three months out of the company's local headquarters in Ulaanbaatar, Mongolia while Azoic completed construction of a \$10 billion copper and gold mine in the Gobi desert. The mine was situated far from population centers, but it was looked upon as an important industry in Mongolia, a land of few people and less business. The mine was forecasted to produce 450,000 tons of copper and 10 tons of gold annually by 2020. It employed 18,000 people already. Thus far, Azoic's investment in developing the property had exceeded \$2.5 billion.

The government of Mongolia had signed an "Investment Agreement" that called for the nation to hold a 34 percent stake in the mine until 2040, 30 years from now, when the country would be permitted to increase its stake to 50 percent. However, a group of 20 legislators in Mongolia's parliament petitioned for an earlier date when the country could raise its stakes in the mine to half of the equity and the group wanted to put a "sliding scale royalty" on the project based on the world price of copper and gold. The group threatened to stop the project until new negotiations were done.

Azoic was adamant that it would not reopen negotiations, but Mongolia's mining minister was equally determined that a financial adjustment be made. The mining minister and prime minister both belonged to the majority party, The Mongolian People's Party, which was in a coalition with a smaller but forceful Democratic Party. The Mongolian People's Party was in electoral trouble, and general elections were six months away. Azoic's fear was that the prime minister would cave to the mining minister and 20 legislators and re-start negotiations with a threat to block the project.

Ian was certain the move to increase the government's share sooner was a political gambit to build popular support. No one wanted to see the mine project stalled because once the mine was operating, it would represent more than 25 percent of Mongolia's GDP. If Azoic were to leave the country, it would be a catastrophe for economic development of Mongolia. However, the publisher of the *Mongolia Business Daily* was firmly in the camp of the 20 legislators and mining minister and was calling for local control over Mongolian resources in strident editorials that Ian had translated daily and circulated internally to Azoic's in-country managers.

Azoic's country manager in charge of the Gobi mine, was worried about delays in mine construction should the 20 legislators and mining minister succeed. He had personally lobbied 10 of them and the mining minister without success. Their

views, echoed in the *Mongolia Business Daily*, were that Mongolian minerals belong to Mongolians and not Westerners.

The country manager called Ian to his office.

“It will kill us if they stop construction. We need a full-court press to turn them around.”

“We’ve built five schools. They know we care.”

“What if we target the 20 districts?”

“We’re brushing against the FCPA (Foreign Corrupt Practices Act).”

“What if we give money to a third party with instructions to spend it in the 20 districts?”

“I’d like a legal opinion before we proceed.”

“Sound out the publisher of the *Business Daily* to see if he will cooperate.”

Ian was concerned. If the publisher rejected the offer, he could accuse Azoic of trying to bribe him. If the publisher accepted the offer and directed monies to legislators and the mining minister, Azoic would run afoul of the FCPA. On the other hand, if the publisher pocketed the money, it would be interpreted as a bribe. Ian knew it was customary to pay journalists to write stories in China and Mongolia. A monetary donation to the publisher could be construed as “pay for play.” Azoic’s local counsel said as long as money went to a foundation and not to individuals, it would pass FCPA strictures.

The publisher was polite. He heard Ian’s proposal to establish a foundation under the publisher’s name to complete projects for the people of Mongolia. Ian suggested gently that some funds might be spent in the districts of the 20 legislators who opposed Azoic. The publisher through an interpreter provided stipulations. The publisher said \$7 million annually would show good-faith to Mongolians and citizens of Ulaanbaatar. The publisher would use the money for education and health projects in Ulaanbaatar and the 20 legislators’ districts. Ian reported back to the country manager who was unhappy.

“The bastard is screwing us to the wall.” Counter with \$3 million.”

Ian met with the publisher again and informed him that Azoic could afford only \$3 million annually. The publisher countered with a request for \$5 million and assured Ian that the *Business Daily* would change its tone, if it received the money because it would know Azoic was acting for the good of the Mongolian people. Ian reported the modified request to the country manager.

“I’m not sure how we can expense that. If we must, OK. Let me figure out where to get it.”

The country manager drew \$5 million from several accounts under the line item of “community relations.” Ian and Azoic’s local counsel, meanwhile, met with the publisher to draft an agreement. Its language stipulated the creation of a foundation for the advancement of Mongolia, that \$5 million annually be used on behalf of Mongolian citizens, that no funds would go directly to legislators or to the publisher or the mining minister, that projects would be evaluated by a panel of local Mongolians and that payments would be in tugrik based on an exchange rate of .00078 to the dollar. The publisher accepted the conditions with few modifications and payments to the foundation began.

Editorials in the *Business Daily* became neutral at once toward Azoic and in a matter of weeks the 20 legislators and mining minister dropped the re-negotiation proposal. Ian inquired regularly how funds were being spent, but received no answer, nor did the publisher report on his own to Azoic. None of the proposed panel of local citizens was identified. In fact, Ian was sure there was no panel.

After a year, the publisher contacted Ian again and asked that the contribution to the foundation be increased, now that the mine was underway. The publisher suggested \$6 million annually and assured Ian that positive press for Azoic would continue.

The country manager was unhappy and accused the publisher of extorting funds. Ian said it was time to ask for an accounting from the publisher’s foundation, and a condition of more funding should be a detailed distribution report on a monthly basis that would be audited annually. The country manager agreed and reluctantly increased the amount to \$6 million.

When Ian told the publisher that the new funding level was conditioned on reporting and a yearly audit, the publisher was uncomfortable. He inquired if Azoic did not trust him to do the right things. He said during the first year, his foundation had helped thousands of Mongolians to achieve better health and nutrition, proper educations and reduction of poverty. He would be happy to take Ian to some of the projects to see for himself. However, he did not have staff to do the detailed accounting Azoic wanted, and it was a burden on the foundation that was already strained to meet growing needs.

Ian was well aware that the publisher could be pocketing the funds and paying off the legislators and mining minister, that the publisher could show him “Potemkin village” projects and that little or no money was reaching Mongolian citizens. However, if he insisted on the reporting and audit, it might create a rupture and return of the theme of “Mongolian minerals for Mongolians.” On the other hand, if he could help the publisher save face, he might be able to reach a protocol that

would satisfy the publisher and Azoic. Ian suggested that Azoic wanted to publicize the foundation's projects to show the citizenship of the publisher and to set the publisher apart as a model Mongolian and a business person to emulate as the country developed. The publisher, however, demurred. He would rather remain in the shadows where he was most comfortable and where he could deal with the needs of Mongolia better. Perhaps, it was best, the publisher said, to keep funding at \$5 million annually and to dispense with the reporting and audit. Ian wasn't sure how to respond.

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Questions for discussion:

1. How should Ian respond?
2. Should Azoic have given the funds in the first place without insisting on regular reporting and an audit?
3. Should Azoic have used the publisher as the distribution point for the funds?
4. How should Azoic proceed from this point on?
5. What would you do?