

AMERICAN FAST FOOD AS CULTURE AND POLITICS: THE INTRODUCTION OF PEPSI
AND MCDONALD'S INTO THE USSR

by

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A THESIS

Presented to the Department of History
and the Graduate School of the University of Oregon
in partial fulfillment of the requirements
for the degree of
Master of Arts

June 2013

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Title: American Fast Food as Culture and Politics: The Introduction of Pepsi and McDonald's into the USSR

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Degree awarded June 2013

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THESIS ABSTRACT

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This thesis explores how and why two capitalistic American corporations were granted access to the Soviet Union's internal market. For decades communist leadership railed against what they termed "cheap bourgeois consumption", yet in 1972 Pepsi-Cola became the first officially sanctioned American consumer product in the USSR. Eighteen years later, McDonald's would become the first American restaurant to open in the Soviet Union. Both companies became deeply involved in Cold War politics and diplomacy, with high-ranking officials from both sides taking part in the negotiations to bring these companies into the country. These two case studies shed light on a seldom-covered aspect of American-Soviet economic relations and cultural exchange.

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CHAPTER I

INTRODUCTION

This thesis will focus on the introduction of American fast food and beverages into the Soviet Union by PepsiCo and McDonald's Corporation between 1959 and 1991. The efforts of these companies to sell their products in the USSR present two fascinating case studies about the interaction of Cold War ideology, international politics, popular culture, and business. PepsiCo, led by CEO Donald Kendall, was the first officially sanctioned American consumer product to establish itself in the socialist nation since Ford Motors in the 1930s. The PepsiCo case is a perfect example of how something so seemingly simple as selling bottled soda, can evolve into a major international event with wide reaching political implications. Bringing Pepsi to the USSR involved the participation of the 20th century's most famous Cold War figures from both superpowers. PepsiCo also become interconnected with various Cold War policies such as détente and the Soviet Union's shift into a consumer society.

McDonald's, on the other hand, was brought to the USSR by George Cohen, an American lawyer from Chicago, who became president of the company's Canadian operations during the 1960s. Much like Pepsi's introduction into the Soviet Union, the opening of a McDonald's in the heart of the USSR was met with worldwide press attention. The golden arches of Moscow became emblematic of Mikhail Gorbachev's policy of perestroika, and an overall improvement in East-West relations. Bringing McDonald's to the Soviet Union also highlighted some of the worst aspects of the Soviet state in a way the Pepsi deal did not. The broken and inefficient economy, the

suffocating bureaucracy, the rampant corruption, and the lack of service quality all reared their ugly heads as Cohen struggled to open his business in Moscow.

From the way average Soviet citizens reacted to these Western consumer goods, it is obvious that they both represented much more than soda and hamburgers. American fast food was as much a cultural and political import as it was a consumer product. When Pepsi first hit the Soviet market it was a runaway success. Local retail vendors could hardly keep their shelves stocked for more than a day. Over the following years PepsiCo operations steadily expanded from a single bottling plant in Southern Russia to over 50 plants in every major urban center due to insatiable consumer demand. When the American and Soviet media covered Pepsi's expansion into the USSR they frequently used phrases like "improved international relations" or "an opening to the West." The cultural and political overtones in the press reporting are plainly obvious. The opening of a McDonald's in the center of Moscow was met with a similar level of excitement. In the bitter cold of the Russian winter, people queued outside for hours just to get their first taste of "authentic" American cuisine. The Moscow McDonald's would become one of the busiest restaurants in the world. No other restaurant has ever received as much media attention as the Moscow McDonald's, which speaks volumes about its political and cultural importance.

The political significance of Pepsi and McDonald's is also accentuated by the fact that Soviet General Secretaries became personally involved in both the Pepsi and McDonald's deals. Leonid Brezhnev himself was present as the very first Soviet-made Pepsi rolled off the assembly line in 1974. In the late 1980's Mikhail

Gorbachev was an active participant in the negotiations that would result in the first McDonald's in Russia. When Pepsi or McDonald's expanded their operations into France, Britain, or Germany, it would have been seen as absolutely ridiculous for the leaders of those countries to get personally involved in something so petty. In the Soviet Union however, almost everything was politicized, and the introduction of two major American firms was an event that would require involvement from the highest levels of government.

Food has always had a strong link to national culture and identity.¹ Sushi, with its elegant designs has blended food with art, and is readily associated with Japanese culture's love of aesthetic beauty.² Sushi can now be found in almost every country around the world, but it has not lost its identify as Japanese cultural property.³ Much in the same way, the McDonald's brand became the ambassador of American culture into the USSR. Where sushi represents Japanese beauty and grace, McDonald's represented American speed, efficiency, ingenuity, and quality. By the time the Moscow McDonald's opened its doors in 1990, the company had spread to 117 countries worldwide and was seen as the universal symbol of Americanism.⁴ The Pepsi case was different in a number of ways as it offered the Soviets an opportunity to export some of their own cultural identity in the form of vodka. Part of the deal that allowed PepsiCo to bring its cola in the USSR also granted the Soviet

¹ James L. Watson and Melissa L. Caldwell, eds. *The Cultural Politics of Food and Eating : A Reader*. (Malden, MA: Blackwell Publishing, 2005.) See introduction.

² Ibid. 15

³ Ibid. 19

⁴ Ibid. 2

regime the opportunity to sell one of their most famous brands in the Western market, Stolichnaya. In fact, one of the reasons Soviet vodka sold so well in the West was precisely because it had been so closely associated as a genuine Russian cultural export. Part of the appeal of Soviet-made vodka was its “Russianness” and the fact that it was made behind the Iron Curtain. Americans knew very little about the Soviet Union in the 1970s and 1980s, which only added to the mystique and allure of Stolichnaya.

Western Imports in the USSR

Throughout the turbulent history of the USSR, Western imports were looked upon with considerable trepidation by communist ideologues. The utopian rhetoric of Soviet leaders called for the creation of a society free from the corrupting influences of Western bourgeois culture. The Soviet regime went to great lengths to promote the development of their own unique socialist culture, and imbued it with didactic qualities that were designed to liberate Soviet citizens from the lure of petty consumption. Yet for all of their idealistic ambitions, the Soviets often fell quite short, and frequently depended on Western imports to supplement their economic, technological, and cultural deficiencies. Even as early as the Stalinist 1930s, the Soviet regime was forced to import Western technical equipment and advisors in order to jump-start its own industry.⁵ After Stalin’s death, the Khrushchev and Brezhnev governments lived in a tenuous love-hate relationship with Western

⁵ See Steven Kotkin’s *Magnetic Mountain: Stalinism as a Civilization*. Berkeley: University of California Press, 1995., and Lewis H. Siegelbaum’s *Cars for Comrades : The Life of the Soviet Automobile*. Ithaca: Cornell University Press, 2008.

products. Nikita Khrushchev's reforms ushered in a new era of Socialism for the USSR, as he focused on increasing the material standard of living of the nation's citizens. According to the eccentric General Secretary, the Soviet people must focus on increasing their production, because in twenty years they would be the world's biggest consumers. Leonid Brezhnev was the first General secretary to introduce the idea of "socialist consumption" into the USSR when he spoke at the CPSU Congress in 1971.⁶ Post-Stalinist leaders knew that beating the capitalists would require more than just out-producing them in armaments; it would require a considerable investment into consumer items as well. Unfortunately, the Soviet economy could never keep up with Soviet citizens' voracious demand the Soviets had for cultural products. As a result, Western films, television, music, fashion, and literature all found their way into the country over the course of the 1950s and 1960s whether the regime wanted them or not.

Unlike other cultural imports, American fast food was a bit slower in its penetration of the Soviet market. This can be attributed to the fact that it is inherently more difficult to move large quantities of perishable food items across Soviet borders without the government's consent. Things like music, films, and books are easy to pack into a suitcase and then smuggle across the border. Music could be recorded using personal tape recorders from a live performer or an original vinyl album, and then rerecorded, as friends and neighbors shared the music of their favorite Western artists. Naturally the sound quality was not very

⁶ Sergey I. Zhuk, *Rock and Roll in the Rocket City: the West, Identity, and Ideology in Soviet Dnepropetrovsk, 1960-1985*. (Baltimore; Washington DC: Woodrow Wilson Center Press; Johns Hopkins University Press, 2010.) 9-10

impressive, but the ease with which music could be distributed made it extremely difficult for the authorities to regulate. Furthermore, the exchange of films is generally a much simpler process than food, since one only needs the original film roll, which can then be reproduced locally by Soviet facilities. The process of making a foreign film a commercial success back in the USSR didn't require any new infrastructure investments, past what the Soviets already made for their domestic film industry. Finally, Western books were a staple on both the black market, and the official economy within the USSR since bringing in a book or reprinting it in Cyrillic does not take much effort. American fast food, however, required a substantial investment to make the operation profitable for all parties involved. The construction of bottling plants and restaurants must take into consideration many factors such as supply needs, employee training and recruitment, ownership and management agreements, distribution methods, possible locations, quality standards, pricing, and ruble inconvertibility. All of these factors presented a significant barrier to entry for any American food products.

By far the most significant obstacle for any American firm seeking to do business in the USSR was how to convert profits from Soviet rubles into usable Western currency (dollars/pounds). As a result of state policy and the centrally planned economy, the Soviet ruble was nearly impossible to convert into large amounts of hard currency.⁷ While an official exchange rate certainly existed, this rate was only usable for small transactions, mainly for tourists or foreign dignitaries visiting the USSR. Converting the millions of rubles American businesses were sure

⁷ Edgar L. Feige, "Perestroika and Ruble Convertibility." *CATO Journal*, Winter, 10, no. 3 (1991).

to make was simply not possible for a number of reasons. First, unlike currency in market economies, the Soviet ruble could not be used to freely purchase real or financial domestic assets, mainly because of the restrictions on private property in the USSR.⁸ Additionally, Soviet enterprises did not have unlimited discretion on how they could use the rubles they earned from internal profits on labor costs and purchasing needs, as all of this was closely monitored by state planning agencies. Money in the USSR functioned as an instrument of state policy, rather than as an article of free exchange, as Edgar Feige argues “It is the very restrictions placed on domestic conversions, between different forms of money and between money and domestic goods, services, and assets, that enables planners to accomplish material balances, production quotas, and planned allocations of factors and products.”⁹ In the early years of the Soviet regime, the government purposely designed the ruble as an inconvertible currency to ensure economic self-sufficiency and to protect Soviet industry from foreign competition.¹⁰ Furthermore, it was illegal for individual Soviet citizens to own foreign currency, and illegal to move rubles outside of the country. This meant that there were no substantial quantities of rubles stored in any Western nation, thus no one was willing to convert the Soviet ruble. It is estimated that the Soviet Union only had about 25 to 30 billion dollars of hard

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

Western currency on hand to spend on foreign imports, and much of this was used to purchase grain and other agricultural products.¹¹

Despite the numerous problems of doing business in the USSR, the Soviet market had a strong allure to some Western investors. If a foreign firm could figure a way around the ruble conversion issue, then the potential for profits were hard to ignore. For example, the competition between Caterpillar (the largest producer of earth moving equipment) and Komatsu demonstrates just how lucrative doing business in the Soviet Union could be. In 1980 Caterpillar's sales were 8.6 billion dollars, three times higher than those of Komatsu, partly because their market share in the Soviet Union was 85 percent versus Komatsu's 15 percent. By 1986 however, Caterpillar's share of the Soviet market dropped to 15 percent because of US sanctions against the USSR, while Komatsu's had expanded to 85 percent, which resulted in Caterpillar's sales only amounting to 6.8 billion dollars that year.¹² The possibility for profits was high due to the monopolistic nature of the centrally planned economy. If a Western business managed to successfully negotiate a deal with the government, it would face little to no competition from the Soviet state or other foreign companies. The PepsiCo deal is an excellent example of this, as it effectively managed to block Coca-Cola's entry into the USSR up until the nation's collapse in 1991. The size of the Soviet population was also a tempting factor for both PepsiCo and McDonald's.¹³ Access to the world's third largest market in terms

¹¹ James L. Hecht, ed. *Rubles and Dollars : Strategies For Doing Business In The Soviet Union* (New York: Harper Business, 1991.) 3

¹² Ibid. 2

of population and GDP was a tempting opportunity. Furthermore, the Soviet population was one of the most educated in the world so finding skilled managers and engineers to help run local operations, theoretically was not a concern. Overall the Soviet Union was seen as an untapped “Wild West” of sorts, one where risks were high, but the potential rewards were well worth the investment.

¹³ According to the 1979 Soviet census, the population of the country was 250 million people.

CHAPTER II

PEPSI IN THE USSR: VODKA AND COLA DIPLOMACY

In 1959, PepsiCo, led by CEO Donald Kendall, initiated a deliberate campaign to introduce its famous cola into the Soviet Union. Donald Kendall's efforts were groundbreaking, as Pepsi-Cola would become the first officially sanctioned American consumer product in the USSR. The introduction of Pepsi involved negotiations among the most powerful politicians of the day. Iconic figures of the Cold War era like Richard Nixon, Nikita Khrushchev and Leonid Brezhnev all played an important role in bringing Pepsi to the communist nation. The Pepsi deal is emblematic of a few trends in Soviet economic politics. First, the Pepsi negotiations showcase the power of political connections in the USSR. Donald Kendall was lucky enough to have developed personal relationships with top Soviet leaders. Without their support the unforgiving Soviet bureaucracy might have stonewalled his project indefinitely. Second, the Pepsi deal exposes the Soviet Union's willingness to compromise on ideological purity for the sake of pragmatism. What made the arrival of Pepsi so significant was that it succeeded during the early 1970s, a time of relative hostility to Western culture by the Soviet regime. Despite this unwelcoming attitude, the Pepsi deal offered the Soviets an opportunity to address some of their economic shortfalls and internal problems. Finally, Pepsi came at a time when the Soviet Union was retooling its manufacturing base from one based solely on heavy industry, into consumer-oriented production. Both the Khrushchev and Brezhnev governments prioritized material comforts for Soviet citizens. Pepsi provided not

only a source of revenue, but also a commodity that improved the material lives of average people.

The 1972 Pepsi deal was a massive bilateral trade agreement through which the USSR received the rights to sell Pepsi, while PepsiCo received the exclusive marketing rights to Stolichnaya Vodka. The nature of this deal had a significant impact on trade relations between the two countries, and was representative of Brezhnev's and Nixon's policy of détente. Pepsi also pioneered marketing and advertising in the USSR, a concept very foreign to most Soviet citizens. Between 1972 and 1986 Pepsi was effectively able to secure the USSR as its own exclusive market. PepsiCo's 14-year monopoly on cola would allow the company to expand in the USSR unchallenged by its main competitor, Coca-Cola. As the years went on Pepsi only gained more popularity in the USSR, and by 1990, PepsiCo had built 50 production plants in most of the Soviet Union's major urban centers and acquired a significant market share of all beverage consumption in the country.¹⁴

The 1959 Moscow Fair

The American National Exhibit was held in Moscow's Sokolniki Park in the summer of 1959. For the American delegation, this was a chance to show off the advantages of capitalism by featuring modern American appliances, automobiles, and consumer products. The fair was designed to be a friendly cultural exchange and debate on the merits of socialism and capitalism. Earlier that year, the Soviets

¹⁴ Michael Parks, "Pepsi Push into Soviet Union a Textbook Case in Marketing." *Los Angeles Times*, June 26, 1988.

were allowed to hold a similar exhibition in New York City. The 1959 fair is best remembered for being the site of the famous “Kitchen Debate” where then Vice President Richard Nixon and General Secretary Nikita Khrushchev debated the inherent superiority of their respective economic systems by demonstrating how easy they had made domestic life with the introduction of modern appliances. Nixon’s plan was to prove that if the Soviets simply had a taste of American prosperity, they would forget all about building communism. Nikita Khrushchev willingly participated in this debate because he believed the Soviet Union was entering a new stage of communism. Providing the best standards of living for its citizens had become a chief priority for the Soviet regime. The Soviets had already proved their scientific superiority by launching the first satellite into orbit in 1957. Khrushchev was eager to prove that by applying the same principles of socialist science to the kitchen, the Soviets could “free women” to be more productive citizens. The socialist kitchen was designed for maximum efficiency and would be the conduit through which the fruits of socialism where be delivered into the home.¹⁵ The debate turned out to be an international sensation, and was the highlight of the whole fair. Donald Kendall however, was more interested in getting Khrushchev out of the kitchen and over to his Pepsi display, so the Soviet leader could sample the American products he railed against in the debate.

In 1959 Donald Kendall was still only the President of PepsiCo international, the department responsible for bringing Pepsi to foreign markets. Kendall saw the 1959 Moscow fair as an excellent opportunity to open the Soviet market to foreign

¹⁵ Susan Reid, "Would You Like That Kitchen in Red?" *Times Higher Education Supplement*, (2003) no. 1593.

investment. Back in the United State however, many of Kendall's contemporaries and segments of the American press believed that doing business with the Soviets was unpatriotic and a poor business venture.¹⁶ Obviously Kendall disagreed, but this pessimism back home made the stakes that much higher, since Kendall's board of directors would need something substantive from Kendall's trip to validate their investment at the American exhibit in Moscow. The negativity back home was strong enough that six months before the Moscow fair Coca-Cola decided to decline its invitation to participate in the event, leaving Pepsi the only soft drink company to represent the United States.¹⁷

When in Moscow, Kendall would need to call upon the assistance of Vice President Richard Nixon to ensure his Pepsi exhibition was a success. PepsiCo had established a relationship with Richard Nixon in the 1950s, when the company had courted him and Senator Joe McCarthy as political allies in its domestic struggle against Coca-Cola.¹⁸ The night before the fair, Kendall contacted Vice President Nixon, and told him "I need to get a Pepsi in Khrushchev's hands, because I'm in some trouble at home, because a lot of people think I'm wasting money, and I want to get something out of this."¹⁹ Nixon responded by saying, "Don't worry, I'll bring

¹⁶ PepsiCo, Interview with Donald Kendall, Personal Interview, 2009, <http://www.pepsico.com/Global-Sites/Russia/Moscow-Marks-50-Years.html> (accessed April 20th, 2013)

¹⁷ Ludmilla Gricenko Wells, "'Brad's Drink' In the Soviet Union." In *Marketing history--its many dimensions: proceedings of the Fifth Conference on Historical Research in Marketing and Marketing Thought, held April 19, 20, and 21, 1991 at the Kellogg Center of Michigan State University*, p. 101. Michigan State University, Graduate School of Business Administration, 1991.

¹⁸ J C. Lewis and Harvey Yazijian. *The Cola Wars* (New York: Everest House, 1980). 88

Khrushchev by your exhibit tomorrow.”²⁰ Richard Nixon did indeed deliver Khrushchev the following day to the Pepsi exhibit, where Kendall didn’t hesitate to make his move. Kendall handed Khrushchev two samples of Pepsi-Cola, one made in the United States and the other made on-site at the exhibit. The reasoning behind having Khrushchev try two samples of Pepsi was to show him that Pepsi-Cola could be made just as well in the Soviet Union as it could be in the United States. Not surprisingly, the often brash and flamboyant Khrushchev proclaimed that the sample made in Moscow was much tastier than the Pepsi from the United States. In reality, what this boiled down to was Khrushchev ridiculously boasting about the superiority of Soviet carbonated water, for the syrup and technique used to make the beverage were exactly the same as in the American-made sample. Khrushchev was so pleased with the drink that he handed out six cups to his surrounding entourage. Despite Khrushchev’s preference for the Soviet-made Pepsi, the event was a resounding success for Don Kendall and PepsiCo. A famous photograph was snapped (Fig. 1) at the event with a caption reading, “Khrushchev learns to be sociable with Pepsi,” which was a play on Pepsi’s marketing slogan of the 1950s, “Be sociable with Pepsi.” The photograph was circulated worldwide and earned PepsiCo a tremendous amount of positive media coverage. Kendall’s superiors back home were ecstatic, and the journey to bring Pepsi to the USSR had begun.

¹⁹ PepsiCo, Interview with Donald Kendall

²⁰ Ibid



Figure 1. Nikita Khrushchev tasting Pepsi at the Moscow Fair

The 1959 Moscow fair was significant to PepsiCo for two reasons. First, it secured Donald Kendall's rise to CEO within PepsiCo. In 1959 Kendall was still just head of PepsiCo international, but with his enormous publicity coup in the Soviet Union, Kendall's agenda and vision were the ones that prevailed over the skeptics and potential competitors back home. Kendall's drive to strengthen international relations with the Soviet Union, and make a few dollars doing it, would be the key ingredient needed to bring the first sanctioned American business into the USSR. The second important impact of the Khrushchev "sip heard round the world" was that it cemented the friendship of Donald Kendall and Richard Nixon.²¹ Without a powerful political ally like Richard Nixon, Kendall would surely have failed in his mission. The negotiations to bring Pepsi into the USSR took place between people in the highest levels of government, and considerable lobbying would be needed to convince the American Congress to approve the necessary trade treaties.

²¹ J C Lewis, and Harvey Yazijian. 93

From 1959 to 1971

There was no doubt that the Moscow Fair was an enormous success for PepsiCo and Donald Kendall personally, but turning Khrushchev's enjoyment of Pepsi into a tangible business deal would prove to be a bit more challenging. The first major stumbling block encountered by Kendall and PepsiCo was Richard Nixon's 1960 presidential campaign. Before the infamous 1960 televised Presidential debates, Richard Nixon enjoyed a slight margin in the polls and was generally expected to win the election over Massachusetts Senator John F. Kennedy, by riding on the coattails of Dwight Eisenhower's immense popularity.²² The first debate turned out to be a disaster for Nixon, as he appeared pale, nervous, and sickly, while Kennedy was tanned, vibrant and attractive. Nixon made the mistake of campaigning right up to the day of the televised debate and refused to wear makeup on air, Kennedy on the other hand was rested and well prepared for the new medium. Nixon's poor appearance was further accentuated by the fact that the day before the debate, CBS studio crews installed new tubes into their cameras, making the broadcast quality sharper. The debate had gone so poorly for Nixon that his own mother called him a few minutes afterwards and asked if he was feeling sick.²³ The press was abuzz the day following the debate and declared Kennedy the winner.²⁴ The power of

²² According to Gallup's historical data, Dwight Eisenhower enjoyed an average approval rating of 65% throughout his eight years in office. In 1960, just before the presidential election, Eisenhower's approval rating was at a very respectable 70%. Furthermore after the famous televised debates Richard Nixon dropped an average of 3 percentage points in the polls. The final count on election night was much closer, with Kennedy winning with just .1% of the popular vote.

²³ Alan Schroeder, *Presidential Debates: Forty Years of High-Risk TV*. (New York: Columbia University Press, 2000). 7-9

television had made its mark on American history, and by extension PepsiCo's and the Soviet Union's history as well. Richard Nixon ended up losing the 1960 election, which left the campaign to bring American business into the USSR in a state of limbo. Donald Kendall had no ties to John F. Kennedy, and as a result the idea of Pepsi in the USSR would be put on the back burner.

In 1962 Richard Nixon ran for governor of California, and was again defeated, this time by Democrat Pat Brown. Despite his two humiliating political losses, Donald Kendall knew that Richard Nixon was a valuable ally and offered him a position at PepsiCo international, which Nixon turned down, preferring instead to practice law in New York.²⁵ The years between 1963 and 1968 were key to resurrecting Nixon's political career. Nixon's new law firm took on PepsiCo as one of its main clients, allowing Kendall and Nixon to maintain their close ties. During these in-between years Kendall repaid his debt from Moscow by investing in Richard Nixon's political comeback and transforming him from an ardent anti-communist into a more appealing and open-minded candidate.²⁶ Kendall's investment would pay off as Nixon won the 1968 presidential election. Additionally, Donald Kendall assumed the position of president and CEO of all PepsiCo during these years (1965 to be specific) allowing his vision and agenda for the company to

²⁴ Ibid. 10

²⁵ J C Lewis and Harvey Yazijian, *The Cola Wars*. 110-111

²⁶ Ibid. 192

be carried out.²⁷ With Kendall's ascension to CEO and Nixon back in charge of the White House, the negotiations to bring Pepsi into the USSR would begin once again.

The winds of political change were not exclusive to the United States, as the Soviet Union experienced its own transition in leadership. In 1964 General Secretary Nikita Khrushchev was ousted and replaced by the more conservative Leonid Brezhnev. Thus the success Kendall had enjoyed in Moscow was now destroyed, because the primary players of the 1959 Moscow Fair lost their political clout. Interestingly enough, however, the Brezhnev regime was not entirely resistant to the idea of cooperation with the West. Brezhnev's government often vacillated from condemnation to begrudging acceptance of "bourgeois" cultural imports, and his government was often willing to compromise on ideological purity for the sake of profits. This dynamic is illustrated quite well in the types of films the Brezhnev government chose to import for Soviet audiences. After the 1950s official Soviet film critics often panned Indian movies for being corrupted by the negative influences of Hollywood, but the Soviet Union's film import agency (Soveksportfil'm) continued to import these tainted foreign films in great numbers simply because they could be relied upon to sell tickets.²⁸ Soviet officials in Bombay complained that Moscow only selected popular films and ignored the ones that had true social value as commentaries on bourgeois oppression: "it is a obvious fact that films with obvious commercial potential are given first preference by selectors."²⁹

²⁷ Wells, Ludmilla Gricenko, "" Brad's Drink" In The Soviet Union." 106

²⁸ Sudha Rajagopalan, *Indian Films in Soviet Cinemas: The Culture of Movie-Going After Stalin*. (Bloomington: Indiana University Press, 2005. 92). 116

This willingness to compromise would be a necessary virtue for Pepsi's introduction into the USSR, as the Soviet Union stood to make a substantial amount of money from licensed Pepsi sales.

The political volatility on both sides was the primary reason a trade deal was not reached sooner. There were effectively no business negotiations from 1960 to 1971. The first trade delegation to the Soviet Union was only sent in 1971. By 1972 Pepsi had achieved success with a 10-year exclusivity deal, and would begin shipping Pepsi to the USSR in 1973. When both sides finally met, the PepsiCo negotiations actually went remarkably quickly (about 11 months).

A Deal Is Reached

In 1971 Richard Nixon agreed to send the Department of Commerce on a trade mission to the Soviet Union. Accompanying the American delegation was Richard Nixon's close friend and business associate, Donald Kendall. The original trade mission did not have the set goal of bringing Pepsi to the USSR, but Kendall knew that this was an opportunity he could not waste. During the meetings, Donald Kendall approached Premier of the Soviet Union Alexei Kosygin and impressed him with a radio shaped like a Pepsi can.³⁰ That same day Kendall made his pitch to sell Pepsi to the Soviets. The sales pitch worked like a charm, mostly because it was mutually beneficial for all parties involved. The initial proposal called for a Pepsi for currency exchange, but this was later modified due to the inconvertibility of the

²⁹ Ibid. 95

³⁰ J C Lewis and Harvey Yazijian. 205

Soviet ruble, a problem major problem McDonald's would also encounter in its dealings with the Soviets.

The high-ranking Soviet bureaucrats who met with the American trade mission were particularly interested in the Pepsi for vodka deal because of the Soviet Union's chronic problems with alcoholism. In the preceding year the Brezhnev government began an anti-alcoholism campaign in an attempt to improve the overall health of the population and increase the productivity of the Soviet workforce.³¹ The Pepsi deal was the perfect solution to their problems. First, it would help mitigate the lost revenue the government normally received from its state vodka monopoly. Vodka sales had traditionally been a significant source of profit for the Soviet government, denoted by fact that vodka made up 19.4 percent of state and cooperative sales, and accounted for up to 39% of all retail trade in the early 1930s.³² It is difficult to get precise alcohol sales data for the 1960s and 70s because the sales figures of alcohol were combined with other foodstuffs, but it is estimated that during this period alcohol accounted for 15-20% of disposable household incomes.³³ The anti-alcoholism campaign was sure to negatively impact domestic vodka consumption, but by selling vodka abroad to Americans the Soviets would not be adversely damaging their budget by crusading against alcoholism. Second, and perhaps just as important, the deal would provide the Soviet population

³¹ Ibid. 203

³² Julie Hessler, *A Social History of Soviet Trade: Trade Policy, Retail Practices, and Consumption, 1917-1953*. (Princeton, NJ: Princeton University Press, 2004). 164

³³ Martin McKee, "Alcohol in Russia." *Oxford Journals (Alcohol and Alcoholism)* 34, no. 6 (February 16, 1999): 824-29.

with a tasty and glamorous non-alcoholic alternative to vodka. While the Soviet Union already made some of its own carbonated soft drinks, Pepsi was a guaranteed winner because there was no doubt about its ability to turn a profit. Pepsi was a famous American brand, and could be expected to sell well on the basis of its novelty and reputation. This Western product would also help suppress some of the negative sentiment from the Soviet the population, which would inevitably result from the anti-alcoholism campaign.

The groundbreaking deal was signed on November 16th between A. I. Nikolayev and Donald Kendall in the presence of various Soviet officials, including Alexei Kosygin. The specifics of the contract granted Pepsi ten years of exclusivity rights on the distribution of Stolichnaya Vodka in the American market, and in return Pepsi would be the sole supplier of cola-flavored soft drinks to the Soviet Union. An ingenious method was organized to bypass the inconvertibility of the Soviet ruble. Under the agreement, the Soviet Union would earn American dollars from the sale of Stolichnaya Vodka in the United States, which it would then use to purchase concentrated Pepsi-Cola syrup.³⁴ The concentrated syrup would be shipped to officially sanctioned Pepsi bottling plants, where it would then be mixed with Soviet carbonated water to produce the patented soft drink. In this way, the amount of Pepsi syrup the Soviets could buy was directly tied to how much Stolichnaya Vodka they could produce and sell in the United States. Part of the deal on PepsiCo's end was the acquisition of Monsieur Henri Wines Ltd for 26 million dollars, which

³⁴ "PepsiCo to Double Number of Plants in the Soviet Union." *Wall Street Journal*, January 10, 1978, p. 18.

already distributed small quantities of Stolichnaya Vodka in the West. The price of a bottle of Stolichnaya Vodka in the United States before the 1972 Pepsi deal was about 8 dollars and 50 cents. Donald Kendall hoped to bring that down to about 2 dollars by lobbying the U.S. Congress to strike down trade tariffs on Soviet goods.³⁵ The secret formula for Pepsi was never released to any Soviet officials, as very few people knew it in the United States. The estimated value of the deal was placed at “several million U.S. dollars,” with an additional investment of 1 million dollars by Pepsi for the construction of a bottling plant in the Black Sea resort town of Novorossisk.³⁶

The Novorossisk bottling plant would be the nexus of Pepsi production in the USSR for the next several years. PepsiCo would cover all construction costs as well as provide all of the equipment; engineers, and training needed to staff the complex, but most of the employees would be local Soviet workers. Construction of the bottling plant would take several months, with the first bottle expected to roll off the line in the beginning of 1974. The factory was equipped to produce 3 million cases of Pepsi-Cola per year, equivalent to about 72 million bottles, with most of this output going to service several Black Sea resort towns and select Moscow stores.³⁷ Donald Kendall commented that 3 million cases per year was nowhere near enough to supply a country the size of the USSR, pointing out that PepsiCo sold about 800

³⁵ Hendrick Smith, "Soviet Pepsi Generation Is Toasted in Champagne." *New York Times*, April 20, 1973, p. 39.

³⁶ "PepsiCo and Russians Set Liquid Exchange Agreement." *Wall Street Journal*, April 20, 1973, p. 3.

³⁷ Hendrick Smith, "Soviet Pepsi Generation Is Toasted in Champagne."

million cases in the United States alone. Kendall was optimistic that within five years the production could be increased to about 20 million cases of Pepsi per year, granted the Soviets could provide the necessary vodka.³⁸

Interestingly enough, the types of bottles used in the factory would not be Pepsi's iconic grooved design. There was a growing fear among many Soviet officials that Soviet citizens would not return the bottles for reuse if a Western bottle design were utilized.³⁹ It was believed that the American style Pepsi bottle would be considered exotic, and treated as a collector's item because of its novelty. The Soviet Union was already struggling to keep glass bottle production in line with demand; therefore if people hoarded the glass bottles, Pepsi production in the USSR would come to a halt. To solve this problem, the type of bottle used in the production was a standard Soviet .33 liter bottle (Fig. 2), which was used for most Soviet soft drinks of the time.⁴⁰ The Soviet bottle would be wrapped in Pepsi's label, only written in Cyrillic letters. People were encouraged to keep the foil label, but return the glass bottle for recycling. The bottle issue is emblematic of Soviet society on two levels. First it highlights the constant deficits of almost every good within the Soviet Union, and second, it proves just how coveted Western goods were in the USSR.

³⁸ Ibid

³⁹ Ibid

⁴⁰ M. Maksimov "Pepsi Cola" Mozhno Poprobovat'." *Literaturnaia Gazeta*, April 24, 1973, p. 9.



Figure 2. Comparison of the Soviet and American Pepsi bottles

The press coverage and reaction within the two superpowers was somewhat uneven. The contract was greeted with considerable excitement in the United States, where most major news organization gave the event considerable attention. *The Wall Street Journal*, not surprisingly, had very strong coverage of the business deal, as well as the *New York Times*. The WSJ's reporters were even brazen enough to ask Donald Kendall whether his friendship with Richard Nixon had any influence on the deal.⁴¹ Kendall dodged the question by saying, "I don't know that that would have to do with it," further adding "Pepsi is sold in 130 countries, and I have opened a lot of those markets... I have been selling Pepsi Cola for a long time."⁴² Obviously Kendall's close relationship with Nixon was the primary reason the deal happened in the first place, and it is the reason Pepsi would continue to prosper in the USSR. Within the Soviet Union, the contract was given limited publicity. The Soviet Union's primary newspaper, *Pravda*, only mentioned the bilateral trade deal in its general announcement sections, and most writers were given little leeway for any kind of opinion journalism. Coverage in *Izvestiia* was a bit stronger, as the newspaper

⁴¹ Mary Bralove, "PepsiCo Will Sell Its Cola in Russia, Buy Soviet Liquor." *Wall Street Journal*, November 17, 1972, p. 3.

⁴² Ibid

actually reported on the story a few times between 1972-73. Finally, some of the smaller Soviet media outlets like *Literaturnaia Gazeta* had a few words about the negotiations, but the coverage was not exceptionally deep.⁴³

A particular highlight of Soviet press coverage came from *Izvestiia's* interview with Donald Kendall, in which he was asked to give his opinion on a variety of topics. Kendall stressed that the Pepsi deal was much more than just an exchange of beverages, but instead should be considered a starting point for improved relations between the USSR and United States. Kendall predicted that American businessmen would be more willing to brave the Soviet market after this deal.⁴⁴ For the bulk of the interview, Kendall appealed to Soviet readers by explaining how critical it was that the American Congress lower import tariffs on Soviet made goods, not just for Pepsi's sake but for the improvement of East-West relations.⁴⁵

Moscow's reluctance to over-publicize the Pepsi deal can be attributed to their fear that the contract might be interpreted as a capitulation to the West or a compromise of ideology. Western music, films, and literature were very popular, and generated considerable profit for the state. However, Western goods in the 1960s and 1970s were also believed to corrupt the moral core of good socialists.⁴⁶ If the Soviet regime looked as if it was promoting foreign goods from its Cold War

⁴³ M. Maksimov "Pepsi Cola" Mozhno Poprobovat'." *Literaturnaia Gazeta*, April 24, 1973, p. 9.

⁴⁴ V. Kobyshev, "Blagopriiatnye Vozmozhnosti." *Izvestiia*, July 27, 1973.

⁴⁵ Ibid

⁴⁶ Sergey I. Zhuk, *Rock and Roll in the Rocket City*. 3

rival, it might have reflected poorly on its credibility with some of the more conservative elements within the government.

Resistance

The signing of the 1972 contract was only the first step in making Pepsi-Cola successful in the Soviet Union. Since the amount of concentrated Pepsi syrup that the Soviet Union could purchase was directly related to Stolichnaya Vodka sales in the United States, Don Kendall needed a way to maximize the amount of Soviet vodka sold back home. In 1972 Stolichnaya was the only Soviet made vodka on the American market, and was seen as a top-shelf spirit with a hefty price tag of about 9 dollars per bottle. The key to making Stolichnaya a more accessible brand was to decrease its relatively high price. The reason Soviet vodka was so expensive was the trade tariffs imposed by the U.S. Congress on Soviet made goods. Therefore, the best way to reduce the price of Stolichnaya was to grant the Soviet Union most favored nation status (MFN), thus eliminating any trade barriers between the two nations. To solve this problem Kendall would again rely on the political clout of his former lawyer and current friend, Richard Nixon.

In 1974 President Nixon submitted the Trade Reform Act to Congress in an attempt to harmonize trade relations with the Soviet Union. This bill was a powerful piece of legislation designed with the intention of streamlining foreign trade deals by affording the President wide reaching powers in international business negotiations. Among many other things, Title VI of the bill would permit the executive, for a period of 5 years, the ability to eliminate tariff and non-tariff trade

barriers by granting any country most favored nation status.⁴⁷ By the 1970s about 130 nations around the world enjoyed MFN status.⁴⁸ The only countries that were currently not bilateral trading partners with the U.S. were Eastern bloc countries, with the exception of Poland and Yugoslavia.⁴⁹ Nixon saw MFN status as a centerpiece of his détente policy, since Soviet tariffs could be twice as high as those placed on French or German imports.⁵⁰ The Trade Reform Act was the answer to Don Kendall's dilemma. Unfortunately for him, the bill ended up embroiled in a human rights debate in the United States Congress.

The problems for Kendall and Nixon began when Senator Henry Jackson (D-Washington), a vocal anti-Soviet spokesman, caught wind of Soviet intentions to impose an emigration tax on Russian Jews.⁵¹ As a member of the Senate Ways and Means committee, Senator Jackson was able to add a provision into the bill that would deny any nation MFN status if it prevented the emigration of its own citizens.⁵² Nixon vehemently opposed the provision on the grounds that it would damage the fragile détente he had worked so hard to achieve, and even threatened

⁴⁷ Committee on Finance, United States Senate, *Summary of the Trade Reform Act of 1974*, 93rd Congress, 2nd Session, Nov 20, 1974

⁴⁸ J C Lewis and Harvey Yazijian. 212

⁴⁹ Committee on Finance United States Senate

⁵⁰ J C Lewis and Harvey Yazijian. 212

⁵¹ Ibid. 112

⁵² Arthur J Keeffe, "Of Soft Drinks and Human Rights." *American Bar Association Journal* 60 (January 1974): 111-13.

to veto his own bill if the provision was not removed.⁵³ Kendall also lobbied against the bill by recruiting dozens of corporate leaders to his side.⁵⁴ Even the Soviet Union did its part to help with the passage of the bill (without Jackson's provision) by agreeing to grant MFN status to the United States, guaranteeing to purchase a substantial amount of American goods, paying for its purchases in American dollars or other hard currencies, and, finally, agreeing to settle its World War II lend-lease debt. Despite the lobbying efforts of Nixon, Kendall, and the USSR the issue met with further complications, when famous Soviet dissidents Alexander Solzhenitsyn and Andrei Sakharov turned the bill and its anti-Soviet provision into a general discussion of civil rights in the USSR.⁵⁵

To make matters even worse, many American-Jewish groups who were angered by the 1972 contract, which resulted in a general boycott of PepsiCo products. A women's Zionist organization complained that Pepsi had no bottling plants in Israel because of its lucrative business deals with Arab states.⁵⁶ *The Union of Councils for Soviet Jews* put out a press release attacking PepsiCo for its disrespectful business practices and calling for a general boycott of Pepsi, stating "free people before free trade." They further argued "It is immoral to extend trade benefits, especially in luxury commodities, while the Soviet government continues to violate the

⁵³ Ibid

⁵⁴ Lewis, J C., and Harvey Yazijian. 212

⁵⁵ Arthur J Keefe, "Of Soft Drinks and Human Rights." *American Bar Association Journal* 60 (January 1974): 111-13.

⁵⁶ Lewis, J C., and Harvey Yazijian. 213

fundamental human rights of freedom of emigration and free exercise of religion.”⁵⁷

This boycott was terrible publicity for Kendall and his company, and the protests ultimately affected the final legislation. When all of the dust had settled, Congress passed the Trade Reform Act in 1975, but granted the Soviet only limited MFN status.

What is fascinating about this ordeal is just how reversed the Pepsi and McDonald’s situation were when it came to dealing with the Soviet regime. As the next chapter will show, McDonald’s-Canada CEO George Cohen would suffer years of endless red tape in the morass of the Soviet government. His negotiations were long, expensive, and painful because of the Soviets’ unwillingness to help him. Most of Cohen’s problems came from the nature of Russian bureaucracy. By contrast, Donald Kendall’s problems with bureaucracy and ideology stemmed from the American government and private citizen’s groups. The Soviets were even willing to make concessions for the sake of the deal by paying back Lend-Lease debts, which amounted to about 722 million dollars.⁵⁸ It is no surprise that Donald Kendall predicted his greatest challenge would be the American Congress in his interview with *Izvestiia*.⁵⁹

Despite the relative smoothness of negotiations between the Soviets and Kendall in the establishing a bilateral trade agreement, not everyone within the

⁵⁷ Union of Council for Soviet Jews, “Say No Pepsi”, Press Release, December 6 1972

⁵⁸ Arthur J Keeffe, "Of Soft Drinks and Human Rights." 113

⁵⁹ V. Kobysh, "Blagopriiatnye Vozmozhnosti." *Izvestiia*, July 27, 1973.

Soviet regime was thrilled about Pepsi coming to the USSR. Donald Kendall recalls that two months after signing the 1972 deal, he was contacted by Alexei Kosygin, who informed him that he was needed back in Russia.⁶⁰ Upon his arrival, Kendall was told that the Minister of Food was quite unhappy that an American company was setting up shop in the USSR. Kosygin said to Kendall “I can tell the Food Minister what to do, but I want you to take him on a trip to the United States and show him why we should be doing business.”⁶¹ The trip to the United States started off cold, but eventually the Food Minister warmed up to Kendall after he played a practical joke on the tour guide of a Chicago Pepsi plant by switching ties with the Food minister. The tour guide ended up addressing the Food Minister as Kendall, which amused the Soviet official to no end. After this point the trip was a jolly and friendly affair. The Soviet Minister realized the Americans were not the scary beasts he had imagined, and was more than happy to be doing business with Pepsi.⁶² The fact that Kendall considers this to be one of the more standout cases of resistance by the Soviets, is certainly telling of the limited ideological resistance he encountered in the Soviet Union.

Expansion

Stolichnaya Vodka was a massive hit in the U.S. market, and not even Donald Kendall could have predicted how well Americans eventually received the Soviet

⁶⁰ Jeff Cioletti, Back in the (Former) USSR. *Beverage World*, 2009, 128, no. 8: 20-25.

⁶¹ Ibid

⁶² Ibid

liquor. In 1973, when Stolichnaya was first imported into the United States in significant quantities it sold 30,000 cases, by 1978 it was selling 200,000 cases per year.⁶³ These numbers were considered a resounding success, when factoring in the high price of a single bottle. By 1980, it was estimated that 1 million cases were being sold per year, making Stolichnaya the second best selling vodka in the United States.⁶⁴ Part of this commercial success was generated by Donald Kendall's aggressive advertising campaign, which stressed the fact that Stolichnaya was the only authentic Russian vodka available on the American market. Kendall's ads frequently attacked imposter Russian vodkas such as Smirnoff, which was made in Hartford Connecticut, as opposed to Stolichnaya, which was made in Leningrad (Fig. 3). The sales generated by the vodka in the U.S. were significant enough that in 1978 Pepsi announced it would increase the number of bottling plants it had in the USSR from 2 to 10. Distribution of the soda would now be expanded out from the Black Sea resort towns of Novorossisk and Yevpatoria, to major urban centers like Moscow, Leningrad, Tallinn, Alma-Ata, Kiev, Tashkent, Novosibirsk, and Sukhumi.⁶⁵

⁶³ David F. White, "Soviet Union and PepsiCo Reach Agreement on Cola-Vodka Deal." *New York Times*, January 11, 1978.

⁶⁴ Michael Parks, "Pepsi Push into Soviet Union a Textbook Case in Marketing." *Los Angeles Times*, June 26, 1988.

⁶⁵ David F. White, "Soviet Union and PepsiCo Reach Agreement on Cola-Vodka Deal."



Figure 3. 1974 Ad stressing the authenticity of Stolichnaya

Stolichnaya's success in the United States was surpassed only by Pepsi's popularity in the Soviet market. Pepsi was originally supposed to be sold for 15 kopecks per bottle, but ended up costing 40 kopeks per bottle or the equivalent of about 52 cents in 1974.⁶⁶ This relatively steep price for a Soviet citizen proved no deterrent to indulging in this Western luxury. In the early to mid 1970s when Pepsi was available only in the Black Sea region it was a hot commodity that stores in the area could not hold on their shelves for more than a day. Privileged children all over Sochi were seen happily consuming the beverage. The *New York Times* reported an

⁶⁶ Christopher S. Wren, "Curiosity Spurs Soviet Sales of Pepsi-Cola despite High Prices." *New York Times*, May 28, 1974, p. 55.

incident in Sochi where a group of Soviet youths brought Pepsi from a local store with them into a restaurant, when the other patrons saw the boys with Pepsi they began ordering in it from their waiters, only to be told the restaurant does not carry the soft drink.⁶⁷ By 1980, 73 distinctive Pepsi kiosks lined the streets of Moscow in subways and other traffic hotspots, each of which sold an average of 4,000 bottles per day.⁶⁸ In the early 1980s the Soviet Union was producing about 15 million cases of Pepsi-Cola for its internal market, with an annual income of 182.5 million dollars per year.⁶⁹ Pepsi was becoming a significant source of revenue for the Soviet state, an income stream that would only increase as the number of bottling plants climbed from 10 to 26 over the course of the 1980s.

Donald Kendall's advertising strategy wasn't only limited to selling Stolichnaya Vodka in the United States. In 1988 Pepsi became the first American firm to advertise on Soviet television. PepsiCo planned to air four 30-second ads on Soviet television one week before a major summit meeting between Ronald Reagan and Mikhail Gorbachev.⁷⁰ The commercials would first air on a program called "Pozner in America", where Vladimir Pozner, through a Satellite link between Moscow and Seattle, would speak with Americans on subjects ranging from their attitudes about

⁶⁷ Ibid.

⁶⁸ Michael Parks, "Pepsi Push into Soviet Union a Textbook Case in Marketing." *Los Angeles Times*, June 26, 1988.

⁶⁹ Figures calculated from 10 bottling plants producing 1.5 million cases per year, with 24 bottles per case. Each bottle sold for about 50 cents.

⁷⁰ Marison Mull, "Pepsi to Hit the Spot on Soviet Television With Commercials on Pre-Summit Program." *Los Angeles Times*, May 6, 1988, p. AA14.

the Soviet Union to family life in the United States.⁷¹ PepsiCo expected about 150 million Soviet citizens to tune into the broadcast. The ads would begin running on May 17th and continue through the 21st. Two of the ads featured a young Michael Jackson performing with a Pepsi; they were titled “Backstage” and “Concert”. These ads featuring Jackson were already running in the United States and would simply be dubbed in Russian for the Soviet audience. The third commercial titled “Float”, was the standout, as it featured an American astronaut and Soviet cosmonaut struggling to reach a bottle of Pepsi in a zero gravity environment. The final ad, called “Guitar” , showed off the American country rock scene with Pepsi as a sponsor.

The commercials were seen as a favorable sign back in the United States that the Soviet Union was finally accepting capitalism. Ed Wierzbowski of Global America argued that “it is very capitalistic”, and “If a communist country ever made a step closer to capitalism, this it.”⁷² Soviet journalist Sergei Skvortsov who co-produced Vladimir Pozner’s show, defended the move by saying that “The series is a quality program which can be sold to a lot of people, including people in the West” adding “Making a quality product and selling it all over the world is consistent with Socialism”⁷³ Whether or not Skvortsov’s argument holds any water is certainly debatable, but the fact of the matter was, the commercials were only a trial run, and the Soviets were not counting on Pepsi’s money to air the broadcast.

⁷¹ Ibid.

⁷² Ibid.

⁷³ Ibid.

By 1989 demand for Pepsi in the USSR far exceeded Stolichnaya sales in the American market. Since the amount of Pepsi syrup the Soviets could purchase was directly linked to vodka sales in the United States, a new deal would have to be signed to allow the Soviets to buy more syrup. The new contract that followed was perhaps one of the most bizarre business transactions in modern history. In 1990, PepsiCo and the Soviet Union signed their largest deal to date, worth 3 billion dollars.⁷⁴ Some of the more mundane clauses of the deal included things like expanding the Soviet Union's bottling network from 26 to 50 plants, and increasing the exportation of Stolichnaya vodka to the U.S. By far the most interesting stipulation of the new deal was how the Soviets planned to pay for the extra syrup they would be importing. Since Soviet rubles were still considered an inconvertible currency the Soviet government paid for the beverage with 10 commercial tankers and freighters ranging from 28,000 tons to 65,000 tons each.⁷⁵ Also included in the deal were 17 Soviet attack submarines, 1 cruiser, 1 frigate, and 1 destroyer.⁷⁶ After the deal, PepsiCo would become the 7th largest naval power in the world. Since Pepsi was not planning on invading any foreign countries, most of the ships were sold to the U.S. government or broken down for metal. Donald Kendall joked, "We're disarming the Soviet Union faster than you are", when discussing the deal with a Bush administration foreign advisor.⁷⁷ Donald Kendall later commented, "President

⁷⁴ Anthony Ramirez, "Pepsi Will Be Bartered for Ships and Vodka in Deal with Soviets." *New York Times*, April 9, 1990, p. A1.

⁷⁵ Ibid.

⁷⁶ Flora Lewis, "Soviets buy American." *New York Times*, May 10, 1989.

Bush and President Gorbachev should during their meetings have Pepsi and Stolichnaya on the table to remind them what good agreements are.”⁷⁸ Mikhail Gorbachev welcomed the expansion of Pepsi into the USSR because he saw the new contract as an excellent way of expanding the variety of foods and beverages Soviet citizens had available to them.⁷⁹

In 1987 the Gorbachev government passed its joint venture decree, which allowed foreign companies to own up to 49% of a business in the USSR. This law was part of Gorbachev’s overall policy of perestroika, and was designed to encourage Western investment in the ailing economy, while simultaneously ensuring that the government still retained the majority of shares in any particular foreign enterprise. This legislation would prove to be critical for the ambitions of both PepsiCo and McDonald’s. Towards the late 1980s, PepsiCo was looking to diversify its product line in the Soviet Union by opening fast food restaurants. Pizza Hut, a PepsiCo subsidiary since 1977, was America’s most popular pizza franchise in the 1980s.⁸⁰ In 1987 PepsiCo signed a contract with the Soviets to open two Pizza Hut locations in Moscow. The deal was initially intended to be a trial run, to test the feasibility of operating an American fast food restaurant in the USSR, under a dual ownership model.

⁷⁷ Ibid.

⁷⁸ John-Thor Dahlburg, "PepsiCo to Swap Cola for Soviet Vodka and Ships." *Los Angeles Times*, April 10, 1990.

⁷⁹ Ibid

⁸⁰ Mark D'Anastasio, "PepsiCo's Pizza Hut Signs Agreement for Soviet Venture; McDonald's Next?" *Wall Street Journal*, September 18, 1987, p. 12.

PepsiCo's plan called for two restaurants, one of which would accept rubles and the other only dollars or other hard currency. The ruble-denominated restaurant would be used to pay for the operating expense within the Soviet Union, while the other would be used to turn a profit in American dollars.⁸¹ Furthermore, PepsiCo would import some of the ingredients and flavorings necessary to prepare the pizza, thus circumventing the Soviet Union's unreliable agricultural sector.

What makes this event even more interesting is that just three days prior the Pizza Hut contract, McDonald's officials had concluded talks to open their own restaurant in Moscow. In a sense this kicked off a fast food race, as both companies no doubt wanted to claim the title of first American restaurant in the USSR. In his memoirs George Cohen comments that one of his primary motivators for bringing McDonald's to the USSR was a run-in he had with Donald Kendall in a Moscow hotel lobby in the early 1980s. Cohen recalls that Donald Kendall was arrogant, and full of himself for having succeeded with his Pepsi deal in the early 1970s. Kendall's condescending attitude left a big impact on Cohen, and beating him in the restaurant department must have been a priority in 1987. Cohen writes about his meeting with Kendall

I stared at him. He was rude. He was cold. He was pompous and self-important. I stood there, in the lobby of the Sovincentr, and felt something shift inside me. It came right out of the blue, at a moment when I least expected it. You could call it determination. I knew then that I was going to keep digging and driving. It was something quite unpredictable. You could call it optimism⁸²

⁸¹ Ibid.

⁸² George Cohen and David MacFarlane. *To Russia With Fries*. (Toronto, Ontario: McClelland and Stewart Inc, 1999). 89

By the late 1980s the Soviet press coverage of PepsiCo's endeavors in the USSR had become more extensive. *Izvestiia* reported on the strict quality standards PepsiCo employed in operating its Pizza Hut restaurants. The Soviet newspaper interviewed Andrew Rafalat, the director of Pizza Hut's Eastern Europe operations, who showered the Soviet Union with praise and platitudes, and stressed that Pizza Hut's policy offered speed of service, cleanliness, and delicious food, that tastes the same no matter where it is made.⁸³ The article also indicated that the restaurant would allow take-out orders, a concept that was quite foreign to most Russians, with five different types of pizzas available for Soviet citizens to take home and enjoy.⁸⁴ According to the article some of the basic ingredients for the pizza would be produced in the Soviet Union, but the equipment for the restaurants would be brought in from the United States, much as PepsiCo had done sixteen years earlier with their Novorossisk bottling plant.

Unfortunately for PepsiCo, they opened the Pizza Hut restaurants during the death throes of the Soviet Union and had not been well protected against the economic uncertainty of the crumbling nation. Pizza Hut's first major stumbling block resulted from failing to screen all employees for venereal disease, and had to be temporarily shut down.⁸⁵ Pizza Hut also failed to set up special farms to supply its restaurants, a mistake that would eventually lead to supply shortages. By December 30th of that year, Pizza Hut had to raise prices by 50 percent due to

⁸³ V. Tolstov, "Khoroshaia Kuhnia i Bystroe Obsluzhivanie." *Izvestiia*, February 29, 1988, p. 2.

⁸⁴ *Ibid.*

⁸⁵ Allen P. Myerson, "Setting Up an Island in the Soviet Storm." *New York Times*, December 30, 1990.

produce scarcity and volatility within the Soviet economy, although Cohen also eventually had to double the price of his Big Mac.⁸⁶ By 1991, the political situation in the Soviet Union was so unstable that Andrew Rafalat (president of Pizza Hut in Eastern Europe) had a suitcase packed and ready to go just in case he needed to quickly exit the USSR, and most of his valuables were left in London for safe keeping.⁸⁷

Conclusion

PepsiCo's success in the USSR was astonishing in view of the political climate the company was working in. In 1972 the Vietnam War was still raging and Western imports were viewed with considerable suspicion by the Soviet state. Despite this, a deal was reached after only eleven months of direct negotiations. PepsiCo became the first officially sanctioned company to enter the Soviet Union, and over the course of the 1970s slowly expanded its beverage empire. Even the turbulent 1980s, with the American boycott of the Olympics and the Soviet Invasion of Afghanistan could not slow down the rate at which Pepsi was sold in the USSR. What makes the whole deal even more remarkable was how well Americans responded to Stolichnaya vodka. Kendall's failure to get the Soviets unrestricted MFN status proved to be only a slight inconvenience in the end, as the high price of the vodka was actually used as a selling point. What we see from the Pepsi deal is a form of Soviet pragmatism, which often manifested itself when the government was

⁸⁶ Ibid.

⁸⁷ Ibid.

faced with having to choose profits over ideological integrity. The Pepsi contract had too much to offer the Russians, for them to refused the deal. Besides the revenue the deal brought in for the state, it also allowed the Soviets to export a cultural product of their own. The Pepsi deal even saw a brief political alliance between Kendall, Nixon, and the USSR against the American Congress, when they all lobbied against Senator Jackson's anti-Soviet provision. This strange alliance between three very unlikely parties shows just how critical it was to have friends in high places when dealing with the Soviets. The lack of political contacts was an issue that plagued George Cohen when he first began negotiations with the Soviet government for the establishment of a McDonald's restaurant.

CHAPTER III

MCDONALD'S IN THE USSR: REVOLUTIONIZING SERVICE CULTURE

Pizza Hut was not the first American fast food restaurant to open in the Soviet Union; it was beaten by McDonald's. Amid considerable pageantry and commotion McDonald's managed to open its doors on January 31st, 1990, a full eight months earlier than Pizza Hut. Similar to the Pepsi deal, the introduction of McDonald's into the Soviet Union grew out of a crusade by a single executive named George Cohen. Unlike Donald Kendall, George Cohen did not have the assistance of the American President or any high level political contacts within the USSR when he first began his quest. Cohen's business deal was initially much less tempting for the Soviet regime because it lacked the immediate benefits the Pepsi deal brought with it. The fourteen-year struggle to open a McDonald's in the "worker's paradise" was characterized by disappointing failures, wasted fortunes, stifling bureaucracy, ground breaking innovation, and even some blind luck. However, much like the PepsiCo case, McDonald's in the USSR is an account of one man's undying determination to succeed when most people told him he would fail.

In many ways the arrival of McDonald's into the Soviet Union represented so much more than just American fast food, or even American popular culture. The golden arches of Moscow became inextricably linked to Mikhail Gorbachev's policy of perestroika. To Gorbachev and by extension the Russian people, McDonald's was the harbinger of an economic revolution that would help reform some of the most backward aspects of Soviet society. When Soviet citizens queued for hours outside the restaurant, they weren't there for just a fatty hamburger and greasy fries. They

braved the Russian winter to catch a brief glimpse of the possible future perestroika and glasnost held for their nation. The problems and naysayers were never in short supply when it came to opening the restaurant. At times the project seemed to be buried under a mountain of red tape, one from which it would never escape. Cohen was forced to deal with problems that Donald Kendall never encountered in his 1972 deal. In fact, when Cohen was in the Soviet Union pitching his idea to any Soviet bureaucrat who would listen, he found that many of them didn't even know what a hamburger was. Moreover, Cohen's first foray into the USSR ended in complete failure, in contrast to Kendall's grand success with Nikita Khrushchev at the 1959 Moscow Fair. Initially, Cohen never had any ambitions to carry his company to foreign soil but all that would change on one fateful day.

Blind Chance

The project to bring McDonald's into the USSR began on chance encounter between President of McDonald's-Canada, George Cohen, and the Soviet Olympic delegation at the 1976 Montreal games. Some time before the Olympic games Cohen received a phone call from the Canadian Department of External Affairs asking him if they could use some of McDonalds' luxury coach buses to ferry around foreign dignitaries. Cohen was initially hesitant to loan the buses to the Canadian government, considering them for company use only, but in the end he decided that he was doing his country a service by providing them the vehicles.⁸⁸ This seemingly mundane act of patriotism would end up changing George Cohen's life forever. As

⁸⁸ George Cohen and David MacFarlane. 12

compensation for the use of his company's bus, the Canadian Olympic committee granted Cohen and his family tickets to the 1976 Olympic games. While attending a track and field event one late summer afternoon, Cohen spotted his company buses being used to shuttle the Soviet delegation, this particular group of Soviet officials was in charge of planning the upcoming 1980 Moscow Olympics. On the spur of the moment Cohen said to his wife, "Lets go meet the Russians."⁸⁹ Cohen casually struck up a conversation with the Soviet delegation, which he impressed with his unconventional hamburger shaped business card. After enjoying a brief conversation with the Soviets, he was rudely interrupted by a Canadian official who objected to Cohen's presence, and informed him that all communication with the Soviet delegation must observe proper protocol and be pursued through proper channels.⁹⁰ Cohen was a straightforward, no-nonsense businessman, who had little patience for bureaucrats (a patience he would later be forced to painstakingly develop from his dealings in the USSR). Cohen's response to the bureaucrat, "My friend, protocol is I own this bus," this response instantaneously endeared Cohen with the Soviet delegates who were quite used to dealing with bureaucrats telling them what they could and could not do. As a result of his handling of the situation, Cohen was invited to dinner by the Soviet delegation. Cohen happily took them up on their offer, but not before suggesting an additional pit stop, he invited them to lunch at one his McDonald's restaurants.

⁸⁹ Ibid. 13

⁹⁰ Ibid. 15

The Soviet officials were enamored of what they experienced in Cohen's restaurant. The food was delicious, the service was efficient, and the facilities were clean, adjectives one would rarely use to describe Soviet restaurants or cafes. It is more than likely that these Soviet officials enjoyed privileged access to special shops called *Beriozki* and exclusive restaurants for the Moscow elite. These special shops and restaurants were considered to be far superior to what regular citizens had available to them. And despite privileged access to the USSR's most exclusive services, the Soviet delegation was shocked by what they saw and tasted. A particularly striking observation they made was about the number of Canadian citizens who could afford to eat at McDonald's as often as they wanted.⁹¹ Additionally, the quality of service they received at this Canadian McDonald's was on par with some of Moscow's best restaurants, giving one a good idea of how far Soviet service standards had lagged behind the West.

Aware of the Soviets' astonishment, Cohen shifted the topic of conversation to the possibility of introducing a McDonald's to Moscow. The Soviet delegation thought this was an excellent idea, and even said they would relay the idea to their superiors. Motivated by what he saw and heard from the Soviet delegation, Cohen quickly phoned Fred Turner, CEO of McDonald's Corporation backing the in United States, to pitch the idea. Fred Turner's response was a simply "Go for it." Just like that, the adventure to introduce a McDonalds into the heart of the Evil Empire was born. Cohen is frequently asked why it was specifically McDonalds-Canada that went into the Soviet Union, and not the American branch. People often assumed it

⁹¹ Ibid. 16

was part of some dark and nefarious plot to use McDonald's-Canada as a smokescreen to further the goals of American commercial imperialism, when in reality Cohen claims it was nothing more than a simple phone call to his old friend Fred Turner that got the project underway.⁹²

While Cohen asserts that there was no grand “Machiavellian” scheme hatched in a clandestine McDonald’s boardroom to bring the Big Mac to Moscow, it would be naive to think that McDonald’s-Canada wasn’t in a unique position to further the overall goals of the company. After all, a Soviet bureaucrat who is attempting to sell the idea of a McDonald’s in Moscow to his superiors would have a much easier time convincing them to approve the project if it was coming from somewhere other than the Soviet Union’s primary rival. Despite Canada’s position as a full-fledged member of the bourgeois West, it would be safe to argue that Canada maintained a more innocuous image in the eyes of the Soviet regime. In fact as of 1971, Canadian Prime Minister Pierre Trudeau introduced his Third Option Policy, which called for increased economic relations with Europe and the Soviet Union as a way of diminishing Canada’s reliance on American markets.⁹³ Prime Minister Trudeau visited the Kremlin and gave a speech where he outlined his intentions to improve Soviet-Canadian relations “To achieve a satisfactory, just and continuing peace requires a climate of confidence, a climate in which men of differing social and economic system trust one another.”⁹⁴ The 1970s were a time of improving

⁹² Ibid. 19

⁹³ Aloysius Balawyder, *Canadian-Soviet Relations 1939-1980*. [Oakville, Ontario: Mosaic Press, 1981.] 65

relations between Canada and the USSR. Subsequently, Fred Turner (CEO of McDonald's-America) could have easily seen the advantages of using Canada as a surrogate to foster the growth of his company. Both men were excited about the project because they believed they could make it work, despite the massive obstacles in their path. The possibility of introducing a chain of McDonald's restaurants into one of the world's most populous nations was simply too good an opportunity to pass up.⁹⁵

McDonalds' First Forays into the USSR

Between the chance meeting of George Cohen and the Soviet Olympic delegation in 1976, to the actual opening of the Moscow McDonald's on Pushkin Square in 1990, McDonald's Corporation made two attempts at integrating itself into the Soviet market. The first was George Cohen's costly and ultimately unsuccessful venture to have McDonald's provide food for the 1980 Moscow Olympic games, and the second was the introduction of McDonald's food service technology at the Exhibition of Achievements of the National Economy (VDNH). Both these attempts were met with significant ideological and bureaucratic resistance. Many of the obstacles the company would need to overcome were not only sizable, but entirely unique because of the nature of Soviet economics. Only with the arrival of

⁹⁴ Ibid. 65

⁹⁵ According to the 1979 official Soviet Census the population of the USSR was 261 million people, while Moscow's population was 10.1 million people. For reference the population of the United States in 1980 was 221 million people. This presented a potentially lucrative market for McDonald's corporation considering the Soviet Union was the third most populous nation in the world behind China and India. Moscow's population alone contained about 45% of all of Canada's total domestic population, which was about 24 million people in 1980.

Gorbachev and perestroika, would McDonald's finally achieve success within the Soviet Union.

George Cohen's first trip into the Soviet was in 1976, where his goal at the time was to establish a temporary presence at the 1980 Moscow Olympics. By securing a deal to cater the international sporting event Cohen hoped to set up a beachhead on Soviet soil, from where he could then negotiate a more permanent presence for the company. This one-time deal had two benefits. First it made it easier for Soviet officials to pitch the idea to their superiors, since a temporary Western presence is much more palatable to Soviet hardliners. Second, Cohen hoped that the sales and profits this deal would generate for the Soviet Union would convince the skeptics on both sides of the Iron Curtain that McDonald's in the USSR was a feasible endeavor.

Between 1976 and 1979 Cohen visited the Soviet Union at least 6 times a year and stay for a few weeks per visit. Talks to provide food for Olympic spectators began with a round of meetings between Cohen and Vladimir Koval, coach of the Soviet men's basketball team. After his first round of meetings, Cohen would bitterly discover the bureaucratic jungle he had just stepped into. The Soviets seemed to have a never-ending arsenal of bureaucratic diversionary tactics. After a round of promising discussions, the Soviets would send in an entirely new negotiation team, meaning Cohen would have to essentially start at square one. Cohen's dealings in the USSR were further complicated by last minute meeting cancelations, which was another favorite tactic of Soviet officials. "The Soviets were very good at making it seem as if you were making progress. Just enough to keep

you from giving up, but never enough to actually get anywhere.”⁹⁶ Cohen’s frustrations soon multiplied, and so did his critics back home. As each year of tedious and hard-fought negotiations dragged on, Cohen was spending millions of dollars to keep the project alive. This massive investment, with little return proved to be a hard sell to his board of directors back home, all of whom unanimously doubted his ambitious project.

Cohen was equally thrown off by Russian culture as he was by Soviet bureaucracy. Russian’s traditional affinity for drinking alcohol as way of sealing business arrangements proved to be a bit overwhelming, as he was expected to drink copious amounts of vodka at the state dinners he attended. Not doing so would have been considered rude, and could have potentially jeopardized his business relationship with key Soviet officials. Cohen also had to learn that one of the most reliable currencies in the Soviet Union were Western cigarettes and McDonald’s paraphernalia. On every trip into the Soviet Union, Cohen brought with him cheap 12-dollar McDonald’s watches that he would hand out when he needed something done quickly. In one such episode, a Soviet hotel manager told Cohen that there were no rooms available, Cohen presented the manager with a McDonald’s novelty watch, and instantaneously a suite became available. Learning and adapting to these small idiosyncrasies of Soviet life would prove crucial to Cohen’s eventual success in the late 1980s.

After three and half years of painstaking negotiations to bring McDonald’s to the 1980 Moscow Olympics, a concrete deal was finally within sight in 1979. Almost

⁹⁶ George Cohen and David MacFarlane. 23

every single last detail had been ironed out including: how many McDonald's locations would be opened and at which venues; the interior and exterior designs of the temporary restaurants; their hours of operation; and what role the Soviet state would play in their management.⁹⁷ The only remaining step in finalizing the deal was a formal signing ceremony to be held the next day. Cohen was told to go to his room at the Metropol hotel in Moscow and await a phone call at 10:00am. The next day Cohen receive his phone call, telling him that the official signing had been postponed and he would receive another phone call at 2:00pm with further instructions. The 2:00pm phone call came on schedule telling him the signing ceremony had been pushed back once again to the next day and that he would receive a subsequent call at 10:00am the next morning. The next day Cohen received his 10:00am phone call with the exact same message as the pervious day. This process of phone calls and postponements continued on for 17 days. Until on the 18th day the call he received was different, this one informed him that the deal was off. At that time, in 1979, no reason was given to Cohen as to why the deal was called off at the last minute. Later it was revealed that Mikhail Suslov, chief of ideology for the Politburo, personally intervened and canceled the deal. The reason he gave for the cancelation was, "that such an arrangement would show the outside world that the Soviet Union could not provide food services for itself."⁹⁸ The news was absolutely devastating to Cohen, who had spent countless hours and millions of

⁹⁷ Ibid. 31

⁹⁸ Ibid. 83

dollars on the project.⁹⁹ In the end however the cancelation of the deal proved to be a blessing in disguise due to the American boycott of the 1980 games. McDonald's as a brand would have been put in a very difficult situation if they had carried out the deal over the objections of the American government.

It comes as no surprise that the Soviet regime of the late Brezhnev era eventually pulled out of the deal. The Soviet Union during this time period was still fighting a losing ideological struggle against what they termed as "cheap" bourgeois consumption. This is not say that Moscow bureaucrats were not willing to compromise on ideological purity for the sake of profit, because in a number of instances they consciously did just that. This was one of the reasons why the Pepsi deal back in 1972 was possible. Unfortunately for Cohen the issue of McDonald's catering the Olympics simply had too many ideological negatives attached to it for party bosses like Suslov to allow a compromise. Furthermore, the McDonald's deal was only supposed to be temporary, and would not be a source of long-term revenue for the state. From the point of view of the communist hardliners, not only did McDonald's represent the worst kind of mass consumption, but also the potential profits were simply not substantial enough for Suslov to make an exception, as was done in the case of Pepsi-Cola.

Suslov himself was a strict party conservative who believed in communist orthodoxy. Suslov's stance in the 1970s and 80s was for a tougher foreign policy towards the West. Suslov's biographer argues that by 1979 Suslov had reached the

⁹⁹ By Cohen's estimates the company had invested about 5 million dollars into catering the 1980 Moscow Olympic games. When adjusted for inflation, the cost in 2013 would be about 16 million dollars (according to the U.S. Bureau of Labor Statistics)

height of his political power and was wielding as much or maybe more authority than the General Secretary himself.¹⁰⁰ If this is indeed accurate then the cancelation of the McDonald's deal came from the very highest levels of the Soviet government.

McDonald's second foray into the Russian market was actually at the request of the Ministry of Internal trade and the Exhibition of Achievements of the National Economy or VDNH (Vystavka Dostizheniy Narodnovo Khozyastva) in 1987. The VDNH was a national technology exhibition, similar to the Moscow Fair, which showed off all the latest gadgets and technological marvels of the USSR. The problem the organizers of the event were having was how to quickly and efficiently feed the 100,000 visitors the exhibition received each day.¹⁰¹ McDonald's was contacted by Ministry of Internal Trade to help deal with this problem, seeing as how McDonald's was the world leader in fast food. The idea behind it was to use McDonald's technologies of food preparation and preservation to provide fast and efficient service. VDNH was designed to be a test run for a much larger project of expanding the USSR's frozen food industry. The foods they planned to serve at the trade show would include fried chicken, hotdogs, and hamburgers.¹⁰²

The wildly popular Soviet opinion magazine, *Argumenty i Fakty*, covered this story by interviewing Rudolf Anatolovich Chaianov (Director of the Department of Light Industry and Consumption from the State Committee on Technology and

¹⁰⁰ Serge Petroff, *The Red Eminence: A biography of Mikhail A. Suslov*. (Clifton, NJ: The Kingston Press Inc, 1988.) 191

¹⁰¹ Boris Stanishnev, "K 1990 G. V 85 Gorodakh Polaviatsia Industrial'nye Kompleksy Pitaniia. Nash Obshchepit: Primenim li Opyt SShA?" *Argumenty i fakty*, July 7, 1987, p.1-4

¹⁰² Ibid.

Science). Chaianov explained to the correspondent that McDonald's as a company has made considerable advances in the area of deep freezing and microwave technologies, areas where the Soviet Union has considerably lagged behind.¹⁰³ He then went on further to explain that the state has plans to set up a food industrial complex in 85 Soviet cities by the year 1990, aided by the technical know-how of McDonald's. The correspondent shared some of his concerns with the director, asking how this would affect traditional Russian cuisine if the Soviet Union switches over to frozen and microwavable foods. Chaianov assured the magazine that the ideal plan was to use McDonald's technologies, but maintain the integrity of traditional Russian dishes. The interviewer also introduced questions from his readers, who were concerned that the Soviet Union should not be wasting money on foreign equipment and instead investing the funds into domestic production. A common complaint was that the USSR had capitulated to the West back in the 1970's when they signed a deal to allow Pepsi exclusive trade rights within the USSR. Soviet citizens were concerned that not enough had been done to promote the domestic beverage kvas as an alternative to Pepsi. In response Chaianov assured the readers of the magazine that this deal was in the best interests of the USSR. This defense by Chaianov was indeed accurate, as the Brezhnev regime had much gain from signing the deal with Pepsi.

This interview is significant for a number of reasons as it hits upon some important trends in Soviet culture, history and politics. First, the very fact that the Ministry of Trade was allowed to contact McDonalds in 1987 is indicative of

¹⁰³ Ibid.

changing attitudes under perestroika. Hardliners like Mikhail Suslov were becoming much less of a factor in dictating party ideology, taking into account the somewhat Slavophile nature of *Argumenty i Fakty*. Next, the importation of Western technology and equipment to stimulate the economy was nothing new when examining the entirety of Soviet history. Joseph Stalin's first five-year plan involved considerable technical cooperation with the West, as a way to jumpstart various industrial sectors like automobile production and metallurgy.¹⁰⁴ Additionally, we see references to the Soviet Union's ambitious plans to export Soviet culture onto the world market, especially with their failed attempt at making kvas a competitive product with Coca-Cola.¹⁰⁵ Finally, the interview touches upon the ever-present concern that Western influence corrupts and poisons traditional Russian/Soviet culture. This was an ideological battle waged throughout all 74 years of Soviet history. In the end, the plan to use McDonald's fast food technologies never materialized because McDonald's-America was asking too high of a price for the equipment. It would take another two and half years for George Cohen to iron out all of the necessary details for a permanent presence in the Soviet Union.

Problems of the Soviet Market

McDonald's as a business faced considerable challenges in bringing their brand into the USSR. Most of these obstacles were entirely new for the corporation due to the unique nature of the Soviet economy. The McDonald's deal was significantly

¹⁰⁴ See Steven Kotkin's *Magnetic Mountain*, and Lewis Siegelbaum's *Cars for Comrades*

¹⁰⁵ Alan M. Ball, *Imagining America : influence and images in twentieth-century Russia*. (New York: Rowman & Littlefield, 2003.) 197

more difficult than the Pepsi deal because some of the problems Cohen contended with were non-issues for Donald Kendall. The process of opening a full-service restaurant is fundamentally more complicated than mixing concentrated syrup with carbonated water. First, the notorious unreliability of the agricultural sector in the Soviet Union meant that consistent produce deliveries could not be guaranteed. Second, without the aid of an American president or a personal relationship with Leonid Brezhnev, Cohen's project would be tied up in the quagmire of Soviet bureaucracy for years. Third, the general poverty of Soviet citizens meant that they would have less disposable income to spend on fast food. Fourth, the service culture of the USSR was terribly unfriendly and many skeptics worried Russians could not be trained to meet McDonald's high standards of professionalism and hospitality. Finally, the most significant obstacle was how to properly convert rubles into hard Western currency, a problem Donald Kendall managed to solve with his syrup for vodka exchange. All of these problems would eventually be solved through ingenuity and unconventional methods.

The grossly inefficient nature of Soviet agriculture would make operating a McDonald's restaurant nearly impossible. If consistent produce deliveries could not be ensured then the McDonald's brand simply could not function. Despite considerable investments into farming by the Brezhnev regime in the late 1970s and early 1980s the productivity of Soviet farms continued to drop. In 1981 the grain harvest was so low that Moscow never officially announced output figures.¹⁰⁶ Much of the problem stemmed from over-centralization and incompetence on the part of

¹⁰⁶ Henry S. Rowen "The Soviet Economy" in *The Soviet Union in the 1980s* ed. Erik P. Hoffman (New York: Academy of Political Science, 1984.) 42.

Soviet bureaucrats.¹⁰⁷ Meat production was yet another weakness of the Soviet economy, which dropped after hitting its peak production in 1978 from 15 million tons to 13 million tons in 1981.¹⁰⁸ Obviously, meat shortages were a serious concern for a company whose primary product was the hamburger.

To solve their produce problems in the USSR, McDonald's had achieve a level of vertical economic integration it had never needed in the past. Traditionally all meat, vegetable, and material needs of the company were outsourced to local growers and manufactures. This business model was simply not possible in the USSR. To satisfy its vegetable and meat requirements, McDonald's needed to establish special farms whose sole task would be to provide produce and meat for the Moscow restaurant. To meet its manufacturing needs the company would build a 10,000 square meter state-of-the-art manufacturing complex in the Solntsevo district of southwestern Moscow.¹⁰⁹ The manufacturing complex was nicknamed the "McComplex", (Fig. 4) and it would be responsible for ensuring all food quality standards were meet. The McComplex was an enormous white building, which was built with the assistance of 15 countries in 1989.¹¹⁰ The complex consisted of 12 assembly lines for the processing of milk, meat, potatoes, vegetables, mustard, ketchup, and various condiments as well as sauces.¹¹¹ The complex also contained dozens of industrial

¹⁰⁷ Ibid. 42

¹⁰⁸ Ibid. 42

¹⁰⁹ V. Chebakov, "Tol'ko za Rubli." *Pravda*, January 30, 1990, p. 6.

¹¹⁰ Ibid.

ovens for the baking of apples pies, and the quality of the ingredients was supposed to match that of Canadian and American standards. Two workers within the complex were specifically tasked with making sure the buns for McDonalds burgers come out exactly circular, if they did not meet the stringent standards, the irregular buns were quickly discarded. A special assignment in the processing factory even included the measuring of every potato with a ruler to ensure that each order of French fries had an even mixture of long, medium and short fries.¹¹² At peak capacity the McComplex could reach an output of 10 thousand beef patties, 14 thousand sesame buns, and 5 thousand apple pies an hour! McDonald's of Russia would control every level of production in the supply chain, from the grower to the distributor. Also, it is important to understand that the failure of the first McDonald's in the USSR due to supply reasons would have reflected very poorly on the reforms of perestroika and the state of the Soviet economy in general. This is why the Gorbachev government went out of their way to ensure a steady supply of goods to the Moscow McDonalds. As Pravda commented, "the success of this restaurant depends on the patriotic hard work of our farmers and agricultural laborers."¹¹³

¹¹¹ Ibid.

¹¹² Ibid.

¹¹³ A. Liutyi, "Skoro li Debiut "Big-Maka"." *Pravda*, March 9, 1989, sec. 68, p. 3.



Figure 4. The “McComplex”

The stifling nature of Soviet bureaucracy was the second major hurdle that needed to be overcome. As one Pravda journalist so eloquently put it “it is a miracle the project was not destroyed on the coral reefs of Soviet bureaucracy.”¹¹⁴ In fact, these problems were so pervasive that they became a well-known issue even outside the USSR. Countless Soviet films and shows poked fun at the endless paperwork and documentation one needed to get anything done. George Cohen recalls during his negotiations with amazement at the myriad of rubberstamps one needed to collect from various officials just to get paperwork processed. Out of frustration Cohen even had his own rubberstamp made that said “chush” meaning

¹¹⁴ Ibid

nonsense in Russian.¹¹⁵ After a long hard day he would take his anger out by stamping documents with his nonsense stamp.

The bureaucracy problem never really went away, but it was mitigated by two factors, the first being Cohen's ability to adapt, and the second being perestroika. In his memoirs Cohen writes,

We gradually learned the ropes. We slowly learned about the codes and the intrigues and the subtleties and the secret signs. We never cracked the Soviet bureaucratic code entirely, but at least we came to realize things were not always as they seemed. For instance, you could meet with one official who would tell you to your face that he was eager to help you. In fact all he wanted was to get rid of you. He would hurry you out of his office by writing a letter to be shown to some other Soviet official who was on your list of important people to see. The letter would say "Please give all assistance to these wonderful people." Which was great-except that if he signed on, say, the left side of the page, instead of the right, the letter would actually tell the official who read it to do exactly the opposite of what the letter said.¹¹⁶

Besides Cohen's keen decoding skills, perestroika and glasnost helped to streamline the negotiation process. Cohen even managed to develop a personal relationship with Mikhail Gorbachev who contributed a forward to Cohen's memoirs. The personal relationship these men developed over the late 1980s went a long way to tearing down bureaucratic roadblocks. The fact that Cohen's negotiations became infinitely easier when he had gained the attention and friendship of Mikhail Gorbachev goes to show that knowing the right people made all the difference in the Soviet Union. This was a major advantage Donald Kendall had over George Cohen, as Kendall personally knew the top leaders of the USSR such as Leonid Brezhnev and

¹¹⁵ Cohen and MacFarlane. 134

¹¹⁶ Ibid. 133-134.

Alexei Kosygin. Kendall also had the invaluable aid of President Richard Nixon, without whom, the business deal may never have happened.

The general poverty of the Soviet Union was certainly a concern for the McDonald's team. 89% of the Soviet population made less than 175 rubles per month, while the average income of a Soviet citizen was 112 rubles per month in 1980.¹¹⁷ By 1989 the average income would rise slightly to 151 rubles per month.¹¹⁸ When converted to US dollars the average income of a Soviet citizen was just 201 dollars per month or 2,412 dollars per year.¹¹⁹ For reference, per capita yearly income in the United States was 9,494 dollars in 1980.¹²⁰ That means the average Soviet citizen made 7,082 less dollars than the average American citizen or about 475% less per capita. This wide income disparity would certainly mean the average Soviet consumer would not be able to afford eating at McDonald's on a consistent basis. The income issue was certainly a concern, but it was one McDonald's leadership would simply have to adjust to. Obviously petitioning the Soviet government to raise salaries was entirely out of the question. When the first McDonald's location opened, the price of a Big Mac value meal was 5 rubles and 65 kopeks.¹²¹ Since the average monthly income in 1989 was 151 rubles, this meant that eating at McDonald's was a pricy proposition. Fortunately for Cohen, the poverty of Soviet citizens turned out to

¹¹⁷ Michael V. Alexeev, and Clifford G. Gaddy, "Income Distribution in the USSR in the 1980s." *Review of Income and Wealth* 39, no. 1 (March 1993): 1-14.

¹¹⁸ *Ibid.* 7

¹¹⁹ Rubles to dollar conversion rates were obtained from the Archive of the Central Bank of Russia.

¹²⁰ U.S. Department of Commerce, Bureau of Economic Analysis

¹²¹ V. Chebakov, "Tol'ko za Rubli." *Pravda*, January 30, 1990, p. 6.

be a non-issue, just like the case of Pepsi in Novorossik, the relatively expensive price of these Western foods was not a factor for enthusiastic Russian consumers.

A ubiquitous characteristic of the Soviet service sector was its unfriendliness. This issue was covered at length by the Soviet Press who commented on the unpleasant and discourteous nature of customer service in the Soviet Union. Pravda made comments like “waiters in the USSR get angry at clients for the slightest violations of their peace”¹²² Other journalists pointed out that McDonald’s would not survive in the USSR because the employees would be rude to their guests. The popular journal *Argumenty i Fakty* also predicted that no matter how much foreign technical know-how was brought in for the restaurant, the human factor would be McDonalds’ biggest problem.¹²³ A common Soviet saying was frequently brought up in the press as an example of Soviet laziness “They pretend to pay us, we pretend to work”¹²⁴ These problems were all real enough, even Cohen himself describes Soviet restaurants as “vast coldly formal dining rooms that were always out of everything and where the waitress or waiter seemed physically incapable of smiling.”¹²⁵ This issue was not just a problem in restaurants and cafes but endemic to the whole system, as retail and shopping was plagued with the same problems of poor and unfriendly customer service.¹²⁶

¹²² V. Sukhoi, "Postigaia Sekrety "Makdonal'dsa."" *Pravda*, October 8, 1989, sec. 281, p. 5.

¹²³ Boris Stanishnev, "K 1990 G. V 85 Gorodakh PoIaviatsia Industrial'nye Kompleksy Pitaniia. Nash Obshchepit: Primenim li Opyt SShA?" *Argumenty i fakty*, July 7, 1987, p. 1-4

¹²⁴ G. Batsanova, ""Big-MaK" Eto Politika: A Kak u Nikh?" *Pravda*, August 30, 1990, p. 6.

¹²⁵ Cohen and MacFarlane, 16.

To address labor and hospitality concerns, McDonald's set up a 1000-hour training course for its management staff.¹²⁷ These managers were then responsible for training employees who applied to the restaurant. The training system was one of the most rigorous in the whole company. When dealing with the press and skeptics about the potential of Russian workers, Cohen would respond to their concerns by asking one simple question "Who wins the most medals at the Olympics." The reporters and skeptics would then respond with "Well the Soviets." This allowed Cohen to follow up with "If the young men and women of the Soviet Union can consistently beat the Americans and Canadians at sports, then they can surely be trained to serve food at a high level." This response from Cohen is something the Soviet press printed with great amusement, because after all, Cohen was not only massaging the ego of the Soviet Union, but he also had a legitimate point.

The final and perhaps most troubling problem McDonald's had to deal with was how to convert the Soviet ruble into Western currency. As mentioned, the ruble was a hollow currency that was heavily manipulated by the government, and a real conversion rate could not be established for mass transactions. In his 1972 Pepsi deal, Donald Kendall brilliantly circumvented the ruble by forcing the Soviets to pay for Pepsi syrup with the American dollars they earned from Stolichnaya Vodka sales in the United States. This type of workaround was obviously not possible since establishing McDonald's in the USSR was a one-way deal. Many of Cohen's advisors

¹²⁶ See Katherine Eaton's *Daily Life on the Soviet Union*, Westport, Conn: Greenwood Press, 2004. Especially section about shopping

¹²⁷ V. Chebakov, "Tol'ko za Rubli." *Pravda*, January 30, 1990, p. 6.

recommended that the first McDonald's accept only hard Western currency. This however would exclude the majority of the Soviet population, because it was illegal to own and use American dollars. This simply was not an option because to Cohen, McDonald's was an all inclusive family restaurant, and only having it open to foreigners would compromise everything the company stood for. It would also heavily hamper the restaurants ability to make a profit.

A few solutions were proposed, first was to use the rubles earned from the restaurant to purchase Soviet made goods or even crude oil that could then be shipped out of the country and sold on the foreign market. Another solution was to use the rubles to buy real estate in the USSR and then lease it out to other foreign companies for Western currency. The final solution was to just invest all earned rubles into building more McDonalds locations, and eventually a reasonable conversion rate could be established in the future. The problem would eventually solve itself however, since the collapse of the USSR made currency trading a much simpler process.

Success at Last

The turning point in Cohen's negotiations came with the introduction of glasnost and perestroika. Cohen's failure in 1979 to bring McDonald's to the Olympics did not deter him, and after a few months he returned to the Soviet Union with the goal of establishing a permanent restaurant. The connections he had developed over the early 1980s brought him to the attention of a rising star within the Communist party, a man by the name of Mikhail Gorbachev, who frequently

spoke of sweeping reforms. In 1987, one of perestroika's most significant reforms allowed foreign investors up to 49 percent ownership with Soviet partners. These would be the terms on which the first McDonald's would be established in an official partnership with Glavobshchepit (primary public food distributor). The Soviet state would own 51 percent of the restaurant, and McDonald's-Canada the remaining 49 percent.¹²⁸ The location for the restaurant was negotiated at the very last stages of the deal, and after much debate, the site of the old Café Lyra on Pushkin Square was chosen. Soviet property values were determined in a rather simplistic way. "Their system of evaluation was based on an arbitrary application of zones concentric circles were drawn from the center of Moscow, and anything within a certain zone was given an automatic, undisputable price tag."¹²⁹ Naturally since the proposed location was in the heart of Moscow, the property value was some of the highest in the city. It is unclear exactly what McDonald's of Canada paid for the location, but after 14 years of negotiations the final price for bringing McDonald's to the USSR was around 50 million dollars.¹³⁰ This massive investment was made before even one burger or order of French fries was sold.

There was great fanfare and excitement on opening day, as various Soviet media outlets reported on the event with opinions raging from cautious optimism to uneasy pessimism. *Pravda's* reporting on the event was generally positive, calling

¹²⁸ Cohen and MacFarlane, 192

¹²⁹ Ibid. 192

¹³⁰ Ibid

McDonald's a reinvigoration of the soul of public catering in the USSR.¹³¹ The coverage by *Izvestia* was a bit more mixed, as some writers claimed it was a revolution in the country's relations with the West, while others made doomsday prognoses. Stanislav Kondrashov (a journalist for *Izvestia*) predicted that within six months the crushing bureaucracy and corruption of the Soviet system would destroy the McDonald's, and the company would have to save their employees with helicopters from the rooftops. He is of course referring to America's last minute scramble to save U.S. embassy workers in Saigon at the end of the Vietnam War.

The Soviet press seemed to take great delight in reporting various statistics about the Pushkin Square McDonald's. The location served 50,000 people a day, had an occupancy limit of 700 people at a time, and employed 1200 workers. *Pravda* and *Izvestiia* also reported with pride on the output of the 10,000 square meter McComplex, built outside of Moscow that supplied the Pushkin Square location. The weekly output of the food-processing factory was 55,000 kilograms of beef, 72 tons of fries, 68,000 liters of special sauce, and 9,000 kilograms of milkshakes.¹³² This kind of reporting harkens back to the glory days of Stalinist industrialization when all media outlets eagerly reported on the tonnage of steel or pig iron put out by the various factories springing up all over the USSR. Between 1990 and 1995 the Pushkin Square McDonald's drew 80 million visitors, more than the Kremlin or Lenin's tomb, making it the busiest McDonald's in the world.¹³³

¹³¹ V. Sukhoi, "Postigaia Sekrety "Makdonal'dsa."" *Pravda*, October 8, 1989, sec. 281, p. 5.

¹³² Stanislav Kondrashov, "Nash Sosed "Makdonal'ds."" *Izvestiia*, January 30, 1990, p. 6.

A centerpiece of Cohen's policy was to make the Pushkin Square McDonald's accessible to every Soviet citizen, not matter their social standing. For Cohen, it was absolutely critical that anyone could walk off the street and purchase a Big Mac. The problem with making the restaurant open to the general public meant that the restaurant would have to accept Soviet rubles, in spite of the currency's unconvertible status on the world market. Opening a restaurant that only accepted hard currency was an unacceptable proposition, because it would severely limit potential profits, and it went against everything McDonald's stood for. During his journey to open a restaurant, George Cohen encountered (what seemed to him at the time) a rather strange phenomenon. Throughout most of the Soviet period, the best retail stores in the country were only available to foreign dignitaries or high-ranking Soviet officials. These exclusive stores were known as *Beriozki*, and the only payment they accepted was hard foreign currency. Outside of every *Beriozka* store, hung a very distinct bronze and gold-plated signs that said in Russian "this store accepts hard currency only." These private stores for the upper class were stocked with the best goods and products, which resulted in them being unanimously hated by ordinary people in the Soviet Union, and represented some of the worst aspects of upper class privilege.¹³⁴ Cohen even recalls a time when he took one of his Russian translators into a *Beriozka* store with him, and she broke down crying from the sight of all the goods she and her family would never has access to.¹³⁵ As Cohen

¹³³ Richard Pells, *Not like us : how Europeans have loved, hated, and transformed American culture since World War II*. [New York: Basic Books, 1997.], 303.

¹³⁴ Katherine B. Eaton, 121, also see Cohen and MacFarlane. 124

was finalizing the details for his restaurant he was struck with a brilliant idea. Cohen decided he would make a duplicate of the signs that typically hung outside of the Beriozka stores, but instead of having the sign say “hard currency only” he would have it say “rubles only.” (Fig. 5) This sign was of course intended as a parody of the signs that were displayed outside the hated Beriozka stores. When the Pushkin Square McDonald’s opened in January of 1990, his mock sign was hung right at the front entrance. Cohen’s sign was a public relations triumph, as it earned him extra publicity in many American and Soviet newspapers. In one fell swoop Cohen had managed to endear himself to the Soviet public, and attack decades of socialist inequality. A number of years later *Pravda* even awarded Cohen the title of “Hero of Capitalist Labor” for his ingenious sign.¹³⁶



Figure 5. Cohen’s famous sign at the Pushkin Square McDonald’s in 2013

¹³⁵ Cohen and MacFarlane. 124

¹³⁶ Ibid. 126

Why Soviets Went to McDonald's

It was no secret that Soviet citizens, especially the younger generations idealized Western culture. This can be seen time and time again from their choice of films, music, and literature. Many Soviets saw foreign films as a form of cultural tourism. Sergey Zhuk writes that genuine American Westerns were popular because people got a feeling of authenticity from the cacti and exotic American deserts in these films.¹³⁷ To many young Soviets, America was that shining city upon a hill, and by patronizing the restaurant they gained access to the American Camelot. People didn't just go to McDonald's because they wanted a taste of American cuisine, but because they craved a taste of American service, efficiency, and quality. The Pushkin Square McDonald's was clean, bright, warm, and inviting. The employees were friendly, well dressed in their clean and pressed uniforms, hospitable, and professional, all this contrasted sharply with the Soviet service sector, which was just terrible in every respect. The food at McDonald's arrived quickly, tasted good, and most importantly was delivered with a smile. Even *The New York Times* picked up on the service revolution, commenting that McDonald's offered something rare in Soviet society, polite workers.¹³⁸ Much like the Indian movies of 1960s and 70s, which offered Soviet citizens a cultural escape to an exotic, colorful and warm land, McDonald's was an escape from the drab monochrome nature of customer service in the USSR. Dining at McDonald's was an experience well beyond eating merely burger and fries; it was it was a taste of American quality.

¹³⁷ Sergey I. Zhuk, *Rock and Roll in the Rocket City*. 125-142

¹³⁸ Francis X. Clines, "Moscow McDonald's Opens: Milkshakes and Human Kindness." *New York Times*, February 1, 1990, p. A13.

It is true that the motivation for many Soviet citizens to visit McDonald's was driven by an idealization of the West, but in many ways it was an example of progress within their own nation. McDonald's was a sign that perestroika was making substantive changes to their society. Before McDonald's, perestroika was just an abstraction, a lofty concept, but with the arrival of the restaurant, perestroika became a reality. Soviet citizens could touch, smell and taste their very own piece of perestroika. *Izvestiia* called it a symbol of changing times and a revolution with out relations to the West.¹³⁹ The opening was celebrated like the inauguration of an American president.¹⁴⁰ Because in a way it was just as important, it meant that better days are on the horizon, and the day saw queues the spanned several city blocks. (Fig. 6) The Gorbachev administration wanted the restaurant to succeed just as much as George Cohen did, maybe even more. As a reformer, Gorbachev's credibility was tried up in the survival of this bold initiative. As *Izvestiia* reported "This McDonald's will be a test of the endurance and strength of the McDonald's franchise and also our perestroika."¹⁴¹ This is how Gorbachev's policy of perestroika and the golden arches of McDonald's became one.

¹³⁹ Stanislav Kondrashov, "Nash Sosed "Makdonal'ds"." *Izvestiia*, January 30, 1990, p. 6.

¹⁴⁰ Ibid.

¹⁴¹ Ibid



Figure 6. A queue several blocks long forming on opening day

Working at McDonald's

A few months before the opening of the Pushkin Square location, Cohen and his management team began an exhaustive search for employees. Since the bulk of the workforce would come from the Soviet population, McDonald's began a recruitment drive for qualified Muscovites to staff their restaurant. Glenn Stevens, the human resources manager at the Pushkin square location, said in his interview with *Pravda*, that the most desired qualities of a McDonald's employee include openness, courtesy, and communication skills.¹⁴² The amount of applications Cohen and Stevens received was overwhelming, 30,000 thousand in total.¹⁴³ Out of the 30,000

¹⁴² E. Matveets, "Podrostki iz Restorana." *Pravda*, November 12, 1990, p. 3.

applicants, 6000 were interviewed, and 600 were eventually hired, although an additional 600 were hired after the restaurant opened, bringing the total staff to 1,200 people. Employee training consisted of a 30-hour course on proper customer service techniques, and the importance of working as a team. The age range for the average employee at the Moscow McDonald's was 16 to 25 years old, and for the majority of them, this was their first job.¹⁴⁴ Additionally, about half of the staff worked at the restaurant on a part-time basis, and were either high school or university students. For those employees who did not work full-time, the average number of hours worked per week was 12-15 and, these workers were told that school and family must come first, and work was only a secondary priority in life. The company was always willing to accommodate worker's schedules and be flexible with their personal matters.

Glenn Stevens had nothing but praise for his Soviet workforce when talking to *Pravda*. According to him, 75 people of the original 600 employees had already been promoted to instructors, 50 to shift managers, and 9 people had made it to the position of deputy directors in charge of training.¹⁴⁵ Steven's commented that McDonald's was not just a job, but a large family, and employees of the Moscow McDonald's frequently organized social events and workplace outings, as a way of building camaraderie. There was also an employee of the month program started up to keep the workforce motivated, and those awarded with the honor would receive

¹⁴³ Ibid

¹⁴⁴ Ibid

¹⁴⁵ Ibid

bonuses to their pay. When visiting executives from McDonald's-Canada toured the Pushkin Square restaurant they were all very impressed with the quality of the Soviet workers.¹⁴⁶

When asked by *Pravda*, "what kind of benefits does working at McDonald's bring?", Stevens responded by say "workers have the opportunity to earn a decent living and provide for their families, but most importantly they will learn job skills that can be applied in their future careers."¹⁴⁷ The reporter interviewing Stevens, finished the interview by commenting "while McDonald's is not capable of feeding our boundless country, the skills it will teach youth will be invaluable experience for them as workers." Perhaps the most interesting aspect of this article is an artist's rendition of how McDonald's will transform lazy and slovenly Soviet teens into, presentable and well-groomed citizens. This illustration is quite paradoxical, (Fig. 7) as the Soviet leadership and press have frequently stressed the transformative effects of labor on the human soul, but now it was happening under the auspices of a capitalistic American corporation.

¹⁴⁶ Ibid

¹⁴⁷ Ibid



Figure 7. McDonald's transforming Soviet Youth

Conclusion

McDonald's in the Soviet Union is not just a narrative of one fast food restaurant in Pushkin Square, but a tale that involves the collision of culture, ideology, and economics on the highest stages of world politics. The struggle to bring the golden arches to Russia highlights some of the worst aspects of Soviet society: the crushing bureaucracy, the backwards economy, and the inhospitable service sector. In some ways McDonald's was similar to other forms of Western culture that slowly trickled into the USSR. Much like films and music it provided Soviets with a taste of the American spirit, but in other ways McDonald's was entirely unique as a cultural product. No other American import became so closely tied to the improvement of the Soviet Union, and there is simply no other Western brand, which so closely represented the government's drive to reform. Before perestroika and McDonald's,

the official Soviet stance was begrudging acceptance of Western popular culture, but after McDonald's and perestroika it wholly welcomed American investment.

Unfortunately the perestroika experiment proved to be a failure as the Soviet Union collapsed a year and a half later. McDonald's on the other hand was a resounding success. As of today the Pushkin square McDonald's remains one of busiest in the world, and the largest in Europe.

CHAPTER IV

CONCLUSION

PepsiCo and McDonald's in the USSR are valuable cases studies for the field of Soviet history. The introduction of these two brands highlights the interplay of politics, business, culture, and economics between a socialist and capitalist society in a way other American imports could not. Very little secondary work has been done about American food as a form of cultural consumption in the USSR. American films, television shows, and music have been the items featured most prominently in works about American consumer goods in the communist nation, but they do not give us a complete picture of how Soviets consumed foreign imports. Additionally, films or music cannot give an accurate representation of the difficulty in establishing a fully operational for-profit business in a centrally planned economy. These cases studies also give us an idea of how and why the Soviet regime sanctioned American entry into their market. The Pepsi deal for instance showcases the advantage of having the right political allies when dealing with the USSR. McDonald's on the other hand, points out just how far service standards had lagged behind the West. The two cases also have comparative value since they dealt with many of the same problems. Furthermore, PepsiCo's success in the early 1970s shows why McDonald's failed to establish itself in that same decade.

Interestingly enough both cases are representative of the Soviet Union's need to make compromises and bend its own party rhetoric when dealing with the West. The Pepsi deal provided the Soviet regime with three immediate benefits, first they would stand to make a profit from licensed Pepsi sales. Second, they would mitigate

lost revenue from state alcohol sales by exporting vodka to the West. Finally, the chance to export one of their own domestic products into the West was seen as a victory for Soviet industry, and the fact that it sold so well only reinforced this notion. While the Soviets were probably not thrilled being associated with only good vodka, it is telling that Stolichnaya's "Russianness" made it the second best selling vodka in the United States. There were of course elements within the Soviet regime that opposed the Pepsi deal, but they were either ignored or quickly silenced. Furthermore, McDonald's entry into the USSR was also a compromise. The fact that McDonald's-Canada was the primary force behind the company's entrance into the USSR is indicative of a lingering uneasiness with American goods. Since the corporation was coming through Canada it allowed the Soviets reap the benefits this company would bring, but still keep direct American involvement to a minimum.

We also see that each brand became linked to a major political policy of the Cold War. During the 1970s Pepsi became emblematic of Richard Nixon's détente. Nixon actively promoted friendlier relations between the U.S. and USSR, and saw the 1971 trade mission as an excellent starting point for negotiations. However it was no accident that Nixon sent his friend Donald Kendall on the trade mission. Nixon was there for Kendall's prior success with the Soviet in 1959, and Nixon knew that Kendall's idea to bring Pepsi into the USSR would be a good way of strengthening relations. When Nixon and Kendall lobbied the American Congress to pass the 1974 Trade Reform Act, a central argument Richard Nixon presented was that the trade barriers must be lowered because they could irrevocably damage the fragile détente he had built in the previous years.

McDonald's also represented a major initiative during the Cold War, except this time, it was within the Soviet Union itself. Perestroika was Mikhail Gorbachev's grand plan to reform the Soviet economy. For Gorbachev, McDonald's present an excellent opportunity that fell in line with his strategy, which is why he went out of his way to help George Cohen. The American corporation represented speed, efficiency and quality, three things the Soviet economy was severely lacking. By bringing in foreign investment, the Gorbachev government could point to the very tangible restaurant as proof of substantive progress in the Soviet Union. Gorbachev staked his credibility on the success of the venture, and failure would have been disastrous.

Finally, these two companies are only the tip of the iceberg when examining foreign business in the USSR. This is a field that is relatively wide open in Soviet history and more research avenues are certainly available. Besides American goods, the Soviet also made deals with various European corporations, and examining how these companies interacted with the Soviet state would provide a more complete picture of Western-Soviet business relations.

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