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Staff at Poroshenko's Russian Candy Factory Buoyed by Ukraine Cease-Fire

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An employee works at a Roshen Confectionery Corporation plant in Lipetsk, Russia, in this March 28, 2014 file photo.

LIPETSK — Now that their boss, Ukraine's President Petro Poroshenko, has finally shaken hands with Russian counterpart Vladimir Putin, the staff running the lone Russian factory in Poroshenko's chocolate empire can finally see better days ahead.

Since March, when Russia annexed Ukraine's Crimea peninsula and pro-Russian rebels rose up in eastern Ukraine, the Lipetsk Confectionary Factory has been raided by armed police, boycotted and accused by Russian politicians of supporting extremism.

Its accounts were frozen, its books combed over by the tax authorities and its directors repeatedly interrogated and threatened with jail for conspiring to profit off chocolate illegally named for a songbird.

Now, with a cease-fire in place in Ukraine, the mood has finally lifted at the factory — a big local employer — which found itself an unexpected victim of Russia's war fever.

The factory has settled one of two court cases, has few accounts left for the tax authorities to check and expects a criminal case against its directors to unravel. Its accounts are still frozen and sales have been cut in half, but bosses hope they can keep 1,500 of the 2,000 staff employed next year.

"The two Ps shook hands once already, Putin and Poroshenko," said Oleg Kazakov, the factory's deputy director. "Yes, there was a time when everyone kicked us, but now people have shaken hands and that means they may shake hands again."

The factory was founded in the 1960s in Lipetsk, a provincial city which now has half a million people, first making bread, then cookies, then chocolate-covered waffles and other sweets. It was privatized after the fall of the Soviet Union and Poroshenko bought it in 2001, making it the Russian outpost of Roshen, the candy empire which made him a billionaire and which is named for the two middle syllables of his surname.

Until last year, its Ukrainian ownership mattered little to those who worked in the factory in the bright red building in Lipetsk, much less those who ate its chocolates.

The factory's director Taisiya Voronina, who has worked there for 45 years, said she has never even met Poroshenko and was not at all interested in politics.

But when Poroshenko, once a cabinet minister in the Kiev government of pro-Russian President Viktor Yanukovych, threw his support behind a pro-European protest movement in Ukraine, candy became political and the Lipetsk factory became publicly associated with Russia's new-found enemies.

Yanukovych was toppled in February. Poroshenko was elected to succeed him and took office in June.

Legal Trouble

Moscow and its largely obedient media have labelled the new government that replaced Yanukovych "extremists" and "neo-fascists." Russian Internet users accused the Lipetsk factory of sending profits to Ukraine to help Kiev's troops. Politicians called for a boycott of sweets that sponsored "violence and extremism" against Russian speakers in Ukraine.

As so often happens in Russia, political disfavor brought swift legal trouble. On March 18, a court ruled against the Lipetsk factory in a four-year battle over the use of a Soviet-era trademark: "lastochka" — the swallow, a beloved summer songbird which Russian consumers know fondly as the name for a type of fondant chocolates.

The next day, officials in plain clothes arrived, backed by armed police, and took armfuls of documents. The factory's accounts were frozen and workers were told to leave.

Voronina was questioned for most of the night on suspicion of a criminal conspiracy to use the trademark to "extract additional profits." The case is still rumbling on.

"We are occasionally invited for interrogation ... on Friday Kazakov was summoned by Moscow's Investigation Department to Moscow," Voronina said, calling the case "fabricated."

The Investigative Committee in Moscow did not respond to a request for comment on the case. The Kremlin has long denied there is any political connection.

The directors have now paid 211 million rubles ($5 million) to a Russian company for using the trademark "Swallow" on their "Swallow Songstress" sweets, finding the money from a deposit that had yet to clear when their accounts were frozen. But soon after that was settled, another Russian candy factory took it to court over the use of the word "Songstress" on the same sweets.

The Lipetsk factory is also dealing with what its directors call "intrusive checks" by the tax authorities, although so far it has passed inspection.

The two directors deny any wrongdoing, although Kazakov said using the "Swallow Songstress" label was probably a mistake.

"We have enough money here for the time being," Kazakov said, confident the factory could settle the demands on it without being forced into bankruptcy.

Patriots

The factory's managers try to distance themselves as much as possible from their Ukrainian owner. Kazakov said he and Voronina were both Russian patriots. Only one Ukrainian is employed by the factory; the rest of the staff are Russians.

"We believe that we are working for the good of our country, developing Russian industry, the Russian economy," he said.

Voronina said all the Lipetsk factory's profits were invested back in the factory, not sent to Ukraine.

But months of legal disputes and boycotts mean they are now cutting staff. Output almost halved from 10,000-11,000 tonnes a month to about 6,000-7,000 tonnes. Annual turnover of between $300 million and $500 million has been halved.

Expansion plans, including a new plant that has yet to be made watertight before the winter, are firmly on hold.

Kazakov said that out of 2,000 employees in the Lipetsk group of companies for Roshen, there would be about 1,500 left by early next year.

Roshen is still hugely successful at home in Ukraine and also owns factories in Hungary and Lithuania, making it one of the biggest confectioners in eastern Europe, a fast-growing region with a sweet tooth.

Poroshenko has promised to sell his entire candy business after becoming president. Big global confectionary firms like Nestle and Cadbury's parent Mondelez are thought to have interest, but any deal is likely to be held up for now by political turmoil.

Selling the Lipetsk factory separately, which would relieve it of the burden of its Ukrainian connection, seems unlikely.

"The issue is that everyone knows that we have a corporate dispute ... and no one wants to get involved — this is the first point. The second point is that Poroshenko does not want to sell the Russian business separately because Russia is such a big market," Kazakov said.

For the moment, the factory will have to continue living hand to mouth, using any money from its reduced sales — some of its sweets still end up on the shelves of smaller Russian supermarkets — to pay wages, buy raw materials and settle debts.

And its directors will have to live with their frustration.

"What is Putin calling for? He's calling for import substitution and for the doubling of domestic production. And we did all that, we did exactly that!" said Kazakov.

"And with them acting the way they did, it presents me with one question — what kind of fool would invest in the Russian economy after this? When they can act this way to anyone?"

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