



Weekly Briefing

Bosnia-Herzegovina social briefing:
“Aluminij” - looking behind BIH state-owned enterprises
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“Aluminij” - looking behind BIH state-owned enterprises

Aluminij d.d. Mostar (Aluminum Co.Ltd. Mostar, hereinafter: Aluminij), the largest industrial facility in Herzegovina-Neretva Canton is facing deathbed problems. On July 10, due to raising debt to state-owned Elektroprivreda HZ HB, the latter decided that it can't honor special delivery terms to Aluminij and electricity was cut off minutes after midnight. Since then, the plant is virtually shut down as all production lines halted. In order to carry out with work, this aluminum plant needs large amounts of electricity, the price of which, unlike the price of alumina and aluminum alloys, has grown on world stock exchanges causing the debt the company has towards the electricity provider to rise with staggering speed.

According to data published by the FBiH government, in the past few years, Aluminij has been operating with losses, owing almost 300 million KM (about 150 million EUR) to Elektroprivreda HZ HB solely. Power cut has been considered from the beginning of this year, but municipal and cantonal government backed by HDZ BIH have negotiated extension of the special delivery terms until it was realized that the plant will not be able to service its debts and the guarantees from the local government to dwindle down. The abrupt power shut down in July also means that the business in Aluminij is reaching terminating stage since the process of relaunching the production is estimated to cost around EUR 25 million. Although some promises have been made for relaunching essential production lines, money to cover the costs is not on sight and is likely that the plant was shut down for good.

This is a strange twist in the business history of the company, knowing that only a year ago, Aluminij d.d. Mostar was the largest single exporter in BIH. According to the data of the BIH Foreign Trade Chamber, in 2017 the export of crude or alloyed aluminum amounted to almost KM 360 million KM (EUR 180 million); which, from the first-hand estimations, seems enough to cover short-term liabilities or at least convincing enough to re-consider the shutdown.

Social impact the shutdown has on the Mostar municipality and Herzegovina-Neretva Canton is the most concerning. Current figures suggest that about 900 workers are (were) employed in the plant in 2019. But it is estimated that subsistence of more than ten of thousands people directly or indirectly depend on the plant, either directly by providing an income for worker's households or through cooperative businesses for local companies.

In days following the shutdown, couple of hundreds of workers organized protests within the plant, with demands that clearly targeted Dragan Covic, HDZ BIH leader, as a main person responsible for dire situation of Aluminij workers. On July 11, disgruntled workers staged a

protest in front of the HDZ BIH headquarters in Mostar hoping to directly confront Covic after a meeting he was supposed to hold with the management and union representatives of Aluminij. However, after it was reported that HDZ BIH President attempted to avoid the crowd, some workers tried to siege the HDZ BIH headquarters and demand their representatives to be admitted to the meeting. Eventually, Covic and Aluminij management representatives managed to pass unnoticed, but their cars were reportedly hit by stones and eggs. The main grievance on workers side is all too common in transitional BIH. In the recent months they have pointed out adverse effects of swelling administration and disastrous performance of management in Aluminij, which made the debt only to increase.

Even without clear financial reports for the last year, BIH public was able to detect that the main structural problems of Aluminij were party employment and reliance on state subsidies. This report will give an insight on some of these issues.

State-owned, but party-controlled enterprises

Hegemony of ethnopolitics and dominance of three patrimonial ethno-political parties is ordained to exploit every societal division in order to create system of patronage in all public institutions within Bosnia and Herzegovina. In fact, the matter is even more serious: the ethnification of the public good not only works on local level, it interferes in strategically important enterprises and big businesses, where being and staying in business still means paying a tribute to patrimonial party or staying connected in tightly knitted network of patronage with local political elite. It must be understood that every business in BIH, private or public, state-owned companies or small startups, post-communist “mastodon” enterprises, successful rent-seeking PPPs, state contract winners, and dubious financiers of state projects, can be exploited for creation and development of mutually exclusive systems of party-based patronage.

The control of big state-owned enterprises (in case of Aluminij through the network of local HDZ BIH) is one such example of patrimonial party’s effort to maintain its own turf on the public good and to use company’s resources to maintain local political support. Partial privatization of Aluminij is, in this sense, particularly interesting. As a large socially-owned enterprise it was established by Sarajevo-based Energoinvest (a BIH flagship company during the Yugoslav period) in 1975 and was one of the main employers in Mostar municipality throughout the 80s. Production stopped during the war for obvious reasons, but it was soon resumed under the political auspices of Croatian government encouraging cooperation with Croatian companies and investing some smaller funds that were directly managed by local HDZ BIH officials. Other Croatian investors followed the lead and became the main shareholders in

expressly privatized company. New shareowners were mostly interested in exploiting favorable state subsidies to extract profit for their mother companies in Croatia, among them largest was TLM from Sibenik (with 12% of shares).

Obtaining the political control over Aluminij in immediate post-war period through unofficial cordial agreements with SDA, but also thanks to support from Tadjman regime (HDZ) in Croatia, HDZ BIH just like SDA in the other parts of the Federation used the plant to maintain the source of illicit financing for its political campaigns and employment for its own cadre and supporters. In effect, Aluminij became one of HDZ BIH `s “state cows” because the plant could rely on stable exploitation of natural resources without much of re-investment in the production while every financial challenge the company encountered could have been negotiated on the central level through political leverage of HDZ BIH. It is not difficult to assume that in this trajectory state subsidies were given to Aluminij based on, first, political significance for its patron party, and later to prevent unwanted social impacts sudden withdrawal of subsidies would cause.

Throughout the business history of Aluminij, the intermingling of state financial support and the creation of outlets for financing various party`s campaigns was, according to workers and former management, all well-known activities. One particularly active figure in post-war period was former director Mijo Brajkovic who sacked all non-Croat workers, especially Serbs living in Mostar, many of whom were before the war employed as engineers and managers in Aluminij. Following this “labor restructuring” the company started to employ local Croats, with credentials sometimes only based on political affiliation. The plant continued to be nominally owned by the government of the BIH Federation (retaining the most of shares) while small shareholders controlled 44 % of the shares, of which 12 % was owned indirectly by Croatian state present in Aluminij portfolio through some state-owned companies and private investors. Cooperation with Croatian companies also contributed to Aluminij`s growth in the next period. However, a record on illicit subsidies given to Aluminij was also matter of judicial proceedings. In 2010, Croatian media reported that Croatian state-owned HEP lost more than EUR 100 million by (unlawfully) selling subsidized electricity to Aluminij via TLM company from Sibenik. Under the similar deal, Aluminij was supplied electricity by Elektroprivreda Herceg Bosna (EHZBH) for a price almost 50% lower the price on to the international market. EHZBH, a local electricity provider, also under control of local HDZ BIH was cooperative in writing off Aluminij`s short-term liabilities until it started to threaten to its own business. According to the media reports, sudden shutdown was directly related with inability to provide a last straw to debt-burdened plant, but it might also have been carefully prepared to stage another “labor restructuring” before some dubious privatization or refinancing scheme. To this end, timing of

the shutdown was ‘negotiated’ to occur in period close to collective vacations, when reaction of workers and unions is expectedly less yielding.

Post-shutdown situation

Although the protests of workers were announced to last during July, above estimations were right in calculating lower turnout. After the protests organized in front of HDZ building in Mostar, next round of protests didn’t succeed in gathering large number of the workers. According to a worker interviewed by media, the expectations are already very low. Most of the workers are looking for other work opportunities, “or already went abroad”.

Cantonal government together with Aluminij management and union representatives, FBIH government and HDZ BIH continued with negotiations regarding the future of Aluminij. On the last meeting (July 25) assurances were provided by the FBIH government to define labor and welfare status for all workers and to prepare and adopt new Restructuring Plan by the end of August, followed by a new organizational systematization, which will also issue Employee Care Plan for remaining workers, i.e. providing severance pay and retirement plan.

The big unknown is resuming production of Aluminij. According to the Restructuring Plan, a gradual revival of the production process is envisaged, starting from the core production lines (anode & electrolysis sections) and management will hold discussions with commercial banks on resolving standing debts after relieving of most of the workers - for whom the state (FBIH government) will provide welfare plan. Given the costs of relaunching the production lines and the size of Aluminij’s debt it remains to be seen whether the shutdown meant the end of party controlled management in this state enterprise or was it orchestrated in order to conduct a new “labor restructuring” for the next round of party employment.