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The Russian Point of View

Dear Peter,

As promised, this newsletter will introduce the Russian angle of the North Pacific fisheries story. The Russian Far East, which extends for over three thousand miles from the Chukot Peninsula in the North to Vladivostok in the South, is fast becoming significant on the Pacific Rim. Yet there are many problems confronting this area as it makes the transition from isolation to integration. The turmoil in the Far East shows the constellation of challenges--social, environmental, political, and economic--that confronts Russia as it stumbles, blinking after long slumber, into the bright lights of the West.

The Far East is the back lot of Russia, a frozen outback of windscoured Siberia. Much of it is closer to Seattle than it is to Moscow. The largest city, Vladivostok, has a population of about one million. The Far East's total population, 4 million, is spread out over twice the territory of Alaska. The weather is wet, cold, and stormy. Harsh climate and rugged landscapes worked as effectively as Cold War politics in keeping this area isolated from Western eyes. The frontiers of Siberia were opened at about the same time the American West was settled, but because of the great distances and harsher climate, Siberia remained considerably less developed.

Because of its rich natural resources, Russians have long regarded the Far East as a national treasure, to be held in reserve for the inevitable "chernyi dyen", or black day of misfortune. With the collapse of the Soviet Union, the black day has come. Careful use of the Far East's riches by the fledgling Russian Republic would help save the nation. As a test case for Russia's integration into the West, success on the Pacific Rim would pay great dividends for both Russia's economy and the Yeltsin government. The Far East's potential inspires big plans.

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Since 1925 the Institute of Current World Affairs (the Crane-Rogers Foundation) has provided long-term fellowships to enable outstanding young adults to live outside the United States and write about international areas and issues. Endowed by the late Charles R. Crane, the Institute is also supported by contributions from like-minded individuals and foundations.

Some officials even dare hope that the Far East will replace Hong Kong after 1999. A possible dream, but one which will be attained only ^{by} overcoming the shock of the sudden entry into the West, the burden of Russia's internal chaos, and the legacy of a tortured, dark past.

Russians traditionally regard the Far East with dread. The Far East is "kartoga", a place of exile, hard labor and death. 19th century Sakhalin Island, Tsarist Russia's last stop for incorrigible criminals (including, of course, political prisoners), was considered fearsomely isolated from Europe and civilization. The abominable prison conditions there moved Feodor Dostoevskii and Anton Chekhov to write books that scandalized Russia with lurid tales of convict life.

In 1905, the Russo-Japanese War erupted in the Far East over territorial disputes. The humiliating defeats of Russian naval and land forces at the hands of the Japanese, and the loss of half of Sakhalin as a territorial concession following the cessation of hostilities created a bitterness that persists nearly a century later. Later, in the last days of World War II, the Soviet Union declared war on exhausted Japan, reclaimed Sakhalin, and took possession of the Kurile Islands. Both Russia and Japan now claim the islands.

In the 1920s and 1930s, millions of "class enemies" and "rotten kulaks" died in Far East labor camps during Stalin's bloody holocaust. Magadan, a large port city on ^{the} west shore of the Sea of Okhotsk, is infamous as the death place for an estimated three million souls, banished there to die mining gold and gems in the permafrost. Much of the Far East was opened by convicts with axes, and many of its modern cities and ports were built using GULAG labor.

In the North, the Kamchatka Peninsula dangles into the Ring of Fire along the back-arc of the subducting Pacific plate. It is one of the most unique geologic areas in the world, with over 20 active volcanoes. Kamchatka earned notoriety in 1981 when, in one of the last spasms of the Cold War, Soviet Border Patrol MIG pilots gunned down a Korean passenger jet that overflew sensitive military airspace. Back then, the back lot was not just dark and mysterious; it had an armed, suspicious owner, and he did not like strangers.

When perestroika and glasnost dawned in the 1980s, the Far East came out of darkness. General Secretary Gorbachev was counting on economic restructuring to attract Western businesses and generate the hard cash needed to keep the Soviet Union viable. At the same time, "new thinking" in foreign policy made an overture in the Pacific a natural idea. With its untapped natural resources and fortuitous

geographical position, the Far East looked like the perfect place to experiment with integrating the USSR into the world.

In May 1988, flushed with the success of the Reagan-Gorbachev Moscow Summit, United States Secretary of State George Schultz and Soviet Foreign Minister Eduarde Schevernadze signed agreements breaking the ground for joint US-Soviet ventures in the Soviet Union. Important among these was the North Pacific Fisheries Cooperation Agreement, which gave American fishing companies access to the territorial waters of the Far East for the first time.

The initial response to the overture was encouraging; the back-lot owner suddenly took an interest in his fancy neighbors. Trade delegations flew back and forth and sister-city pairs flourished (some logical, like San Francisco-Vladivostok and Petropavlovsk-Kamchatskii-Dutch Harbor, and some rather odd, like Seattle-Tashkent). American scientists investigated a long-closed, wonderfully diverse bioregion. Alaska Airlines and Aeroflot opened air routes from Anchorage to Khabarovsk and other Far East cities. Vladivostok, site of the Soviet Union's largest naval base, opened to foreigners for the first time in 40 years, and billed itself as the Soviet San Francisco. And, for the first time ever, Japanese and American 'biznezmen' were given a peek into the long-hidden treasure houses of Siberia. They liked what they saw--vast reserves of oil, gas, timber, minerals, precious metals, diamonds, and fish.

The problem, they have found, is getting this treasure out of the swamps, forests, and trackless taiga. Driving to the Far East from Europe is all but impossible. Cargo arrives overland from Western Russia and the outside world by the Trans-Siberia railway and the Baikal-Amur Mainline (BAM). Transport time is usually over 28 days. Goods in transit from Europe travel almost as rapidly coming by ship to the Far East as by land (access to Asia, however, is very good). Most of the region is roadless, impenetrable taiga and trackless swamp. Modern 'Siberyaki' travel by ship or by air, between enclaves. Without roads and rails most of Siberia's wealth is inviolate, safely locked away among the bogs and dense forest.

Fish and oceans are a different story. Because of the long-distance capabilities of modern fishing fleets, fish can be caught and transported to Western markets without relying on the bad Russian transportation infrastructure. Fleets are mobile, self-contained operations, free to function without going into Far East ports for fuel or supplies.

In the last three years, fishermen from many countries have come in droves to the Far East of Russia. The first

pioneers weren't grizzled Bering Sea salts in tough trawlers. They were polished men from Tokyo, Seattle, and Taipei, the investors and analysts preceding any big-money venture. They had a heady time. As crab fisherman Ron Peterson recently recalled in Pacific Fishing magazine, "It was incredible approaching them (the Russians). It was like five girls in Dutch Harbor being approached by 300 fishermen to go to the Saturday night dance. The Soviets were fielding incredible offers from Americans throwing money around."

Reports of quarter-ton halibut, huge schools of pollock, and untouched masses of Kamchatka King crab lured the businessmen on into uncharted terrain. The eager Soviet ministers signed their contracts with gay abandon. The word had come down from the top to restructure, develop foreign contacts, and earn the precious yen and dollar. The Soviet bureaucrats were becoming real Western "biznezmen". There were fortunes to be made in their little backwater. By 1990, the gold rush was on.

The Far East fishery lived up to its billing. Seattle fishing companies sent state of the art factory trawlers and crabbers. Test fishing yielded impressive data; prospects for large scale development seemed excellent. Careful observers of the scene, however, felt the barometer change and saw the stormclouds gathering on the horizon.

At first the troubles seemed due to inexperience; after 70 xenophobic years of communism, the Soviets knew little or nothing about the Western way of doing business. Concepts taken for granted by Western fishing companies, such as contract law, often proved completely alien to Soviet ministers. The knowledge earned toiling under Soviet law and following the dictates of the omniscient Communist Party often proved superfluous when dealing with free-market businessmen.

Soviet bureaucrats, working with freshly-minted laws, could be glacially slow processing new business ventures through the state machinery. Interagency tussles between national, state, and local ministries slowed deals with the West. Communications, a problem even in the capital city Moscow, provided only rudimentary connections to the rest of the world. Corruption and greed (considered *modus operandi* by unscrupulous Soviet apparatchiki) fed off the American quick-buck mentality. Underlying these problems were more deeply ingrained structural difficulties.

Administrative chaos became endemic during the waning days of the Soviet Union. In the post-communist Russian Republic it disrupts virtually every government office and every industrial and agricultural enterprise. There is no more graphic illustration of how chaotic the situation is than the turmoil in the Far East fishing industry. The

former Soviet Ministry of Fisheries has fallen on hard times in the new Russia.

The Soviet Union's Ministry of Fisheries enjoyed great prestige in the 1970's and 1980's. In twenty years, it expanded fivefold, and became the proud owner of a modern fleet of vessels fishing every ocean of the world. Soviet fishermen annually brought home millions of tons of fish from the North Atlantic, Indian Ocean, Antarctica, and North Pacific. They provided the Soviet Union with an important source of animal protein at a time when agricultural shortfalls made this a serious concern. The Ministry of Fisheries owned entire ports, shipyards, merchant vessels, land processing facilities, libraries, resorts, fleets of automobiles, administrative buildings, and everything else needed to keep a large industrial monolith functioning smoothly. Fishing was prestigious, offering high pay by Soviet standards, advancement, and a rare chance to see the outside world.

As with most former Soviet enterprises, problems in the Ministry of Fisheries began in earnest after the failed August, 1991 coup. Following the collapse of the Soviet government, Republic President Boris Yeltsin decreed a number of administrative reform measures. According to one of them, the Ministry of Fisheries was subsumed into the Ministry of Agriculture, and renamed the Fisheries Commission.

Suddenly, fisheries ministers found themselves taking orders from their former agricultural coequals. Worse, a wave of privatization hit the bosses. The former labor kings, who had wielded indisputable power in the giant "Dalriba" (Far East Fishing Company, a branch of the Ministry of Fisheries), watched their monopoly crumble.

Worse, democratization required them to be more accountable to increasingly assertive workers. Fishery workers have always been an independent breed of Russian, and are willing, like coal miners, to strike for their demands. Both the Ministry of Agriculture and fishery workers are now putting considerable pressure on the Fisheries Commission to open up the Far East of Russia for foreign fishing and earn hard currency. In international fishing, controls of the resource equals profits. The major issue for the Russian Far East fishery is resource allocation, and whoever gets the deciding voice--the Fisheries Commission, the Ministry of Agriculture, or workers--will get the rewards.

American fishing companies in the Far East occasionally find themselves drawn into the confusion and corruption. One well-publicized case, which inspired two separate fishing industry journals to write articles titled, "Russian

Roulette", involved Deep Sea Fisheries, Incorporated, of Seattle, Washington. Deep Sea went to the Kamchatka Peninsula in 1989 in search of joint crab and halibut fishing ventures. They found partners in the North Kamchatka Independent Fishing Association, NKIFA, from the port of Korf. The two companies agreed to form a joint venture called SPAKS, which bought and reoutfitted a Soviet factory trawler, the Kamchatskaya Zvezda (Kamchatka Star).

The Zvezda was given a mixed Norwegian and Russian crew, with the understanding that the Norwegians would teach their Soviet shipmates about the advanced processing technology aboard. The Zvezda was registered in Liberia, thereby securing financing from Western banks, which were unwilling to underwrite the Russian "biznezmen". Meanwhile, an American test fishery hinted at significant stocks of halibut and crab. In 1990, the Zvezda went fishing in earnest, and hauled in 200 tons of halibut in a short time. The Zvezda put in at Korf to offload. The trouble began soon after.

The Zvezda was offloading when the Soviet Coast Guard came and ordered all Soviet crew members to disembark immediately. The halibut was confiscated and the Zvezda, left with only its Norwegian crew, was sent back to the United States. What came next was worse. Amazingly, the North Kamchatka Independent Fishing Association had called the Coast Guard on its own boat. The NKIFA claimed they were being unfairly charged for the use of the Zvezda, and that Deep Sea's brokers received too high a percent of the profits for the deal. There appeared to be another motive, however. The NKIFA had found a Japanese company willing to pay a higher price for the crab. A pretext was invented to seize the joint venture's fish and make a better profit.

The Americans were livid. Deep Sea placed a lien on the Zvezda and refused to release it from Dutch Harbor until they were compensated for their share of the crab. The Soviets apparently did not realize that although the Zvezda was flagged in Liberia, this had no actual bearing on its legal status as a vessel owned jointly by an American and Russian company. Realizing too late that they stood to lose their share of the ship, the Soviets came to Seattle to negotiate a settlement.

Negotiations went badly. Deep Sea executive John Wendt told Seafood Leader magazine, "...all they could talk about was the 5-percent commission I took. They said it was too high. We said it wasn't. We said never mind, we have more important matters to discuss, but they were hung up on it; they wouldn't talk about anything else. They were talking pennies and we were talking about dollars. We found them impossible to deal with. They don't even have an inkling of our way of doing business."

Eventually, both parties settled on an unfortunate compromise; the Soviets kept the crab and 8 pallets of groceries, while Deep Sea kept the Kamchatskaya Zvezda. The unfortunate vessel has since been sold, and SPAKS dissolved.

A hard tale, but it ends on a surprisingly upbeat note. Deep Sea Fisheries has learned from its mistakes, found new partners, and is back in action both in Kamchatka and the Sea of Okhotsk. Deep Sea's experience is by no means the rule, either. Arctic Alaska Fisheries, Incorporated, is involved in pollock ventures and shore plants in the Far East. Marine Resources Company, International, the original Soviet-American joint-venture fishery, has started a branch in the lumber business, but remains active both with its own JV crabber, the Diomedes, with selling marine equipment, and in business consulting. Other companies trade fishing technology and equipment for a share of a quota. The consensus among industry executives is that investment will pay off in the long-term, provided companies are patient and willing to live with risk. As one Russian lawyer visiting Seattle said, "If you don't like to gamble, don't come to the Far East!"

The stakes are high and the atmosphere is hotly competitive. The Far East fishery provides American companies with unexplored fishing grounds at a time when these companies are overcapitalized, and feeling the pressure of both debt payments and shrinking quota shares. Ironically, these boats replaced the Soviet fishing fleet that once worked in American waters. Now some of them are going to Russian waters in joint ventures with their former partners.

In March, 1992, The United States Department of Commerce allocated almost the entire Alaska pollock fishery to local, shore based processing plants. The decision was made to preserve Alaskan resources for Alaska, rather than having fleets from Seattle or Oregon exploit them. By 1994, 90 percent of the pollock and cod in Alaska will be allocated exclusively to shore-based processing. The DOC decision is a mortal blow to the deep water fishing fleet, which dominates in free competition with the shore-based plants. According to some observers, total financial losses to the West Coast deep-water fishing fleet could run as high as one hundred million dollars. The spectre of bankruptcy has sent companies scrambling to Russia. A country on the verge of collapse and borrowing money from the West to stay alive may be the best hope for keeping thousands of Americans in jobs.

Fishing is a zero-sum game: one company's catch gets taken out of the nets of another, and big money goes to the one that gets the most fish. Russian "biznezmen" know this

and willingly sell to the highest bidder. A recent scandal involving the American investment firm "Performance Investment Group" got heavy publicity in the Russian fisheries trade magazine 'Sovetskii Ribak' (Soviet Fisherman"). According to an article titled "Who's Robbing Russia?", the Performance Investment Group from Seattle signed an agreement with the Ministry of Agriculture to harvest 220,000 metric tons of groundfish from Russian waters annually until the year 2020. Kamchatka locals cried foul. The scandal raised a number of important issues for the Far East.

Foremost among these is democratic Moscow's apparent willingness to sell these resources without considering local opinion. As the article's author wrote, "Following the liquidation of the USSR Ministry of Fisheries, agency functionaries hoped that an organizational system would be established which would allow the rational use of marine resources in a regime of full independent management by fishing industries. But the subordination of the fishing branch to the agrarians put that idea on the back burner...Judging by everything, the Russian government still hasn't learned to listen to the voice of the little guy."

The fact that the profits from the venture ostensibly were to go only to Moscow and the United States deeply upset the Kamchatkans. Their fishing ports need repairs and modernization. There were no preliminary investigations on the environmental impacts of the fishery, and no consideration of impact on the local work force, although half of Petropavlovsk-Kamchatskii's population works directly in the fishing industry. The infusion of American dollars and goods would be a bounty in this remote corner of Russia. Yet here they were again, in the new, democratic government-- the same distant, despotic Moscow bureaucrats steamrolling over the locals.

This time, though, the locals acted up. The trade union sent letters of protest to Moscow, the United States, and, with a wink and a nod to Lenin, the International Trade Union. The campaign was successful, and the Russian government rescinded the deal. Performance Investment Group was banned from doing business in Russia. Some Performance executives reportedly have been declared persona non grata.

On the face of it, the Performance Group affair seems like a victory for locals against old-time, corrupt Moscow and sleazy Americans. But was it really? According to one fishing industry source familiar with the case, Performance Investment Group is a legitimate operation backed with United States government investment loan guarantees. Performance Investment Group, the source asserts, had put together a handsome package for developing local, shore-based fish processing plants, and the infrastructure

necessary to keep it running. Performance Group, the source contends, intended to direct forty percent of the venture's profits back into Kamchatka. "They got a lot of undeserved, bad press in Russia for what I thought was a pretty good package," said the source.

The structural counterpoint to chaos in the bureaucracy is chaos on the borders. The Far East is a baffling jumble of Exclusive Economic Zones, Disputed Territories, and open ocean areas. The Russian Federation 200-mile Exclusive Economic Zone, for example, fails to enclose the "Doughnut Hole" in the Bering Sea, and the smaller, lesser-known "Peanut Hole" in the Sea of Okhotsk.

These open zones are the scene of intense, unrestricted fishing activity by fleets from Japan, Taiwan, Poland, the People's Republic of China, the Republic of Korea, and Bulgaria. The unrestricted fishing greatly effects the fish stocks in the adjacent zones, however. The "Doughnut Hole" has been described by one fishing spokesman as "a biological desert".

The Russian government is working with the United States to close the "Doughnut Hole" to unrestricted access by third-country fishing vessels. Both governments cite evidence that commercially-valuable pollock and salmon native to Alaska and Russia migrate through the "Doughnut Hole". This means they are considered a straddling stock, owned by the nation with the Exclusive Economic Zone of origin. A conference in Seattle in February, 1992, between the United States, Japan, Russia, Taiwan, Poland, and other nations fishing the "Doughnut Hole" was convened to try to gain an agreement to limit fishing. No general management agreement has been reached. Fishing in the "Doughnut Hole" continues unabated.

The "Peanut Hole" presents a different challenge to the Russians. Situated in the middle of the Sea of Okhotsk, the "Peanut Hole" is surrounded by exclusively Russian waters. Its rich waters have large pollock stocks, and are a target for unrestricted, international fishing. An apparently easy solution is to simply prohibit passage of fishing vessels through the Sea of Okhotsk en route to the "Peanut Hole". Unfortunately, this would violate international law, which permits the free passage of all peaceful vessels through another nations territorial waters. Restricting passage could therefore have serious consequences for the Russian Federation, which could have passage for its vessels banned by other countries in retaliation. Declaring a larger (say 300 mile) Exclusive Economic Zone unilaterally would tamper with an arrangement hammered out over years of United Nations effort, and might start a divisive trend among maritime states. Still, Russia wants the unrestricted fishing to stop in the "Peanut Hole". The difficult

conundrum generates novel solutions. One idea is to turn it into an international marine reserve under Russian jurisdiction. The most effective idea may be from advocates of direct action, who want to declare the "Peanut Hole" a missile testing ground for the Russian military.

The territorial issues get thornier and more emotional along the southern border with Japan, where the Kurile Islands remain under dispute over forty years after the Second World War. The Kurile Islands lie just north of Hokkaido and give Russia naval control of the entrance to the Sea of Okhotsk. These four islands are noted for their saury and salmon fisheries, as well as pollock, other groundfish, and crabs. They reputedly have great natural beauty, and there are plans to develop them as a resort area. For the Russians, losing the Kurile Islands would mean losing a vast territory with excellent economic potential, and the last of the spoils from the Second World War.

The Russians contend that they have owned the Kuriles since the mid-seventeenth century, when Russian explorers discovered them. Japan claims the Land of the Rising Sun was there first. Russia reminds Japan that it was isolationist then; so what, say the Japanese, we won them fair and square in 1905. The Russians remind the Japanese that they won the Kuriles back in 1945. Some victory, counter the Japanese, the war was already over.

As the arguments go around and around, politicians venture forth creative solutions. The most far-sighted one comes from the head of Sakhalin's local government, Valentin Fyodorov. Fyodorov thinks the Russian Federation and Japan should declare Sakhalin Island, the Kuriles, and Hokkaido a jointly-managed free economic zone. This construct--the "fourth way"--imagines that, "Both territories remain within the sphere of Soviet and Japanese state sovereignty, but on the economic plane they form a single entity and are used cojointly." The visionary Fyodorov would swap the four Kurile islands for Hokkaido, and throw in the bonus of helping bring Sakhalin into the West. Fyodorov will not, however, relinquish the Kuriles, and if the Japanese don't like it, too bad: "We hardly need to lament the allegedly missed chances that could be offered by theoretical large-scale cooperation with Japan. What we need is to arm ourselves economically, to create a market-based economy in the Far East and its islands, first of all [sic] of the semi-closed type, in order to take on the Japanese economy on equal terms."

President Yeltsin advocates giving the Kuriles after negotiations, as part of a greater bargain for increased Japanese investment. Polemics aside, if the Soviet Union had not taken the Kuriles in 1945, relations between Japan and the Soviet Union may well have turned out much better than

they are. Had this been the case, the Far East would doubtlessly be as important to the Japanese economy as Alaska now is.

Sakhalin Island is at present the most forward-looking region in the Far East. In 1990, the Russian Republic Parliament passed legislation making Sakhalin (and the city of Nakhodka) a free economic zone. Sakhalin will offer many attractive and advantageous features to Western businesses, such as five year tax holidays and duty free imports and exports, to Western businesses. North Sakhalin has rich oil and natural gas fields in the north, and recently concluded an agreement with Marathon Oil to develop the Nori Oil Fields. Great natural beauty makes Sakhalin an excellent candidate for tourism. There is a strong salmon fishery, as well as easy access to the Okhotsk pollock grounds. American fishing companies such as Arctic Alaska Fisheries fish there with good results; the Japanese, Taiwanese, Chinese, and many more round out the roster.

Further south, the Primorskii Krai (Maritime Province) is the most developed area in the Russian Far East. The Primorskii Krai includes the cities of Vladivostok and Nakhodka. It is the only region of the Far East with direct land connections to European Russia. The terminus for the Baikal-Amur Mainline ends at Alexandrovsk, a port with access to Sakhalin. The Trans-Siberian Railway ends in Vladivostok. The province has accessible timber, coal, and mineral reserves. South Korea and Japan are most active in this region; the Hyundai Corporation, for example, is constructing a hotel in Vladivostok. Nakhodka, long the only port open to foreigners in the Soviet Union, was declared an economic free zone along with Sakhalin in 1990.

According to a visitor to the Far East, the Russian government recently erected barbed-wire fences around Nakhodka, a sure sign that the economic activity there is serious. Cynics say that there is little new in this; the barbed wire keeps people out of the West instead of the West out of Russia, but it looks the same to someone on the wrong side of the fence. A new day is dawning, but the Far East may be long in emerging from the darkness.

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Note: All Russian language translations in this report are by the author, who accepts full responsibility for their accuracy.

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