

# TREPČA, 1965-2000

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## *Summary*

The political significance of Trepca as Kosovo's most prominent enterprise largely overshadows Trepca's actual economic significance. This report explores the history of Trepca, from its early management by the British company Selection Trust Ltd., to the nationalization after the Second World War and its development to one of Yugoslavia's most prominent 'big systems' companies. Special attention is dedicated to Trepca's most recent history during the 90s under the directorship of Novak Bjelic, a Milosevic' apparatchik. The report is intended to shed some light on possible claims emerging from Trepca's involvement with foreign investors under the directorship of Novak Bjelic. The findings in this report will hopefully contribute to a more realistic assessment of Trepca's real value and make room for a de-politicization of the debate on its future.

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It all started in 1926, when Radomir Pasic sold exclusive rights to mineral exploitation at Stari Trg to Selection Trust Ltd., which subsequently established Trepca Mines Ltd. In 1935, the Trepca Company reported a profit of £200,000 and accounted for 91 percent of Kosovo's lead-zinc ore output. In those years, Trepca Mines Ltd was known to be a highly profitable enterprise for mining, smelting and refining lead and silver.

After a short interlude under German management during the Second World War, Trepca was retaken in 1944 by partisan units, and a new period of ruthless exploitation to achieve maximum outputs with minimum investments began. The facilities were gradually expanded and output increased.

Trepca absorbed massive and wasteful investments and became one of Yugoslavia's 'big systems' enterprises, a conglomerate of different factories and assets. In the early 70s, a string of factories were built in Kosovo and added to the Trepca group. This reflected Yugoslavia's sharp turn to protectionism through massive investment programme designed for import substitution.

At its peak, Trepca owned significant assets in Kosovo in addition to the mines in Stari Trg, Kishnica, Kopaonik, Novo Brdo and Ajvalija. These included a paint and varnish factory in Vucitrn, a jewellery and electro-contacts factory in Prizren, a sporting ammunition plant in Serbica, a factory for industrial batteries in Peja, a galvanizing plant

in Vushtrri and a Ni-Cad battery factory in Gjilan. This list is not comprehensive. Trepca also owned significant assets in Yugoslavia outside Kosovo. The external fixed assets were mines and flotations in Serbia and Montenegro, a seaside hotel in Montenegro and a further hotel at Kopaonik, a Belgrade office, factories for accumulators and cooling equipment, shares in Zastava company and even farm property in Vojvodina.

The Trepca system 'as a rule' lost money under Yugoslav socialism. It is claimed to have made a good profit in 1983, however, the following years it sank back into loss. Trepca was incapable of generating its own funds for investment; consequently, all investment funding had to be financed externally, by banks and various subsidies and financial injections. The major source of funds up to 1991 appear to have come from the Fund of the Federation for Crediting the Development of Insufficiently Developed Republics and Autonomous Regions. Kosovo was the recipient of an annual average of 47 percent of the value of this tax-financed fund from 1985-1990. This represented more than 82 percent of the Fund's investment in Kosovo. This was a grossly disproportionate share. Trepca's 22,885 employees in 1988 represented only 9 percent of Kosovo's social sector labour force. Basically, the federal development funding for Kosovo was actually a subsidy paid to RMHK Trepca. Notwithstanding the combine's disastrous investment and profit record, Trepca was always seen by both Albanians and Serbs as the 'golden duck' and the one supremely valuable asset of Kosovo.

Trepca's supposed golden age was between 1960 and 1981. In those years employment expanded rapidly, and Mitrovica's local economy profited. Employment increased from 8,000 in 1960 to 22,885 in 1988. Employment was rising, while productivity was declining continually. The metal content of the ore mined by Trepca was also in continual decline. The flagship mine of Stari Trg, which had reached its peak ore production in 1939, dwindled to insignificance in the 80s. Gradual ore depletion in mining is normal and is normally offset by improved technology. Productivity decline in smelting and refining could not be excused by ore depletion. Labour productivity in the smelting and refining processes declined from 91.8 tons per worker in 1965 to 67.4 tons per worker.

Trepca pursued a policy of maximizing short-term output at all costs and depended on continual infusions of new funds. So long as the funding kept rolling in, the incapacity of Trepca to support itself was nobody's concern. In the 1970s and early 80s, Trepca could cover its financial needs from 'cheap' bank loans, as did most Yugoslav big enterprises. Easy funding came to a sudden halt in the 80s, and with it Trepca's 'golden age'. The combine was struggling to maintain liquidity and obtain input materials and spare parts. The production was subject to erratic constraints caused by lack of inventory and inability to maintain equipment. This created a vicious circle: productivity declined and funds for capital investment were mostly spent to meet current spending needs.

Trepca's employment reflected the on-going nationality struggle in Kosovo. In 1953, Kosovo Serbs held 68 percent of administrative and leading positions, though they accounted for only 28 percent of the population. In 1989, Albanians made up 67.9 percent of the workforce in Trepca's mines and Zvecan-Mitrovica sites. Albanians were largely underrepresented in the white-collar labour force. Following the inauguration of

the Albanian University in Pristina and the constitutional reforms of the early 70s, increasing Albanian control of the local authority system also provided the levers for high-level appointments in industry. The percentage of Albanians holding white-collar jobs in the Trepca combine increased. By 1989, the mines employed 5,121 Albanians, 2,544 Serbs and 252 others, probably Muslims or Roma.

Trepca's business collapsed in the period 1988-1994, coinciding with the revocation of Kosovo's autonomous status and the disintegration of Yugoslavia. The rise of Milosevic and the ensuing political struggles directly affected the mines. A major strike broke out at the key Stari Trg mine in May 1988, followed by mass protests throughout November. In February 1989, the matters came to a head with an eight-hour strike by about 1,300 Albanian workers followed by a mineworkers march on Pristina. The consequences for the Albanian miners were disastrous, some were dismissed or arrested, others left in solidarity with them. From 1989 to 1991, Trepca employment shrank abruptly by 57 percent from 13,261 to 5,720. By 1995, of Trepca's 7,000 employees 1,200 were Albanians.

There was a drastic labour shortage in mining and a huge overhead surplus of office and support staff of about 1,500 employees. The former predominance of Albanians in direct physical labour, both in the mines and metallurgical plants, meant that at the end of 1990, the Stari Trg mining collective for example had only 700 workers left, of whom a mere ten were actually miners. As soon as the new management tried to relocate staff within the combine or recruit external miners, new waves of strikes erupted, now among workers of Serbian nationality.

Throughout the 1980s Trepca survived on the infusion of development funds from the Yugoslav Federation, which funded Trepca's losses and misguided new investments. This came to an end once the monetary reform of 1989 created a credit squeeze. Trepca was particularly hard hit because its losses were structural and normal business depended on subsidies. By 1990 Trepca had ceased to be creditworthy and was put into administration. At the end of 1991, Trepca owed the banks around 115 million euros, and was in arrears of 11 million euros to suppliers of equipment and 3,5 million euros with wages, and owed another 3,5 million euros on its electricity bill.

Across the system, production slowed down as a result of financial exigencies, labour upheaval and production difficulties due to the loss of skilled Albanian labour. Wages fell into arrears, causing a wave of strikes, indiscipline and theft. Years of irregular maintenance were taking their toll on productive capacities. In May 1993, Trepca's boss Krsta Jovanovic admitted that the stock of raw materials, input materials and spare parts were exhausted, and that the whole complex might well have to stop work- unless the government supplied more funds. The Stari Trg mine produced only for three months in 1994.

Until 1991, RMHK Trepca was a confederation of 21 subsidiaries, each of which had its own Director and board, and enjoyed a high degree of autonomy. In 1991, it was decided to unify the enterprise by creating a single 'legal person'. The reorganization was directed

by Nikola Sainovic, at that time minister of mining and energy, now an indicted war criminal. The reorganization established Trepca as a joint-stock company, in which 89.3 percent of the capital was in state and 'social' ownership. The minority shares were held by two state banks and nine enterprises. Most of the shareholders, including the government and the trade organizations Progres and Geneks, were creditors of Trepca who converted their claims into shares.

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In February 1995, Novak Bjelic was appointed General Director of Trepca. The government of Serbia wanted to put a trusted apparatchik in place to revive Trepca. Bjelic continued to be General Director of FAGAR company (today FAN in Kosovo and GAPOS in Serbia) in Podujevo, producing reinforced concrete. He also held a seat in the Yugoslav Federal Parliament as a member of the ruling party, SPS. In May 1996, the Trepca management committee authorized Bjelic to dispose investment and procurement funds up to \$5 million without any reference to the committee.

It was a common practice for top managers of Yugoslav firms to run private enterprises which would enter contracts with the state enterprises they headed for provision of supplies and the sale of product. This set-up afforded the managers easy profits at the expense of the state enterprises. When, in 1997, Trepca was overdrawn by DM 20 million on its giro account, Bjelic ordered that the combine carried out all financial transactions by way of cessions through FAGAR (FAN) of Podujevo.

Bjelic was able to reactivate the Trepca plant thanks to a 5 million dinar grant from the Fund for the Development of Serbia, the unblocking of the firm's clearing account which opened access to credits from Jugobanka, and with funds obtained by demolishing the flotation works at Zvecan and selling the scrap iron to Montenegro. Bjelic also pursued a policy of reunifying Trepca's subsidiaries, sometimes through exertion. In 1995, he took the FAMIPA jewellery factory in Prizren and the munitions factory in Srbica back into Trepca. By 1999, he had integrated or reintegrated all active lead-zinc mines in Yugoslavia into the Trepca group. Trepca even forcefully acquired a state farm in the Vojvodina to supply the Trepca factories in Kosovo with 'healthy food'.

To restore production levels, mine workers were contracted from elsewhere in Eastern Europe. Immigrant miners came from Poland, Czech Republic and Bulgaria. About 1,000 refugees from the former Krajina in Croatia were also 'recycled' to Trepca. Labour relations were poor, even though average Trepca salaries were about DM 148, which was 17 percent above the Serbian average. The Trepca management issued orders notifying workers that unlimited overtime could be demanded, while pay was irregular and in arrear. Bjelic responded to strikes by sacking or relocating the strikers. Workers began to practice 'Italian strikes' by showing up at their workplaces without actually working.

The normal way of wage payments through the banking system entailed the automatic deduction of payroll taxes and pension and health care contributions. It was common practice among 'big system' firms under Milosevic to avoid the payment of these

deductions. Bjelic ordered that wage payments were executed via the postal savings system to avoid automatic deductions. Trepca was thus only paying net wages, and no tax or contributions. As the payroll deductions for pensions and social insurance were not paid, the workers lost their pension rights. The total debt in respect of unpaid payroll taxes and contributions to the health and pension funds accumulated to about 11.6 million euros by the end of 2000.

Bjelic continued to pursue a policy of maximal production for minimal effort. Given the worn out and under-maintained equipment, shortage of funds and labour upheaval, Trepca persistently missed its output targets.

Bjelic managed to secure significant foreign funds to invest in Trepca's mines and metallurgy, but he left behind a trail of unpaid debts and pending court cases. For the period 1995-99, Bjelic claimed that over \$60 million of new fixed investment was put into Trepca. Most of the funds came from foreign partners, Mytileneos SA, Societe Commercial des Metaux et Minerais (SCMM), Trafigura, NewCo and Volvo. Most of Trepca's major deals were brokered domestically by the foreign trade house Geneks (Generaleksport) of Belgrade. Geneks was also closely linked to JUL, the political party of Milosevic's wife Mira Markovic.

Bjelic's primary concern was to export commodity metal onto the world market, once the UN sanctions were suspended in late 1995. In 1997, he instructed his managers that metals should be used exclusively for supplying foreign partners who were financing Trepca with credits, and could not be supplied to Trepca's industrial subsidiaries, especially the battery factories. Bjelic was never tired of explaining to his foreign partners, that Trepca was not a 'supermarket' from which customers bought for cash but with pre-payment discharged later by deliveries of metal. Pre-payments in cash to pre-finance Trepca's operations became the 'Trepca way' of business.

It was Trepca policy to lock the partners into long-term agreements that involved a certain amount of irregularities. Any contract always involved the receipt by Trepca of credit, and since Trepca seldom fulfilled its contract on time, this gave rise to foreign claims against the assets of Trepca and its bank guarantors. Bjelic often attributed the failure to fulfill a contract to force majeure, even if it involved only a boiler breakdown.

The principal source of finance for mine machinery and the refitting of metallurgical equipment came from Mytileneos SA of Athens. Mytileneos supplied concentrates on credit terms, and became Trepca's main foreign trading partner. In November 1995, Trepca signed a contract with Mytileneos for the export of Trepca products valued at \$51 million. Mytileneos handed Trepca an advance payment of \$5 million. Six months later, Mytileneos complained about continued short deliveries and inadequate product quality. The incentive for Mytileneos to stay in cooperation with Trepca was certainly the 5 percent discount on LME metal prices, which Bjelic offered in exchange for his pre-payment terms. In May 1997, Mytileneos signed a third contract with Trepca, this time for a five-year period, at the Greek Economics Ministry in Athens. Trepca was to supply

\$350 million of value, and Mytileneos would pay for all of Trepca's deliveries in advance and the concentrates supplied by him would provide partial payment.

With Serb encouragement and a guarantee signed by the Greek government, Mytileneos would allow Trepca to run up heavy debts. Very soon, 160 court orders for payment of debts were outstanding and Trepca was on the point of falling into Mytileneos hands in distraint for debt. At the end of 1998, Trepca's debt to Mytileneos was agreed at \$45 million.

Mytileneos was the spearhead of Greek investment in Yugoslavia. In December 1996, he was appointed to the board of OTE, a Greek national telecommunications company. A consortium between OTE and STET, its Italian counterpart, purchased 49 percent of shares of Telekom Srbija in June 1997. Mytileneos also entered business with the RTB Bor copper mining and smelting complex. As in the case of Trepca, a similar clause was written into the contract which gave him priority in any future privatisation of the mine.

In summer 1998, Bjelic proposed that Jugobanka, which held a mortgage on Trepca's principal assets in the Mitrovica area, should transfer the mortgage to Mytileneos, until such unspecified time as Mytileneos' claims against Trepca could be converted into Trepca shares. The mortgage had been placed on the Zvečan lead smelter, including the refinery, together with the zinc smelter, accumulator factory and fertilizer factory in Southern Mitrovica, as well as a long list of dwellings and small farm properties. As Geneks company was jointly liable with Trepca, Mytileneos also had Geneks' flagship property, the Belgrade Intercontinental Hotel, written into the deal. If Trepca could not redeem the mortgage, Trepca would be split up, with the mines and some of the final product factories remaining in the old company, while Mytileneos would end up with control of the Intercontinental Hotel and the Zvečan-Mitrovica industrial complex.

When Mytileneos tried to press his claims, he learnt quickly that Geneks was not going to deliver its flagship property without a fight, and Bjelic pursued a tactic of delays. He complicated matters by taking refuge in the complexities of the privatisation law, and continued to postpone the valuation of properties. The last delivery from Mytileneos to Trepca was on 22 March 1999. This was the state of affairs on the eve of the NATO bombing in March 1999.

Another key foreign partner for Trepca was SCMM owned by Jean-Pierre Rozan. Rozan's primary interest in Trepca was for the supply of silver. The first contracts on silver deliveries were signed in early 1998. As usual, Trepca fell behind with its delivery obligations, and SCMM had to accept the prolongation of Jugobanka's guarantees. In December 1998, he agreed to buy Trepca's entire silver output for 1999. Bjelic made a serious effort to keep Rozan on side, while Trepca was sinking steadily further into debt with SCMM.

During the bombing campaign in 1999, most of Trepca's subsidiaries located in Kosovo and the mines closed down. The most important mines, Stari Trg and its flotation at Prvi tunnel remained under Serb control until 19 June. Though KFOR ordered the management on 6 July 1999 to send specialist workers for mine maintenance, the pumping equipment ceased to work, and the mine was flooded. A team of 49 workers went to work each day under KFOR guard to pump out the water. On 6 July 1999, the Serb Trepca workers were barred access to the mines and KFOR let local Albanian workers operate the mines themselves.

The Zinc smelter, the accumulator factory and the fertilizer factory located in Southern Mitrovica remained under the control of RMHK Trepca until November 1999. On 12 September 1999, the acid tank of the zinc smelter in Southern Mitrovica failed and flooded the site with acid. Soon after, KFOR troops barred access to the Trepca workers. In May 2000, the plant was seriously damaged by fire.

From August 1999 until August 2000, Trepca resumed production at the Zvecan lead smelter with the tacit tolerance of the UNMIK authorities. Trepca ceased all deliveries to foreign partners, except for silver to SCMM. RMHK Trepca also immediately broke off all further contact with Mytileneos. The restart seemed to have been financed by the Yugoslav Postal Savings Bank, which provided monthly credits with which to pay wages. On 4 August, Mytileneos terminated the contract with Trepca on the grounds that Trepca and Geneks had failed to meet their contract. On 3 September he lodged a petition against Trepca, Geneks and Jugobanka at the Athens court of First Instance. In February 2000, Mytileneos took Jugobanka to court in Belgrade demanding \$51 million in satisfaction of the Trepca guarantees.

Because of Trepca's failure to meet business commitments with Rozan, SCMM was compensated by being given shares in Jugobanka of Kosovska Mitrovica. Jugobanka of Mitrovica was the largest of the banks operating in Kosovo, and owned a prominent bank building just south of the Mitrovica bridge which is now used as UN Headquarter, and a tower erected by Ljubljanska banka in central Pristina, which is now used as OSCE Headquarter. Rozan, exercising his claim in respect of Jugobanka Mitrovica, demanded rent on both buildings, but UNMIK refused to pay. Since Jugobanka had taken over Trepca's obligations to SCMM, which are estimated to be at \$2.18 million, SCMM was no longer a Trepca creditor.

The principal destination of Trepca's products after the 1999 conflict was Serbia. In August 1999, Trepca was committed to deals totaling 13.3 million dinars with the Yugoslav army and INOS (another Bjelic company) mainly for lead and accumulators. Of this, 8 million dinars were financed by YU-Garant bank, the financier for military supplies. A series of contracts dating to this time disclose a matrix of non-transparent linkages between Trepca, FAGAR and INOS (both Bjelic companies), Jugobanka, the army, the State Merchandise Reserves and the Postal Savings Bank.

One of Bjelic' last political moves as member of the Federal Parliament was the insertion of a last minute amendment into the federal budget for 2000, which granted Trepca a

special subsidy of 100 million dinars (equivalent to about \$9 million). The money was needed to maintain Serb employment and deliver supplies to the Merchandise Reserves, he argued.

The most serious problem for UNMIK arose from the environmental pollution by the Zvecan complex. Already in 1990, an estimated 25,000 of sulphur were being discharged into the air as sulphur dioxide. Lead levels in the air rose to about 125 times acceptable European Union standards. Trepca managers persistently denied the existence of pollution for fear of UNMIK closing the plant.

On 14 August UNMIK, with KFOR assistance, shut down the smelter, citing the environmental and health hazard, and placed the Zvecan complex under UNMIK administration. To minimize the political costs, 1,000 Serbian employees retained their employment at UNMIK expense for cleaning up works, while the remaining 2,200-2,500 Serbian workers were given stipends. Compared with earning at Zvecan in 1999, the UNMIK rate was very generous.

Bjelic left for Serbia and continued his private dealings with INOS and FAGAR (FAN), which he had renamed GAPOS and partly relocated to Serbia. He also continued to administer RMHK Trepca from Belgrade. In the meantime, the management remaining in Zvecan sought to establish a modus vivendi with UNMIK. The real blow to Bjelic's interests was not the takeover by UNMIK, but the fall of Milosevic in October 2000. On 23 January 2001, Bjelic was ousted by the Trepca management board and replaced by Jovan Dimkic, who opted for cooperation with UNMIK. In February 2002, RMHK Trepca even initiated proceedings against its former General Director Bjelic and two senior finance officials for criminal abuse of official position.

It became clear that Trepca had become more of a liability than an asset. Under Yugoslav law, the company did not own the subsoil rights, potentially the most valuable aspect of the enterprise. Its buildings and machinery were largely in a ruinous state, while its technology was outdated. The accumulated debt for unpaid payroll taxes and pension and healthcare contributions was 11.6 million euros. In early 2001, Trepca was being sued in 113 on-going court disputes for debt, damages and compensation for non-execution of contracts. The claim of Mytileneos amounted to 53.2 million, SCMM claimed \$3.8 million, and three suits by Jugobanka amounted to 4.3 million euros. Trepca's aggregate debt could be as high as 84.2 million euros. In taking over Trepca, UNMIK inherited all the problem of what to do with the assets now placed in its trust.