

ARMENIAN RAILWAY



**BRIEF DESCRIPTION
OF VIOLATIONS BY THE
SOUTH CAUCASUS RAILWAYS**



Brief description of violations by the South Caucasus Railways

Armenia 2020

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On 13.02.2008 a concession agreement on handing over the system of the Armenian railway to the “South Caucasus Railway” CJSC founded by the “Russian Railways” OJSC with the purpose of exploitation for a period of 30 years was signed between the “South Caucasus Railway” Closed Joint Stock Company of the Republic of Armenia (namely, the Ministry of Transport and Communication of the Republic of Armenia). Along with the acceptance of the right of use of the infrastructure, the “South Caucasus Railway” CJSC has committed **to invest 575 million USD** for the purpose of modernization of the concessional assets (railway infrastructures).

Besides, three months past the signing of the agreement, contract N 10 dated 13.05.2008 was signed, which stipulated that the “Armenian Railway” CJSC had sold its automotive assets (2035 freight carriages, 41 electromotives, 55 locomotives, 6 electric trains, 158 passenger trains, 92 special purpose carriages) to the “South Caucasus” CJSC for a total of **849,167 million AMD (about 2.5 million USD) as part of property belonging to the latter. To mention, the price of one unit of electromotives is about 900 million AMD.**

To mention, the residual value of the 1591 units out of the mentioned 2447 units of automotive assets was equal to zero per date of sale (**their value as a scrap metal was not taken into account either**).

According to the concession agreement the automotive assets are not listed as concession assets; and none of the agreement provisions envisioned investment funds for automotive assets.

According to the statements of the management of the “South Caucasus Railway” CJSC in the media about 130 billion AMD or 300 million USD have been invested in the period between 2008 and 2020, and have been directed to the modernization of railway infrastructures and the automotive assets. We would like to inform that the currently operating railway network in the Republic of Armenia extends to a total of 726 km, whereas the construction of 1 km of a new line, would cost about 250 thousand USD (according to a number of inquiries and the monitoring conducted by us). This shall imply that the “South Caucasus Railway” CJSC would be able to build a new 726 km long line, had it allotted 181 million USD out of the 300 million USD it had mentioned, which has not been done, however. And the remaining sum in about 119 million USD could be used for the purchase of new automotive assets.

Here is some evidence on what, we believe, qualifies for violations, in a number of aspects.

1. Electromotives, locomotives, and freight carriages

1.1 In the period of 2008-2010 the “South Caucasus Railway” CJSC performed the repair of several dozens of electromotives and locomotives manufactured in **the 1960-1970s**, by spending around **900 million AMD** per unit. Strange enough, considering the automotive assets of the railway company were purchased for only **about 849 million AMD** (around 2.5 million USD), whereas the repair expenses of just one unit of electromotive or locomotive have cost around **900 million AMD (around 3 million USD)**. This could mean that the total price of the automotive assets is equal to that of the repair of just one unit. To mention also, the repair included the units of the automotive assets, which were purchased from the government of RA.

The information is available in the “SOS” audit report prepared by the RA Ministry of Transport and Communication in 2015. For comparison, the price of a new electromotive produced by a US-based company in the territory of Kazakhstan ranges between 2.4 and 4 million USD. Electromotives by another American company, manufactured for India, have been sold at 2.3 million USD per unit in a 100 unit batch. The price of Chinese electromotives ranges between 1.2 and 2 million USD; and the French-manufactured electromotives cost about 4 million Euros.

To mention, according to the audit report performed by the Ministry of Transport and Communication of the Republic of Armenia in 2015 the majority of the repaired locomotives were written off within one year period with zero residual value without taking into consideration the fact that a single unit of waggonage makes dozens of tons of scrap metal (the weight of a passenger car may start from 27 tons; that of an electromotive may be about 200 tons).

1.2 In 2018 the “South Caucasus Railway” purchased 40 freight carriages from the carriage building and repair plant in Rustavi, Georgia, paying **41 000 USD** per unit, and has reported them as new carriages. But in fact, the mentioned plant in Rustavi provides repair, as well as offers assemblage of carriages from spare and/or parts of disassembled carriages, and not manufacturing of new cars. To mention also, the price of a new train car manufactured by a Russian plant is about **35 thousand USD**. This means that around 200 thousand USD could have been saved if the abovementioned deal was signed with a Russian carriage building plant.

1.3 According to the information in our disposal about **360 freight carriages** were transported to Rustavi in 2014-2015, whereas the number of the **repaired cars has been about 30**. Interestingly, despite the evidence of improper use, no official has been charged with the violation, and, hence, nobody has been held responsible (the numbers of the mentioned 360 carriages are available and can be presented).

2. Rail track infrastructure

2.1 The numerous railway incidents, which cause damage to people, the railroad, and the environment, speak for the poor condition of the rail track infrastructures. To mention, the 4 gasoline-filled carriages belonging to the “CPS” Company that crashed and burned down in an accident 7 years ago. The sum of the damage suffered by the “South Caucasus Railway” amounted to about **200 million AMD**, and the loss of the **4 brand new** foreign carriages has not been compensated up to this day (the price of the carriages increases yearly and currently makes about **1 million USD**, whereas in 2013 it would be equal to around **280 thousand USD**). For information, the capital repair works were finished in the railroad section some 2 weeks before the day of the crash.

2.2 On 29 July 2019 7 gasoline **carriages** belonging to the already mentioned “CPS” Company crashed and burned down because of the damaged rail tracks near the Tumanyan Station, along with them damages were caused to the electromotive engine belonging to the “South Caucasus Railway”; 4 firefighters were rushed to the hospital with injuries, the firefighter vehicle had turned upside down and damaged; about 400 meters of rail tracks were damaged, too. According to some credible sources, the indicated section of the railway had undergone significant renovation in January-February 2019. The “South Caucasus Railway” stated that the accident was a result of a terroristic act aimed at deteriorating the Armenian-Russian relationships, which was, however, shortly debunked.

2.3 On 16 August 2019, **9 freight carriages** loaded with mine ore starting the Sotq gold mines turned upside down near the town of Hrazdan; the reason, according to the preliminary information, were the damaged rail tracks.

In these cases, too, the main reason behind the accidents has been the poor condition of rail track infrastructure, as much as its incompliance to any of the acting regulations.

These are only three of the many incidents, which have not resulted in the dismissal of any high ranked official, or responsibility, and the lawsuits brought into action have remained either in pending or suspended status.

To mention, several days following the Tumanyan Station accident on 2 August 2019, Sergey Valko, the general manager of the “South Caucasus Railway”, awarded the top management of the Company with presents and high-value watches as part of the corporate day celebrations.

3. Security service

3.1 According to the internal audit results performed by the “South Caucasus Railway” CJSC there have been numerous violations in the course of financial and economic activities of the Company’s security service. In 2012 the numbers of the staff positions in the department, and the allocated funds were increased tenfold without sufficient justification. The security service of the Company, namely, the management of the service, have acted against the order N199/1p dated 04.10.2012 by the general manager of the Company on the Protection of Infrastructure Facilities in the Ijevan-Dilijan Section by Own Means of the Security Service; namely, it has failed to provide the protection of **the Ijevan-Dilijan section**, which has resulted in the looting of the infrastructure in the mentioned section, and the buildings of the stations are currently used by the local population as domestic animal shelters. See the attached.

3.2 The audit in the security service has revealed a number of misappropriations such as the improper use of fuel, construction materials, special purpose uniforms, as well as electric power and communication cables, etc.

3.3 Misappropriations have been in place in the course of exploitation of the service’s corporate transportation means, specifically, exaggerated amounts of fuel and spare parts have been written up. These facts are available in the internal audit reports.

3.4 Contracts with the State Guard Service of the Police of the Republic of Armenia have been extended after 2012, pertaining, specifically, to the protection of bridges and tunnels; the price of these contracts has exceeded about **ten times** the price of the previously signed contracts, reaching around **270 million AMD**, the information we have obtained suggests. The situation has evolved starting in 2012 **following the appointment of Armen Darbinyan** as the deputy general manager for security. This person is also known for racketeering and blackmailing the privately owned organizations cooperating with the “South Caucasus Railway” in the name of the National Security Service and the Federal Security Service, as well as for claiming shares in those companies. Here are the examples

of incidents that have occurred to the founders of the companies “Shin Arts” and “Lion Printing Service” in March-April 2014, April 2017, February-March 2018, which have resulted in criminal cases and recognition of the “Lion Printing Service” as a victim. A number of other top ranked officials of the security service have been part of the scheme, including former **colonels and lieutenant colonels of the State Security Service**.

<https://youtu.be/wT4ocADAtnE> That’s what the security service of the “South Caucasus Railway” is busy with: the way the management of the security service threatens and terrorizes employees of the Company in the name of the State Security Service can be found in the **video material prepared in November 2018 by Gagik Shamshyan** and available at: <https://youtu.be/wT4ocADAtnE>.

4. Subsidization expenses and accounting

4.1 The state budget envisions yearly subsidization of the passenger services rendered by the “South Caucasus Railway”; the subsidization funds equal to **more than 300 million AMD** are transferred to the Company every May; to increase the reported expenses on passenger services the “South Caucasus Railway” has been **intentionally** adding other expenses in the reports.

4.2 The concession agreement does not specify the methodology of the subsidization calculations, does not detail on all the incomes and expenses, which may be directly or indirectly used in the calculations. The independent audits performed in the “South Caucasus Railway” in previous years have shown that the calculations for the state subsidization have included expenses, which were not directly related to the passenger services. The inspections have shown that the expenses have **made 5 billion 485 268 thousands AMD**. We **strongly believe all these violations have been a result of intentionality, and the government of the Republic of Armenia has subsidized the artificially increased passenger service expenses**.

5. Passenger services

5.1 In terms of the passenger transportation, at the present the “South Caucasus Railway” provides services in the destinations of Yerevan-Gyumri, Yerevan-Yeraskhavan, and Yerevan-Shorzha (in summer season), using outdated **electric trains manufactured in the 1960s and 1970s** for the Yerevan-Gyumri route, which has been a reason of sarcastic comments by the foreign social media users visiting Armenia. Below you can find the electronic addresses of the publications and the comments’ locations:

<https://youtu.be/GQimXfL1KJo>

<https://youtu.be/S1XWxLvbbtc>

https://youtu.be/tUT3H_MO_DY

<https://youtu.be/ayV9wIX7mn4>

<https://www.azatutyun.am/a/30103014.html?fbclid=IwAR25cxTMacXXKCHFs2df4jKYYHXucLIVDdEzrWuNQrTvIbAeuAoEUkfwFAU>

<https://www.youtube.com/watch?v=wT4ocADAtnE&feature=youtu.be>

5.2 In 2017 and 2019 the “South Caucasus Railway” purchased two new, two-carriage electric trains, paying unprecedented **139 million RUB (about 2.4 million USD)** for each unit, and has started their exploitation on the Yerevan-Gyumri route. However, unlike the situation in two of our neighbor countries, the ticket prices have increased for **75%** for traveling by these two trains. For information the passenger services in the neighboring Georgia and Azerbaijan have retained the prices even after the purchase of new trains and have recorded a significant increase in the number of passengers. For example, about 900 thousand passengers have used the train services in January-June 2018, and the passenger flows in the same period in 2019 has reached about 1 million 600 thousand people.

5.3 Express trains manufactured in the 1970s operated on the Yerevan-Tbilisi and Yerevan-Batumi routes are in a poor condition.

Passenger transportation expenses

<i>Routes</i>	2009	2010	2011	2012	2013	Total
<i>Local destinations</i>						
Yerevan-Arax-Yerevan	4.442	-	-	10.584	12.457	27.483
Yerevan-Yeraskh- Yerevan	10.838	15.415	10.274	13.333	13.051	62.911
Yerevan-Gyumri-Yerevan	45.196	60.485	56.588	57.479	77.276	297.024
Hrazdan-Almaz-Sevan	-	-	-	5.635	4.407	10.042
Yerevan-Ararat-Yerevan	1.345	7.345	4.062	3.607	2.902	19.261
Yerevan-Armavir-Yerevan	-	27.884	10.783	10.767	6.131	55.565
Gyumri-Vanadzor-Gyumri	-	-	1.509	-	342	1.851
Armavir-Arshaluys-Armavir	-	-	7.591	-	-	7.951
Kanaker-Hrazdan-Kanaker	6.703	8.199	6.601	-	-	21.503
Gyumri-Pemzashen-Gyumri	6.360	6.943	1.015	-	-	14.318
Gyumri-Ayrum-Gyumri	-	6.668	-	-	-	6.668
Custom routes	4.507	-	-	-	-	4.507
<i>Total local</i>	79.391	132.939	98.423	101.405	116.566	528.724
<i>International destinations</i>						
Yerevan-Tbilisi-Yerevan	69.179	64.843	94.934	111.202	125.772	465.930
Yerevan-Batumi-Yerevan	109.129	333.348	481.366	587.157	555.962	2.066.962
<i>Total interstate</i>	178.308	398.191	576.300	698.359	681.734	2.532.892
<i>Other incomes</i>	16.876	-	-	-	-	16.876
<i>Total</i>	274.575	531.130	674.723	799.764	798.300	3.078.492

According to the statements by the “South Caucasus Railway” the passenger carriages operating on Yerevan-Tbilisi and Yerevan-Batumi routes had undergone a repair around two years ago, **which does not comply with the norms of the “Russian Railways” OJSC regulation N 662-p dated 06.04.2006 on the planning and prevention system of repair and maintenance of the engine-car automotive assets, which means that the “South Caucasus Railway” is not authorized to exploit all its trains.** Citizens of Armenia using the train commute services have expressed grievances regarding the sanitary and hygiene conditions in the passenger cars of the trains and the quality of services, and have pointed of giving preference to automobile communication in the described directions. Attached you can find photographs showing the poor condition of the trains in 2019 ([Image 5](#), [Image 6](#), [Image 7](#), [Image 8](#), [Image 9](#), [Image 10](#), [Image 11](#), [Image 12](#), [Image 13](#)).

5.4 The estimates of expenses on passenger services have been made by means of distributing the direct and indirect expenses into two operational categories:

- those rendered as part of passenger services; and
- those rendered as part of cargo freight services.

The Company has intentionally included destinations, which have been used to increase the requested subsidization funds and do not correspond to reality.

The accounting department has intentionally incorporated the cargo freight expenses into the passenger services reports, in the result of which the volume of the passenger services has been artificially increased by 4 928 354 000 AMD.

6. Human resources and trade union

6.1 The administration of the railway company includes a number of kin groups, dominated by the kinsmen of the general accountant (the staff of the accounting department alone includes 8 of the closest relatives to the general accountant). The group manages the financial flows of the Company.

6.2 The Russian kin group, headed by the general manager, controls the wholesale distributions and the flows of investment funds in the Company.

6.3 The kin group in the Security service is comprised of generals, colonels, lieutenant colonels and other officers, who have been left out or are retired from service at the National Security Service and the Police. The group is headed by the former lieutenant general of the National Security Service Darbinyan. The group comprised of the former NSS servicemen under Darbinyan practices attempts of racketeering and claiming shares in the “South Caucasus Railway” partner organizations, and regularly threatens and terrorizes the railway employees to warn against disclosing the violations; the Investigations Committee of the Republic of Armenia has been already provided with evidence on the situation and respective criminal cases have been brought into action. The very notion of trade union has been eradicated in the Company in the result of the ‘work’ of these kin groups, covering up the real situation in the railway company to prevent the information from reaching the country’s leadership and the public. A video footage by Gagik Shamshyan dated November 2018 is attached as evidence (Video 1).

6.4 Young professionals and former employees of the railway company were regularly sent to the Russian Federation for retraining at the railway transportation institutions in Saint Petersburg and Rostov-on-Don at the expense of the Company; the practice continued following the signing of the concession agreement on handing over the Armenian railways to the “South Caucasus Railway” in 2008. However, the former general manager of the “South Caucasus Railway” Viktor Rebets suspended the practice, and none

of the specialists has been retrained at the mentioned institutions. The situation has resulted in the scarcity of properly qualified professionals, which has a negative impact on the infrastructure maintenance, quality service, as well as exploitation of the trains. Instead, specialists from Russia lacking relevant competences and professional experience are regularly sent to Armenia, and are paid unprecedented remunerations.

7. Closed stations

7.1 In the period between 2008 and 2013 the management of the “South Caucasus Railway” has ordered the **closing and conservation of 14 stations**, without, however, entertaining a right to do so. The status of the stations is regulated by the RA Law on Railway Transport (Article 20), and the closing of the stations, as well as the disassembling of the rail tracks in the territory of those stations, shall be done with the permission of the government of the Republic of Armenia and in coordination with the authorized body. **Neither the government of the Republic of Armenia nor the authorized body has given consent to the disassembling of the rail tracks or the closure of train stations.**

8. Ferry traffic services

8.1 The management of the “South Caucasus Railway” terminated the provision of carload services between Armenia and Russia by the order N 831 issued on 05.11.2018. According to the statements by the Company the ferry was sent to repair, but in fact the ferry services were terminated intentionally.

As a matter of fact, the Russian company stopped the carload transportation after 10 years of operations.

We have investigated the situation and have come a conclusion that the statements made by the managers of the “South Caucasus Railway” and the management of the “Russian Railways” OJSC contradict the reality and are intended to mislead and to misinform the government of the Republic of Armenia and the Armenian public. The texts of the statements published in the media, as well as the evidence of their inconsistency with the facts, are available.

About 40% of the settlements in Armenia are provided with electric power through the power distribution stations belonging to the railway company.

At any moment a conflict erupts between the railway company and the local communities using the distribution stations, the railway company can potentially switch off the electric power supply with no liability. The situation may cause serious problems to the local population and the bodies of local administration.

Railway station Yerevan 2020



Railway station Meghri 2020



Railway station Charentsavan 2020



Railway station Ijevan 2020



Railway station Ijevan 2020



Railway station Lusabats 2020



Railway station Karmir Blur 2020



Railway station Solak 2020



Railway station Sovetakan 2020



Railway station Almast 2020



Electric trains in Armenia 2020



Trains, electric trains in Armenia 2020



Railway rolling stock of Armenia 2020



Condition of South Caucasus Railway trains 2019



Condition of South Caucasus Railway trains 2019



Railway accident at Tumanyan station 2019



Railway accident at Tumanyan station 2019



Railway accident at Tumanyan station 2019



Railway accident at Hrazdan station 2019



Railway accident at Tumanyan station 2019



The deplorable condition of the railway lines 2020

Armavir - Metsamor



The deplorable condition of the railway lines 2020 Yerevan - Hrazdan



The deplorable condition of the railway lines 2020

Yerevan - Gyumri



The deplorable condition of the railway lines 2020
Armavir - Aragats



The deplorable condition of the railway lines 2020
Aragats-Gyumri



The deplorable condition of the railway lines 2020
Aragats-Gyumri



Railway station Aragats 2020



Railway station Aragats 2020



The deplorable condition of the railway lines 2020
Aragats-Gyumri



Ararat valley
Railroad tracks as pillar vines 2020

