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Privatization, Economic Chaos, and Crime Challenge Kamchatka's  
Fishing Enterprises.

Dear Peter,

Economic reform in Russia took another wobbly step forward in August when the Yeltsin Administration decreed the distribution of 10,000 ruble vouchers to private citizens and workers in the Russian Republic. The vouchers are being issued in part to break the hold of the former communist administrative apparatus, which has been accused of holding back reform efforts, by giving citizens the opportunity to become stock-holders in industrial enterprises. The decree, which obligates many remaining government enterprises to reorganize ownership and offer their workers shares of stock, also permits private citizens to form their own companies by investing the ten-thousand ruble vouchers. The new reform allows citizens to buy, sell, or give away vouchers at their discretion. According to the media, every Russian will have a 10,000 ruble voucher by the New Year.

Privatization--the latest step in the Yeltsin Administration's 'razgosudarstvleniye', or degovernmentalization, program (see my last newsletter)--is hitting the fishing port of Petropavlovsk-Kamchatsky like a tidal wave. Voucher-bearing citizens will soon be able to invest in fishing enterprises, and buy stock in them. There are currently five major fishing enterprises in Petropavlovsk--Okeanribflot, Rybkholodflot, Tralflot, the Lenin Kolkhoz, and UPF-KMPO. Of these, only three remain intact. UPF-KMPO, about which I reported in my last newsletter, now exists, in the words of the local newspaper 'Rybak Kamchatki' (Kamchatka Fisherman, 38, September, 1992), as a "paper zombie, with no real legal status or material assets to speak of...". It has been replaced by AO (Aksionernoye Ob'yedineniye, or Stock Company, one of the economic structures permitted under the new system) "Akros", under the directorship

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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.

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of V.I. Vorobyev, who apparently successfully weathered summer's controversy around the reorganization of UPF-KMPO. The leadership of the deep-water fleet Tralflot recently decided to privatize, and put itself up on the auction blocks. It will become a 'federal trust' ("federalnaya sobstvennost", partly owned by the Russian government, and partly owned by the workers), with twenty five percent of its shares to be distributed free to its workers. Rumor in Petropavlovsk has it that the Lenin Kolkhoz is planning to privatize in the near future. Comments one well-informed source, "Every fishing enterprise in Petropavlovsk will be privatized soon. While there is some desire to maintain the outmoded government enterprise structure, people understand that the old ways are gone, and that they must move forward, not back."

Will privatation lead to an overall improvement of Russia's economy? Nobody knows. According to Russian economists in the prestigious newspaper 'Kommersant' (34, 1992), the actual cash value of the 10,000 ruble vouchers is about 233 rubles--about 2 percent of their declared value. However, since the vouchers can be freely bought, sold, traded, or given away at the bearer's discretion, it will be possible for private persons, or groups, to use their capital in concert. In theory, this will spur small businesses and private sector growth. As this happens, the vouchers (it is hoped) will become worth considerably more.

One official in the Kamchatka Regional Anti-Monopoly Committee (a recently formed independent branch of the government designed to facilitate industry's transition from government enterprises to private companies) believes that the vouchers will especially help the fledgling salmon fishing industry in Kamchatka, which consists mostly of small producers, get off the ground. "At first it will be difficult for people to decide which company to invest in", he said during a recent interview, "But with time, they will understand where to they can put their money to good use. Then the vouchers will greatly increase in value."

What effect privatization will have on the big fishing enterprises is even harder to predict. In theory, the vouchers will give workers some economic clout at the workplace, and give them a greater interest in the success of their workplace by tying their potential profits to those of their new company. If the performance of A/O 'Akros' is any indication of how Kamchatka fishing companies will work under the new system, privatization may supply some of the missing ingredients needed to spur economic performance forward. According to weekly reports in 'Rybak Kamchatki', 'Akros' had reasonably successful summer and fall seasons when most Petropavlovsk fishing enterprises were barely scraping by, or losing money.

The Chairman of the Kamchatka Regional Soviet of People's Deputies, P. G. Premyak, said during a recent interview, "The voucher system is a useful first step for turning government

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enterprises into firms and companies belonging to those who work in them. The major flaw (with the reform) is that it does not go far enough. It would be better if the enterprises were converted into private firms, like those in the West, and controlled mainly by a board of directors. There may be problems with these new companies having too many owners."

While privatization may confer advantages in the future, the day-to-day problems of the Russian economy present tremendous obstacles to the normal operations of the Kamchatka fishing industry. Russia's chronic fuel shortages hurt fishing expeditions, costing local companies already experiencing serious financial difficulties millions of rubles in lost profits. For example, in September Okeanrybflot's expeditions in the Bering Sea and off the east shore of Kamchatka caught only 6,202 metric tons of a planned 20,000 metric tons due to fuel shortages, with only two of eight trawlers working. Rybkholodflot experienced a similar loss of productivity because of fuel delivery delays (Rybak Kachatki 36, 37, 38, September, 1992).

Some enterprising Western companies are taking advantage of the fuel shortages to sell fuel to Russian fishing companies. For example, in September Mobil Oil Corporation sent a delegation to Kamchatka to look into the possibility of establishing a marine fueling station in Petropavlovsk. The fuel will be sold for hard currency.

The fuel shortages are seriously delaying air transport to and from the Russian Far East, causing disruptions rippling far beyond mere inconvenience for travellers. Flying in modern Russia is the pinnacle of degradation; one friend of mine recently spent over a week in Moscow with over a thousand other Kamchatkans whose flights were delayed due to a lack of aviation fuel. Finally driven to desperation, a crowd of them stormed the runways and attempted to hijack a jet to take them home. How many of these unfortunate people were fishermen is impossible to say, but given that Petropavlovsk is overwhelmingly a fishing town, it is not difficult to imagine the delays causing everyone from captains to line workers to miss expeditions. These unlucky souls thereby lose months of pay during hyperinflationary times. The Kamchatka Regional Administration sent an emergency request to Moscow requesting that special flights be provided to bring marooned Kamchatkans back home, and that air fares not be raised until November, when the backlog of passengers clears out.

Resource management continues to be an important and seemingly intractable problem in the Russian Far East fishery. Despite the success of the Fifth Conference on the Bering Sea (Moscow, August 1992) in achieving a two year moratorium on fishing in the 'Donut Hole' (the open international zone in the Bering Sea), fishing by Polish, Taiwanese, and Korean vessels continues unabated in the international waters of the Sea of Okhotsk, the so-called 'Peanut Hole'. According to a report from the

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newspaper 'Rybatskiye Novosti' (Fishermen's News, formerly 'Sovetsky Rybak', or Soviet Fisherman) appearing in 'Rybak Kamchatki', the foreign fleets caught more than 600,000 metric tons of pollock in the summer of 1992. Worse, Russian biologists claim that the main pollock spawning ground is in the 'Peanut Hole', and that irreparable harm is being done to future pollock stocks.

The Okhotsk fishing operations, labeled 'piracy' and 'poaching' by outraged Russian fishermen, illustrate the contradictions now inherent in managing the region's resources. On the one hand, Russian Far East politicians and fishermen complain that the unrestricted fishing by 'foreign fleets' is drastically depleting pollock resources in the Sea of Okhotsk, and demand a halt to it. On the other hand, a report in 'Rybatskiye Novosti' (35, September, 1992) entitled "The Position of the Ministry of Ecology is Weakening Russia's Fishing Industry" reports, "On July 5, 1991, the Khabarovsk and Kamchatka Committees of the Ministry of Ecology (!) of the Russian Federation signed contracts with the South Korean firm 'East-West Ship Agency, Ltd.'. On that basis, they placed their own observers on South Korean vessels and for all intents and purposes provoked the unlimited, illegal harvest of Russian pollock in the open zone of the Sea of Okhotsk."

Furthermore, 'Rybak Kamchatki' (38, September 1992) reports that the Far East Shipping Company (Dalnovostochnoye Morskoye Parakhodstvo, known in the West as FESCO) provided the 'foreign fleets' with support services, including fueling, provisioning, and offloading product for export out of Russia. Last summer, Aeroflot provided flights in and out of the Far East for Polish crews fishing in the 'Peanut Hole'. The Far East Shipping Company and Aeroflot both help and hurt the Far East by generating desperately-needed hard currency for Russia, while contributing to the destruction of its fishery. Kamchatka's Chairman Premyak comments, "We (Far East regional officials from Kamchatka, the Primorski Krai, Sakhalin, and Magadan) have reached an agreement with the shipping agencies and Aeroflot, and the support for foreign fleets going to the Sea of Okhotsk will be stopped this year. We will not provide them with fuel, airplanes for crew changes, or provisions."

The Russian government's economic woes are hitting enforcement efforts in the Far East fishery particularly hard. Fuel shortages seriously hinder the Russian Coast Guard's patrol efforts, so much so that even if a foreign vessel is spotted fishing illegally in Russian waters, it is frequently impossible to intercept the vessel. Meanwhile, rumors fly that Russian fishing vessels are selling their catch to foreign vessels on the high seas for hard currency, automobiles, and electronic goods. The illegal bartering, known locally as "captain's trading", is apparently very widespread. I spoke with one woman, whose husband is a Tralflot captain, about her husband's experience with

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trading on the high seas. "They were on a crab expedition", the woman explained, "And they doctored the ship's records to make it look like they caught less crab than they actually did. The extra crab--maybe twenty tons or so--was sold at sea to the Japanese for three used cars."

The following description of "captian's trading" appeared in a 'Rybak Kamchatki' (38, September, 1992) article, "Who Does The Russian Fisherman Work For?": "Russian transport ship captains that call daily on ports in Hokkaido also 'help' lower the price on crab. They don't declare their cargo to customs, and then take the crab directly from the fishing grounds. The mechanism of this kind of free business is simple: the transport captain buys the crab for rubles directly from the fishermen (with a bonus in hard currency, or in exchange for Japanese electronics). He then goes to the nearest port to dump the crab on the Japanese. Recently, they (the Japanese) have created dozens of firms especially to buy Russian crab in exchange for used cars. From January through March 220 automobiles were exported from Hokkaido ports, and in April alone--4,280."

The 'Rybak Kamchatki' article further reports that fish and crab are frequently sold to foreigners through dummy corporations and third parties; in Vladivostok, for example, the 'Luch-Koblan' soccer team sold 160 tons of frozen pollock to Korea, while a bookstore there somehow acquired and sold 5,000 tons of sole to the Chinese. Obviously, these dummy corporations and third parties have no real connection to the fishing industry, and sell fish to foreigners at prices far below the international market price. The biggest offender named in the article is, ironically enough, the Far East Directorate of the Russian Foreign Trade Ministry, which applied for and received a license to sell 20,000 tons of fish to South Korea.

Joint-ventures often get their fish from Russian partners at a significant discount. According to the article, in 1991 joint-venture companies in the Far East bought 124,000 tons of pollock at 10 to 15 percent less than the price traditional buyers paid. The discounts cost Russia an estimated 12 million dollars in lost revenues and taxes. One result is that, joint-venture fishing companies, once considered the wave of the future, are losing popularity in the Far East as a viable business option. "Most people are very disappointed with the joint-venture companies", said V.M. Ivanitsky, Editor-in-Chief of 'Rybak Kamchatki', during a recent interview, "The foreigners come and take our resources, and we seem to get very little in return. Nobody is investing a dollar in improving our lives."

Criminal activities revolving around the buying and selling of marine products occur at all levels of the Russian economy. At Petropavlovsk-Kamchatsky's Central Market everyone, from sweet little round-faced babushki to black-jacketed mafiosi, is selling some sort of homemade caviar, crab, smoked salmon,

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fresh cod, or tinned sardine. None of these products are produced, inspected, or taxed by the government; the loss in potential revenues to Russia, as well as the danger to the public health, is incalculable.

The criminal activity occasionally takes a dire turn. A story entitled, "They Had Crab, But Didn't Give It Away" published in the newspaper 'Vostok Russii' (The East of Russia, 36, September, 1992) reports, "On the 6th of August, the BMRT (a type of factory trawler) 'Mys Osipova' crew was in peril. According to the ship's log, the boatsman was discovered lying headfirst and lifeless at the foot of the gangway at 13.47...At that time, the vessel was in the Marine Fishing Port of Petropavlovsk-Kamchatsky with a load of frozen crab, which they were consigned to bring to the land of the Rising Sun. Soon after, a group of 7-10 'tough guys' came to the vessel. A Ural-375 truck, a taxi, and two foreign-made cars also pulled up. The guys boarded the ship and said that one of the crew had promised them a few tons of crab. A militia platoon was called, and they escorted the group off the vessel. The vessel untied and left its anchor station for Avacha Bay. At 2:00 A.M., a group of unknown persons approached the BMRT 'Mys Osipova' on an Eko-10 lifeboat. In spite of an unconditional prohibition, a few men boarded the ship by some port side pipes. The whole crew of the ship fled to their rooms--and the guys began to bang on their doors; if the doors weren't opened, they were kicked in. At 2:10, the BMRT 'Mys Osipova' hauled its anchor, turned off its anchor lights, and turned on its running lights. Note from the ship's log: '2:15. We are departing on an evasive course from the pursuing lifeboat.' Put simply, the trawler began to rush back and forth around the bay. However, the lifeboat continued pursuit, trying to get back 'its' guys. Finally the lifeboat managed to overtake the trawler, and the attackers went down the same pipes they had come up on."

"According to eyewitness reports, the bandits on the 'Mys Osipova' were armed with nunchuks, but no connection with martial arts groups has been established. In addition, captain Abramov of the Port Security, who was at the security checkpoint at the time of the incident, admitted the truck with the bandits onto port territory...

"The Prosecutor is investigating the death of the boatsman. It has not been established whether he fell from the gangway or if he was pushed off of it. The fellow who promised the 'tough guys' the crab prefers not to show his face either in the port or in the city--but the guys have said that he doesn't have long to live..."

Crime in Petropavlovsk-Kamchatsky has reached an all-time high, and extends far beyond 'white collar', economic crimes in the fishery. In September, the KGB sent a special representative to Kamchatka to discuss methods of coping with the crime wave.

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Automobiles are regularly stolen, apartments are plundered, and people are mugged in the streets. Economic and political reform in Russia for the average citizen in Petropavlovsk-Kamchatsky means a declining standard of living and heightened insecurity about the future. Inflation and the cost of goods have soared to unbelievable heights since my July newsletter. One dollar now buys 280 rubles, and the forecast is that by early October, it will buy 300 rubles. (The prevalent theory in Petropavlovsk is that a dollar and a bottle of vodka always cost approximately the same. With a bottle presently costing about 250 rubles, vodka, it seems, may be as reliable an economic indicator as any other commodity.) The stores still carry most basic foodstuffs, but the astronomical cost of meat and sugar--300 and 500 rubles a kilogram, respectively--make these staples seem a luxury.

On September 28, 1992, Chairman Premyak appeared on Kamchatka Television (the independent television network in Petropavlovsk-Kamchatsky) and with a report on Kamchatka's economic situation. Food production in 1992 is down one-third from 1991, as is overall industrial production; it is hoped that the privatization of farms and industry will lead to improvements in the future. The situation in Kamchatka is "serious but not critical. There is enough food for the winter." Premyak noted that the cost of living for a family in Kamchatka is over 600 rubles per week, twice the average cost of living on the mainland. The Russian word I have heard most describing how they will survive the winter is 'vykrutit'sya', which means 'to get out of a mess'; a word not of hope, but of desperation.

A desire to 'vykrutit'sya', rather than a real desire to create a society of law and commerce, appears to be the engine of economy in modern Russia. All throughout Petropavlovsk-Kamchatsky, kiosks, privately-owned stores, and commission-stores have sprung up like mushrooms. These outposts of free enterprise offer a monotonic choice in goods; Western candy bars and cigarettes, Chinese sportswear, and hard liquors, wines, and cognacs of unknown origin. Most of these goods are bought in one place, and resold at a mark-up, an activity derided locally as speculation. Certainly, these kiosks produce little of real value. It's as though the whole country has turned into a giant second-hand store. The hard liquors at these kiosks are particularly suspect, since they are often 'samodelno' (homemade), and can contain anything from wood-grain alcohol to industrial spirits. Rumors of blindings and deaths from these unwholesome beverages circulate with enough frequency to make drinking here more viscerally thrilling than ever before.

Naturally, the majority of people in Petropavlovsk-Kamchatsky lay the blame for their economic hardships on the political leadership. Many people say the best thing about democracy is that it may be possible to one day vote it out of existence. There is little popular support for the Yeltsin Administration,

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and people blame Gorbachev for letting the old Soviet empire fall apart. The chaos Russians encounter on the 'road of radical reform' seems worse, sometimes, than the dank rot of the Brezhnev era, or the iron order of Stalin.

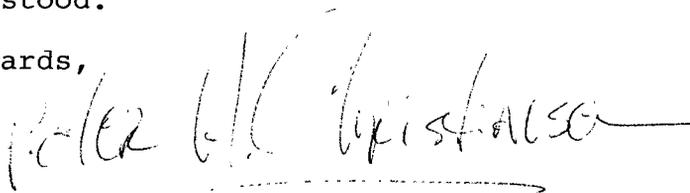
The apartment I'm living in is about five miles from the center of town, so I've been spending an hour or so each day commuting home from work. Sometimes, I leave the office quite late, after long bull sessions with the 'Pacific Network' gang, and I take a taxi home through the dark streets overlooking Avacha Bay. Twice now on the road home, I've been picked up by the same taxi-driver, a chain-smoking Stalinist who drives a 'Zaparozhets', the ultimate socialist compact car. The taxi-driver regrets nothing more than the loss of the good old days, when everyone knew their place in society and people could live on their honest labor. "Look around you", he lectures me, "You're telling me this is better than communism? Russia needs order, first of all, not theories." Yes, but is it worth bloodshed and the Gulag? "I'd bring Stalin back for a week", he explains, "Just enough to make things work again."

As we rattled along the bumpy roads, he told me an anecdote currently in circulation: Gorbachev calls up Yeltsin. "Boris", he says, "I have some good news and some bad news. Which would you like to hear first?" "Let's have the good news first, Misha", says Yeltsin. "The good news is that they've found Lenin's mother, and she's still alive", says Gorbachev. "So what's the bad news?" "She's pregnant again!"

All I could say to that was, "Have a cigar!" (I don't think he got it) As the old monopolies crumble, and I watch crime and chaos threaten to overwhelm Petropavlovsk-Kamchatsky and the Far East fishery, I feel more and more like a spectator at a train-wreck, rather than a proud relative at the birth of Russian democracy, as in August, 1991. Then, there was hope for the swaddling "democracy in diapers" (to use Yeltsin's words), and the open market seemed like a way out of the dead-end Soviet system. To my surprise, I found myself having some sympathy for the taxi-driver and his nostalgia; at least then people knew where they stood.

With post-communist regards,

Peter H. Christiansen



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