A DOLLAR FOR FIVE THOUSAND WORKERS

The Government of Serbia on January 31 bought a Steel factory in Smederevo (a town on the Danube River, about 50 km east of Belgrade) from South-American company U.S. Steel for one U.S. dollar. Although the news came as a surprise, the Serbian public has been speculating for months about business problems in the factory, shut down of blast furnaces, reducing salaries and work days to employees. Last year the company U.S. Steel almost completely abolished investment in sport, culture and humanitarian activities, and repeatedly urged Smederevo municipality to waive it from environmental and utility fees. Serbian Government and the Municipality of Smederevo met the requirements of the U.S. company given that it was the largest single exporter of steel from Serbia which employed 5400 workers. Notwithstanding all this, the factory made losses and U.S. company brought the decision to close it in the end.

American company couldn’t have chosen a better time to leave Serbia without harming its image and the image of the country they come from. As Serbia is having elections in three months the Serbian government didn’t dare risking having over five thousand people on the Smederevo streets looking for job. Therefore it made a decision that is not economically justified, but is socially and politically. This was confirmed by the Minister of Economy and Regional Development Nebojsa Ciric, who said it was "clear that the state can not manage the company better than a private owner", but in this case the motive "is not economic, but social in nature".

That the Serbian government could react differently is evident in the case of steel factory in Sisak (Croatia). A month ago, the U.S. Company CMC has put a lock on the steel mill, and nearly a thousand workers lost their jobs. The Croatian government did not react. However, as elections in Croatia have just been completed the government has four year term ahead and can afford lay offs, steel mill closed, returning it to state ownership, seeking a new partner. Unlike the Serbian, Croatian steel mill changed owners for several times, from the Slovak, Russian, to American. And they all left.

Steel mill in Smederevo, as well as others that in the territory of former Yugoslavia was a socialist project. The steel mill was built in 1913 under the name SARTID (acronym for Serbian mining and smelting industrial joint-stock company), but at the time of socialism, after nationalization, it grew into a plant employing thousands of workers. During the economic boom at the time of former Yugoslavia, in the sixties and seventies, the factory operated well. Problems began in the eighties. The disintegration of Yugoslavia, the loss of market of over 20 million people, the economic sanctions by the United Nations imposed against Serbia, the civil war in 1992, all led to the factory operating thanks to government subsidies, while not paying any electricity or other obligations to the state. In addition, nothing nas been invested since the eighties, and production drives are completely out of date. The fact that it is technologically backward will prove very important, because its products are now much less competitive.

According to the analysis of the World Bank, "**Serbia exports steel of low added value. Since there is no iron ore, raw materials are imported, processed and then exported further. Analyses indicate that the Serbian steel industry's profitability during the last three years has been marginal or negative. Energy costs have a moderate impact on the competitiveness of most companies, but have a significant impact on U.S. STEEL**". In 2011. business year it showed a loss of over one hundred million euros.

Smederevo ironworks was sold in March 2003, in fact, virtually given to South-American company U.S. Steel, because the state could no longer subsidize it. Before that, the Commercial Court declared bankrupt over the mills, and then the property was sold to U.S. company for $ 23 million. Americans' total cost was about $ 100 million, because in addition to 23 million for the factory, it paid 80 million for severance payments to workers. So the U.S. company has not overtaken anything from old debts. The bankruptcy debts have remained amounting to 49 million euros, while the court recognized claims of about 1.33 billion. This enormous sum doesn't include claims by a consortium of German banks, funds and trading firms of about $ 100 million. It was a loan of $ 80 million approved in 1997 by the consortium. This debt was restructured twice in 2001. It is obvious that the Serbian government then expected the consortium to try to find a strategic partner. As it did not happen, the Government of **Zoran Djindjic** was aware it wouldn't be able to finance the steel factory any longer. So it successfully negotiated with the U.S. company. On July 31, 2002 due to debts of over $ 1.7 billion the steel factory went into bancruptcy. Bank Austria, on behalf of a consortium of creditors, reported claims to Sartid trustee who refused to acknowledge the debts. Then the consortium files a claim before the Commercial Court. The dispute continues to this day, the consortium backed by the German Federal Minister of Economy **Wolfgang Clement**, who in December 2002 sent a protest letter to the government. He was told that "**the Serbian courts are independent and the government has no influence on them**".

It is clear that Djindjic's government did what it had to rescue the company from bankruptcy and provide a credible partner to resume production. There lies the answer to the question why the company in bankruptcy was sold by direct deal to U.S. Steel, rather than at auction. At the auction anyone can buy a property, but the government wanted a new owner to resume production and provide jobs.

The new conservative government elected in 2004 first attempted to challenge this business. It run police investigation, but in the end nothing was found. Despite the many legal shortcomings, no one dared to challenge the deal because it was in the interest of Serbia. An important company and jobs of thousands of people were saved.

Steel factory is the largest single Serbian exporter whose total sales in foreign markets in 2010 amounted to 1.3 billion dollars, up to 13 percent of total Serbian exports. According to the analysis of the World Bank, that year Serbia accounted for 0.09 percent of world production of crude steel. In addition, production in the Steel accounts for five per cent of the overall Serbian economy. Therefore, the consequences of terminating its operations would be very difficult. A number of companies from the metal complex which receive favorable raw material for production would lose competitiveness, which would lead to additional reductions in production capacities, employment and exports. About 20 thousand workers in Serbia are employed in companies doing business with the steel factory so the damage of its extinction would be even greater.

It is clear however, that Serbia can not financially sustain the long-term subsidies for steel factory. Fiscal Council of the National Bank of Serbia has warned the government that "**all costs may be covered only by a redistribution of the budget**". So it means the government will need to save on some other budget items. It can not be otherwise because the International Monetary Fund (IMF) in January delayed the revision of the precautionary arrangement with Serbia, because of "**the level of borrowing in the budget for 2012 exceed the agreed limit**".

The budget for this year includes the 5.5 billion RSD loans for the promotion of production, while the subsidized investment amounts to 10.45 billion RSD. Now the money that was intended for healthy and successful companies, would go to covering losses of steel factory. That is why the Prime Minister Cvetkovic is honest when he says that "**the state plans to be the owner only temporary**, **immediately seeking a strategic partner**." The government hopes that a new partner could be found in countries that recorded rapid economic growth such as China or India. However, according to **Bozidar Cerovic**, Professor of Economics, University of Belgrade, the first condition to find a strategic partner is **improvement of the economic situation in the world and increase of the demand for products**. Some politicians and businessmen see the chance in production of new models of *Fiat* in car factory in Kragujevac, which is about 100 km from Smederevo. This was immediately denied by the Minister of Economy Ciric who said that "**such production requires an investment of 80 million euros and this kind of sheet steel was never produced in Smederevo**."

Therefore, the Government battles against time trying to find a strategic partner as soon as possible, aware that it can not fund salaries for about 5500 workers and the loss of 100 million euros a year. In addition, government ownership of the Steel factory will lead necessarily to some additional effects associated with the state sector in Serbia, such as - unhomely business, hiring new workers close to the parties in government and non-payment of obligations to the state.

American company U.S. Steel paid a very reasonable price of electricity (as electricity greatly affects the cost of production), but it is paid it regularly to Electric Power Industry of Serbia (EPS). The question is whether the state-owned Steel factory will be paying electricity, like another big company of strategic importance for Serbia - Mining and Smelting Complex Bor (RTB Bor) for whom the state is also seeking a strategic partner. Payment of other obligations to the state such as taxes and contributions for employees are known to be questionable in Serbia when it comes to state-owned enterprises. These are additional consequences of the state ownership of the Steel factory. It can be expected pressure regarding the the debt payment to the consortium of German banks, funds and trading firms of about $ 110 million. The American company was able to resist German demands, but will the state-owned company? Will Serbia, whose process of EU integration depends mainly on the German power, refuse to fix this problem? Probably not, so the chances of German consortium to finally collect their claims are more likely.

The story of the Steel factory in Smederevo is a sad story of the Serbian economy. The government has done all it could to save 5 500 jobs in a country where almost 300 thousand workers lost their jobs during the crisis. Since the U.S. Steel announced the possibility of withdrawing from Serbia, the government reacted nervously. They immediately created a Working Group which announced that "**Steel factory must not stop working**". Doing so, they made it clear to the U.S. company representatives that they can easily leave the Smederevo steel mill. "**The fact that the Serbian government immediately created a working group is very clumsy approach to the whole situation, it would have been safer to wait, and if the U.S. Steel sought something, thought about whether to do it or not**", said a consultant for foreign investment **Milan Kovacevic**. The move was criticized by Liberal - Democratic Party (LDP). "**The government responded so non-professional that I am astonished**," said **Vladimir Kravcuk**, in charge of economic issues in the LDP. "**To hastily say, I want to do everything I can, I'll buy the plant if necessary, terribly affects the negotiations for the worse**".

It seems that government representatives are aware of possible huge problems if there will be no new strategic partner for the Steel factory. In addition, the big question is what really the state can do to attract a strategic partner, if it is known that the Steel factory in Smederevo is outdated technologically, that it offers higher prices than Russian and Ukrainian steel mills offer in Europe.

For the reputation of the Government it would be very important to bring in Smederevo a credible foreign investor, because the abandonment of the Serbian market by the largest U.S. investor is not good news for the image of the cabinet where the economy is a major electoral advantage. Especially if it is known that the same company resumed its production in the Slovak city of Kosice, where electricity and labor is more expensive than in Serbia. It says enough about the business climate in Serbia, which is not good. The companies like Glass Factory in Paracin, Agroziv meat industry in Vojvodina and Fertilizer Plant in Pancevo have been also taken over by the state after facing business difficulties. Many Serbian economists criticize this tendency of the state, claiming that this way of increasing the public sector buys social peace, but in the end the price is paid by all citizens.

Yet there is an impression that nobody in Serbia plans for not longer than May, the month of parliamentary and local elections. All problems are being left to another government that will need to have a lot more determination and courage to solve them, if it will want to move forward economically. It seems that Serbian has been living in the last three months in a fairy tale in which the state spends more than it earns, many workers are working at jobs that do not exist and all behave as if there’s no crisis. The new government will have to face the painful truth, and then present it to the citizens.