Universal Corporation Business Overview: Presentation to the University of Richmond and Questions with Preston Wigner, General Counsel

Christopher L. Rathlev

Follow this and additional works at: http://scholarship.richmond.edu/global
Part of the Business Organizations Law Commons, and the Comparative and Foreign Law Commons

Recommended Citation
Available at: http://scholarship.richmond.edu/global/vol7/iss1/6

This Article is brought to you for free and open access by the Law School Journals at UR Scholarship Repository. It has been accepted for inclusion in Richmond Journal of Global Law & Business by an authorized administrator of UR Scholarship Repository. For more information, please contact scholarshiprepository@richmond.edu.
George C. Freeman, III presented a business overview of Universal Corporation at the University of Richmond on September 5, 2007. Prior to joining Universal Leaf Tobacco Company in 1997, Mr. Freeman served as a law clerk for the Honorable Richard S. Arnold, Circuit Judge, United States Court of Appeals for the Eighth Circuit, and for the Honorable Lewis F. Powell, Jr., Associate Justice of the United States Supreme Court. He also spent time as an associate with Hunton & Williams, an international law firm. Mr. Freeman was elected General Counsel and Secretary of Universal Corporation in February 2001 and Vice President in November 2005. On December 12, 2006, the Board of Directors of Universal Corporation elected him to succeed Mr. Allen B. King as President of Universal Corporation.

Universal Corporation, founded in 1918, is headquartered in Richmond, Virginia. Universal is one of the world’s leading leaf tobacco merchants and processors, based on volumes handled by its subsidiaries and affiliates. Universal conducts business in more than thirty-five countries and employs more than 25,000 permanent and seasonal employees.

Universal’s business includes selecting, buying, shipping, processing, packing, storing, and financing leaf tobacco for sale to manufacturers of tobacco products throughout the world. Universal does not manufacture cigarettes or other consumer products. Rather, the company’s revenues are derived from sales of processed tobacco and from fees and commissions for specific services.

There is a need for processing facilities located near local tobacco farmers. Universal is a major proponent of utilizing regional managers, located in various countries, to oversee the tobacco farming. In the past, there was a trend to sell tobacco primarily at auction. However, this system has been replaced by a contractual system, where Universal contracts with farmers for their crop before the tobacco is grown.

In the former auction market system, farmers would bring tobacco to the market in bundles of hundreds of pounds. Leaf merchants would decide to buy the crop at a specific price and would bid on that price. For example, under the auction system, a buyer from the United States and a seller from Zimbabwe would have an indication as to the
grade of the tobacco. The buyer would then move from bale to bale to determine the grade of the tobacco prior to bidding. The advantage of buying the tobacco at an auction-style market was that buyers did not need to pre-finance the crop; they simply purchased what they wanted at the auction. Yet buyers did not have the ability to provide any input to farmers and lacked control over the amount, quality, and grade of the product.

However, under the new contract system, a farmer sells his entire crop to a company such as Universal prior to growing the tobacco. Under such a system, Universal has much greater input into the methodology of how the crop is grown. As a result, Universal finances the crops, provides a barn to cure the tobacco, and then assists the farmers in crop production. Universal contracts with farmers and, in turn, the farmers pay Universal with the proceeds from the sale of the tobacco. However, Universal is not without risk under such an agreement. If the crop yield is lower during a given harvest, Universal has already pre-purchased the crop and committed significant monies towards the harvest.

Following Mr. Freeman’s presentation, Preston Wigner, General Counsel for Universal Corporation, further discussed the obstacles faced by companies similarly situated to Universal in a growing global market with third-year University of Richmond law student Chris Rathlev:

**Question:** As the global market continues to expand, how important are corporate formalities becoming in countries not usually accustomed to them?

**Answer:** Corporate formalities are largely followed all around the world, so where I see this occur most often is on the commercial side. We have had arrangements with sales agents, for example, that have been in place for 20 years and they all began on a handshake. Or we have had supply agreements with major customers that began with a handshake. They trusted us to provide them with the product they needed and we trusted them to accept and pay for the product we delivered. Over time, the informal nature of commercial dealings have given way to a more formal business climate, due to some degree to the emphasis placed on internal controls. For example, in situations with U.S.-based companies in which we could have operated with a handshake or gentlemen’s agreement, we now have to have written agreements because we need documentation to support expenditures tied to the deal and the buyer needs documentation to support the creation of a payment request. All those functions are now reviewed by auditors in connection with annual internal control attestation reporting, so our old-fashioned way of doing business is relenting to a U.S.-based system of commercial documentation.
Question: What types of situations do you expect to encounter where a lack of corporate formalities still exist?

Answer: The situations that lend themselves to handshake deals these days would have to be very small commercial arrangements overseas. I would imagine they would involve small growers or suppliers who do not have sophisticated systems in place for their businesses. In those situations, we would still ask that the arrangement be reduced to writing and we always need to be mindful of how that is presented to the other side. Even though there are still areas in the world where a handshake has significant meaning, we still need to have our business partners understand that documentation is an essential part of doing business. The key is to present it to them as a benefit, as opposed to something they may feel questions their honesty or trustworthiness. In certain Asian countries, for example, appearance is very important and a deal can fall apart if your Asian counterpart interprets your actions as calling his or her honesty or integrity into question. But in today’s business climate, a clear, documented arrangement is essential to avoid misunderstandings and potential litigation.

Question: As the global market continues to expand, do you still expect to see companies abroad engage in business practices that lack corporate formalities?

Answer: I think that, on a global basis, the world is relenting and following a more formal business approach when dealing with U.S. companies. But those same global entities may still be dealing with a handshake with non-U.S. companies. I don’t see that as a disadvantage to U.S. companies provided the commercial and corporate formalities you want to follow are presented to your foreign counterpart in a respectful manner. A lot of it simply involves educating them as to the benefits. And when all else fails, the business guys can just blame the legal department for being so inflexible with requiring forms!

Question: How difficult is it to enforce contractual agreements, mechanic’s liens, or judgments abroad?

Answer: It is a challenge to have them all enforced all over the world. Some countries will look upon a written agreement as meaningless despite your best efforts. Court systems in other countries often reflect the culture of those countries, so some court systems may ultimately revert back to determining not what the written agreement says but what the parties said when they were shaking hands. In other countries, the court system will look to protect the smaller party against the actions of the bigger party, particularly when the bigger party is a U.S. company like ours. That is certainly the case in Brazil, in which we contract with farmers to grow and deliver tobacco for our Brazilian subsidiary. We have written agreements with our farmers and those
agreements allow us to place liens against their property if they breach their agreement with us. But the vast majority of those farmers are small family-owned operations and the appearance of a vast U.S. multinational company taking on a small, uneducated local farmer would be frowned upon by the Brazilian court system. And even if a court would permit us to proceed against a farmer, how can we collect against them? There may be no guarantee that the local law enforcement in small, rural tobacco growing areas are going to respect a judgment from a federal court in a major Brazilian city. So, while we still want to document our arrangements with the farmers and we still want to protect our rights through the documentation, we also need other ways to ensure compliance by the farmer. So, we would supplement any legal rights we have with business rights: if you do not honor your contract with us you will not have a contract with us next year. They are as dependent on us as we are on them. So I would answer that the first line of defense we would use in a farmer dispute is to tell them we need to resolve the dispute with them or we will have to take them off our farmer list for next season. If that failed and there was enough at stake, we would then proceed through local court system.

For more sophisticated business arrangements, we might try to include a choice of law provision in our agreement that sets U.S. law as the governing law for the transaction. From a theoretical standpoint, we would probably see more consistent legal rulings in U.S. courts than we would overseas. But from a practical matter, sometimes it is easier to resolve things where the business actually takes place overseas versus bringing them here to the U.S. Our experience may be different than other U.S. companies because we are very decentralized in our operations, meaning that our foreign subsidiaries run their business on a day-to-day basis without U.S. headquarters involvement. So, if our Brazilian subsidiary enters into an agreement with an equally sophisticated business partner, it may be in our Brazilian subsidiary's best interest to resolve the matter through the Brazilian court system instead of the U.S. court system.