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STRATEGY OF DESTRUCTION

Olga MELNITSKAYA, "CENTER"

Yesterday's event at the Yalta seaport gave us reason to publish this material sooner than we initially planned. Work on this story has been going on for the last few months. However, we still do not know the opinion of the Ministry of Transportation and Communications of Ukraine.

"Center" sent a request to Minister Konstantin Yefimenko. His responses to our questions will be

published in the next part of our story, since a continuation will follow.



Let us remind that yesterday the buildings of the Yalta Port Administration were searched and documents were confiscated by law enforcement. The Crimean Department of the Ministry of Internal Affairs explained it as part of a criminal investigation opened according to Part 5 Article 191 of the Criminal Code of Ukraine (misappropriation, waste of property or appropriation by means of misuse of office). Port officials were suspected of misappropriating three million hryvnyas. The case was opened after the media spread information about the seasonal transportation of passengers and about agreements between the port administration and private companies for ticketing.

Today "Center" found out that the searches were conducted not only at the port administration, but also in the apartments of port officials, as well as of businessmen with whom there were agreements to rent boats at low rental rates.

Let us tell about everything in order.

GOOD INTENTIONS

The project "Development Strategy of the Seaports of Ukraine for the period until 2015" suggested by the Ministry of Transportation and ratified by the Cabinet of Ministers of Ukraine in June 2008 looks very persuasive. The new scheme for managing port possessions should provide an opportunity to "provide stable development for sea transportation, increase the effectiveness of the implementation of transport policy, and alter the economic activity of the country; increase the competitiveness of Ukrainian sea transportation on the international market; activate the involvement of non-government investments in port activities, provide for the development of a competitive environment on the port services market" and much more.

The strategy includes the involvement of private capital. According to specialists, the project is not bad at all. However, besides the general strategy, a plan of action is necessary to be developed for every port, but there are none. So after the slogan of “the strategy of development”, changes in the life of ports by local reforms are directed not toward the sustainable development of the sea businesses, but toward bettering the wealth of certain people. The Yalta seaport is excellent proof of this statement.

The new scheme for managing port possessions has already been tested by the state company “Odesa Sea Trade Port.” Back in 1993-1994, Port Head Nikolai Pavlyuk gave out the infrastructure of the port to seven big private companies that invested their money into, for example, the construction and renewal of terminals, construction of cargo storage, and into the organization of loading-unloading work.

The companies cooperate with the port on the basis of joint agreements, which means that they rented docks with the necessary infrastructure, but all of that property remained owned by the state. With this innovation, Pavlyuk solved two main problems at once: directed the cargo flows into his port and got the renewal of all of his facilities at the expense of private investors. As a result, the Odesa seaport, even not accounting for oil transportation, managed to transship more cargo than any other port in the country.

The strategy of development presumes something similar: the management of the port would be divided between the state administration and port captain service. The captain service would be responsible for shipping and the state administration for the infrastructure of the port, which would also be divided into two parts.

The first part – specialized property complex (water area, hydrotechnical equipment, navigation services, etc) that cannot be privatized or leased. It would forever remain under the control of the state administration of the port.

The second part – everything that can be given out on concession basis, and to management or out for rent. Here is where the private companies come into play. Even though such a scheme allows for Russian ports to develop dynamically, it does not mean that the project will work in Ukraine in the same way. We don't have to look far for examples: everything that is going on in the port of the southern capital of Ukraine looks more like a covered form of privatization than “development of targeted complex programs and the creation of activities for the economic and social development of Ukraine,” as it was put in the strategy of development by the Ministry of Transportation and Communication of Ukraine during the time of its development.

PEOPLE – “OVERBOARD”

“Center” received information that the Yalta Port Head Yegor Ivanov issued an order about a 50% cut in the workforce. And later, at a meeting of workers that was conducted in December last year, it was suggested to consider a letter from the load district team and port fleet teams about the distrust of the present administration and to inform the Ministry of Transportation and Communication about this. However, the matter of distrust was not considered. Thus, today the port administration did not sign a report on the meeting requiring changes to the formulation in such a way that they have to downsize the employees immediately.

We decided to find out what is really going on at the port and how the head of the seaport of the southern capital of Ukraine is doing his work since he was sent by Kyiv in 2008 to manage the Yalta port. The facts we uncovered do not let us believe in a bright future for this organization, as well as other ports in Crimea and Ukraine. Such a sad opinion is proved by the head of the

Odesa seaport as well; Nikolai Pavlyuk describes the ongoing events as follows, “What we observe in our field these days can be called nothing but raiding. Just the “invasion” of the companies is done by a different technique – by inventing new titles and appointments and putting their own people in those posts.” So in Yalta, the general system has been divided into subdivisions, which were given out for management to people who cannot work in the field of port development and instead redirect the financial flows in unknown directions. And everything started with a well-known scheme – the massive firing of true professionals.

Order #325 of August 14, 2008: the positions of the assistant of the head of the port, leading engineer on work & safety and the deputy chief accountant were downsized. Four days later, with Order #331, the positions of deputy head of the port on economic safety, chief dispatcher, heads of the HR, legal and marketing departments, head of the port fleet and seven other leading, very significant titles were downsized.

“It basically means that the new administration of the Yalta seaport began their activities by destroying the effective system of port management created by the previous head, Bedin. We can observe the targeted de-heading of the company,” said former deputy head of the port on economic activity, Ph.D. in economics, Viktor Selivanov.

How can a port function without such important departments and services? We never got an answer to such questions; present Port Head Yegor Ivanov, after his first conversation with us, decided to ignore all of our calls.

At the Ministry of Transportation of the Autonomous Republic of Crimea, they think the management of the port can do whatever they think is necessary. However, they cannot check on them.

“In the past, port administrations worked openly with us. For example, this is how it used to be at the Yalta port during the leadership of Fedir Bedin. He was the one that managed to stabilize the situation at the company, which had big debts before he came there. Now we learn about what is going on in the port only from mandatory reports by the head of the company, who is not very willing to contact us. This is the situation in all ports. We cannot do anything without a resolution from the Ministry of Transportation of Ukraine since they are the ones that directly control the ports,” said the Head of the Transport Committee of the Ministry of Transportation of the Autonomous Republic of Crimea Tatyana Shulga.

As a result of the liquidation of entire departments, 80 people have already lost their jobs. Thanks to the “skillful” management of the new administration, the entire workforce is now working at only 80% time, so port people work four days per week. At the last meeting in December, where people were let in only by their security passes and our reporters were denied entry, port workers learned that their yearly salary increase presumed by the law of Ukraine “On wages” would not be given to them, neither would they see the salary debt for November 2009 that the administration owed them in the nearest future. As the employees told us later, they were offered to tighten their belts and hope for a better life in the future. But how that could happen, nobody knew; the Yalta seaport was the only in the system of the Ministry of Transportation that managed to end the year with a loss. If in 2007, the revenue of the company was 212 thousand hryvnyas (and all port workers received a bonus of a total amount of 900 thousand hryvnyas for their good work and for pulling the port out of the crisis), in 2008, regardless of the increased port turnover and all services, the company became unprofitable again, having lost more than 2 million hryvnyas.

And in the last 11 months of last year, according to information of the Deputy Head of the Port on Exploitation Pavlo Kholkovskyy, the unprofitability of the port was 3.2 million hryvnyas. He, as well as the previous authorities of the company, think that it is not big money. At the same time, he criticizes Bedin, “If in 2007, I was port head, instead of paying benefits to employees, I would have finished fixing the steamboat *Petr Lidov*, which at that time was almost ready and needed only 600 thousand hryvnyas more to be finished. And then this boat would have brought in income today. But that was not done, so the six million hryvnyas that had already been used for remodeling was wasted. Now, since we need to maintain the boat and pay high port fees for its mooring, our port suffers an annual loss in the amount of 500 thousand hryvnyas.

In fact, the whole story is very shady. Everything started back in 2005. At that time, some person named Gonza was in charge as head of the port and someone named Kholkovskiy was his deputy. According to information from our sources, at that time, there was a big money laundering operation. The thing is that the port was paying to the Ilyichevsk Ship Repair Plant, to which the ship *Petr Lidov* was taken, not directly but through an intermediary company. Repair work was fully paid up, but when the new administration headed by Bedin came, it appeared that the intermediary company held back a certain amount of money from the plant. The remaining money was requested from the port, but the port administration refused to cover somebody else’s debts. As a result, the agreement had to be terminated.

At the same time, Kholkovskiy now states that at the time of Bedin’s leadership, for a couple years in a row, in the first half year (when there was not yet income because the transportation routes were just starting), the port’s losses were about five-six million hryvnyas. However, he does not say that the former head did manage to get good income in the second half of the year.

Regardless of the fact that debts appeared between the sea companies as part of the work process (these days Yalta port received millions in loans from Feodosia and Odesa ports) and payments were made gradually, the present administration that came to power decided at once to cover the debts, sacrificing the interests of their employees.

“Those sums of money that Kholkovskiy is naming are not true. Since wages were not paid to port employees for December 2009. The real loss of the port in the last year is five million hryvnyas. In the meantime, only thanks to passenger transportation, which brings in really good money to the Yalta port, was it possible to pay up the loans to creditors and end the year with income,” said Viktor Selivanov.

Deputy Port Head on Exploitation Pavel Kholkovskiy does not agree with that opinion, “Yes, right now the port is in a very difficult situation. The boats and docks are aging and require repairs. Repairs on one dock cost anywhere from 100 to 200 thousand hryvnyas. This is why we have much lower financial indicators.”

However, judging from the fact of how passenger transportation is conducted, there are big doubts that the administration of the port have only the best interests of their company in mind.

STRANGE ECONOMICS

Private investments, which according to the development strategy for seaports ratified by the Cabinet of Ministers of Ukraine, should help all ports not only to survive, but develop sustainably – in reality only works effectively for their own pockets these days, while at the same time shamelessly exploiting state resources.

The Yalta seaport long ago started working according to very interesting schemes, which led to the fact that its income from passenger transportation decreased drastically. In 2006, some person named Pavel Kholkovskiy, who many times was suspended from performing the duties of the executive deputy head of the port on exploitation, returned to his post again with the next change in authorities. Together with his brother, he created the company “DPH Modus” and organized the work of short-range passenger boats in a new way. However, according to an act issued by the control-revision department of the Ministry of Transportation of Ukraine on January 21, 2007, it turned out that “thanks” to such work, the state company suffered a loss worth approximately nine million hryvnias. Kholkovskiy was dismissed from his position. Now, when the Port Head Fedor Bedin is fired, the team of present head Yegor Ivanov was again joined by the owner of the boat company. He ordered private companies to sell tickets for port fleet boats for extremely high rewards.

“As a result of signed agreements #309 and #310 of August-September 2008, the port paid those private companies over 860 thousand hryvnias without any economic grounds for such payments. During summer 2009, it was already 2.5 million hryvnias. Before the implementation of such an innovative scheme, cashier income would total 185 thousand hryvnias for the season,” said already former deputy head of the port on economics, honored transportation worker of the Autonomous Republic of Crimea Viktor Selivanov.

The work of the port during summer 2009 was organized only to serve the interests of the company “DPH Modus”, said the head of the initiative group of employees of the port Aleksandr Fonbarov. The sale of tickets for all passenger boats was given into the hands of private entrepreneurs, to whom the port pays 20% of the gross income for the service. The port also pays VAT since the private entrepreneurs are free of such taxes.

In this way, the port loses a huge amount of money. Moreover, those same private entrepreneurs control the sale of tickets and boarding of passengers to all port ships, which means that the port has no control of the money bringing activities and there is no accounting for the big amount of “extra” passengers transported thanks to such work!

Getting the best piece of the pie...

As the employees of the company state, there is one more reason why millions of hryvnias did not reach the port’s accounts - the use of private boats versus port boats. People say that the most profitable passenger routes were covered by boats belonging to Mr. Kholkovskiy, while port boats were not allowed on those routes at all and even if port boats were used, they would be used only for passengers that did not fit. For example, in the water area of the Yalta port, the most profitable passenger route is Yalta – Lastochkino Gnezdo. No matter how many people come to visit – everybody tries to get that route since Lastochkino Gnezdo is the most advertised brand in Crimea (even the crisis did not affect it). This very route served groups of tourists the entire summer (with a maximum load) with the private steamboat “Yeol”, which belonged to the company “DPH Modus”. Steamboats belonging to the state were cruising half empty on regular routes (they have to sail regardless of the amount of passengers) under the direct management of Kholkovskiy, who approves the routes and schedules each boat.

Regardless of the fact that the reasons why the owner of the private boat company would make such decisions are very clear, present Port Head Yegor Ivanov very obviously covers his colleague. “The boat “Yeol”, which does not have anything to do with the port, works in the water area according to the agreement providing services according to the requirements of the Code of Trade Water Transportation of Ukraine. Besides, the port receives income from the

boats' work and port fees worth 10 thousand hryvnyas, which was used for regular miscellaneous cash by our company," he explained.

However, a simple mathematic calculation shows that "Yeol", in the five-month season, should be making at minimum 1.5 million hryvnyas. The boat makes three trips per day, carrying 100 passengers each time. Each ticket costs 50 hryvnyas, 20 workdays a month or more. This is how the summer season brings in a very good amount of money. . So where did the 1,490,000 hryvnyas go? To "DPH Modus"?

The port's income this year was calculated in a very interesting way. Ivanov was referring to the ship-day, which as he said in last season was much less than last year. However, the port earned in just May 2009 more than the same period in 2007. The specialist explained that the amount of ship-days depends on the amount of boats used. "Thus, saying that we worked better because some boats carried passengers and others just docked is very illogical. It is imaginative profitability. In reality, the port lost a huge amount of money since they let private boats earn all the profit," said Viktor Selivanov.

So last season, the port basically did not earn anything on passenger transportation, even though rates increased almost 17% compared to 2008. Income by yearend should have been higher than last year. According to the calculations of economists, Yalta port in 2009 could have earned 975,222 hryvnyas on passenger transportation, but not the 627,285 that was presented by Yegor Ivanovich in his response to our request. "The total loss of the port during the 2009 season, as a result of the theft covered by the administration conducted because of all the aforementioned reasons, totaled five-six million hryvnyas," said Fonfarov. "This money would have been enough to pay the full salaries of all port employees for half a year."

Again, the administration is avoiding responsibility, claiming that all matters of the port are now being resolved through Kyiv. "The documents that we prepared are not being signed in Kyiv. Officials in the Ministry of Transportation are afraid of making a decision. The heads of the ports should receive housing in the capital if they want us to reach good decisions on site," said Kholkovskiy.

The desire of the deputy head of the port on exploitation is relevant to his appetite. However, it is still a mystery why with such a huge amount of violations the Ministry of Transportation and Communication of Ukraine does not make any decisive moves.

Maybe the Ministry of Transportation and Communication of Ukraine is intentionally leading a policy of non-intrusion, and in reality conducts special control known only to them. This would have explained the favors in the ports, changes in authorities, the impossibility of Crimea to control the activity of budget formation companies, etc.

We sent a request to the Minister of Transportation of Ukraine Konstantin Yefimenko with a request to explain their position regarding the internal policy at the port. We have not yet received an answer to our request.

However, the "perspectives" of the ports such as the Yalta seaport are very clear already: a lot of one-day companies willing to work only for their own pockets will keep appearing. And if in the nearest future, the general strategy of development will not be transformed into a specific plan of action for each seaport, then the mess that is going on in the ports will either lead to the complete destruction of strategically important companies or they will be torn to pieces completely.

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