



Weekly Briefing

**Croatia Economy briefing:
A crisis of Uljanik shipyard
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A crisis of Uljanik shipyard

Uljanik workers took it to the streets in August after they did not receive two salaries in a row this summer. The government vowed to find a way to pay the rear salaries. However, the crisis in the shipyard is deeper than would be a one-time payment of overdue salaries. The discussion on the future of the shipyard continues in September. The workers are again on the streets, as they did not receive salary for August. The government traveled to the city of Pula on 13 September in an effort to find a viable solution in a joint meeting with Uljanik's management and workers.

History of the company

Uljanik was established as a war harbor and naval base of the Austro-Hungarian monarchy in 1856 in the town of Pula. Until the end of the First World War the shipyard was building and repairing warships. Between the two World Wars, Uljanik was under the Italian rule. During the Second World War, it became a German naval base and thus was subject to Allied bombing. During Yugoslavia, the shipyard was reconstructed and in 1951 the first ship was delivered. In the decades that followed, Uljanik raised a level of its technological know-how. It manufactured, among else, diesel engines, giant tankers, and car carriers.

During a process of the break-up of Yugoslavia, the shipyard received no new contracts and underwent the same economic downturn as other industries in the country and its neighborhood due to war. At the end of the 1990s, manufacturing started again, but the market and the competitive edge that Uljanik and other shipyards in Croatia enjoyed during several decades in the second half of the 20th century were gone.

In 2012, the Uljanik Group was formed through a merger of Uljanik and the 3rd May shipyard in Rijeka, close to Pula, in the northern Adriatic. However,

this merger did not lead to a healthy economic output. Uljanik was recording losses.

Accession to the European Union

Any candidate country that wants to join the EU has to harmonize its own legislature with that of the EU. Different laws, to which member states agree, regulate a wide range of policies. This applies to fairness and equality in market competition. Acquis communautaire is a set of legislation, legal acts and court decisions that constitute the body of the EU law. Any potential member state is required to adopt the acquis in full in order to qualify, notwithstanding other conditions, for the EU membership. Chapter eight of the acquis regulate competition policy in the EU and was discussed at length between the European Commission and the Croatian government. During Croatia's accession process, the Commission asked Croatia to restructure shipyards, which were receiving large state subsidies.

In the 2011 progress report on Croatia, the Commission reports that it had accepted Croatia's plans for restructuring of shipyards, but also notes that, at the moment, none was yet privatized. Uljanik was recognized as having difficulties, but the Commission agreed to accept Croatia's position that it would restructure it in line with EU laws and regulations.

The government started implementing restructuring programs in three shipyards – the 3rd May, Brodosplit and Brodotrogir. Uljanik is the only shipyard in Croatia that did not undergo restructuring. In 2012, as earlier stated, it merged with the 3rd May shipyard which was undergoing severe difficulties and would have been otherwise liquidated were it not for the merger. However, the 3rd May stabilized its business operations in subsequent years and supported Uljanik.

Difficulties continue despite interventions

In late 2017 one of the MPs in the Croatian Parliament from the region of the northern Adriatic, warned in a public statement that the Uljanik Group was experiencing severe difficulties. There were reports that the shipyards amounted debts and were not paying their suppliers. There was no clear idea how the debt would be paid off. There was also a suspicion that subsidies were misappropriated. Dark clouds of financial losses and a suspicion of corruption spread over Uljanik.

The suspicion of corruption or bad management anger the public. Different sources reveal that the shipyard's management was receiving high salaries for Croatian standards while the shipyard was accumulating financial losses. The workers were paid above the Croatian median salary. That would be an issue were the shipyard profitable. Moreover, some question if it is true that the workers did not know what was happening in the shipyard. They hold a substantial portion of shares. Two trade union representatives were represented in the Steering Committee of the shipyard and are thus believed to have had the information about business operations of the shipyard.

Support from the government

In the last two decades the government pumped in Uljanik billions of Croatian kunas which, when converted, rise to a few billion euros. It is not simple to determine exact amounts. Since Uljanik merged with the 3rd May, there is different information about the amounts that each shipyard received. At the beginning of 2018, the government gave guarantees for a new loan that Uljanik took in the amount of 96 million euros. This loan has been a basis for providing salaries during the year. A couple of salaries were paid also via the deposit that Uljanik has in one Croatian bank.

There is now a widely shared view that the current way of supporting shipbuilding industry in Croatia cannot remain. The question is does Croatia

want to retain shipbuilding as a strategic industry? And, if yes, does Croatia know how to restructure this industry to make it competitive and profitable?

There are no clear answers at the moment. It is believed that the current management of Uljanik has to leave. There is a request that the government assumes full responsibility for managing this crisis, to implement a restructuring program and find a strategic partner.

The attempt to find a strategic partner in the past was insufficient to make Uljanik profitable. The shipyard already has a strategic partner – Kermas Energy. However, there is a question if Kermas Energy is more interested in the property of the shipyard to use it for real estate development rather than invest in shipbuilding.

The crisis of Uljanik also brought a political crisis. The Istrian Democratic Assembly (IDS), a regional party that has been in power in the region of Istria since its establishment in the early 1990s, has been severely hit with the crisis. Ivan Jakovic, a member of IDS and also a member of the European Parliament, withdrew his candidacy for the next European elections over a suspicion of corruption. He was a member of the Steering Committee of the Uljanik Group. This was a reason for the break-up of the Amsterdam Coalition, a coalition of three political parties – Pametno, Glas and IDS. Pametno left on the account that it did not want to be associated with a party whose member is suspected of corruption.

Conclusion

The European Commission will decide on the viability of a program of restructuring that the Croatian government will submit. Margarethe Vestager, the EU Commissioner for Competition, visited Croatia in early September in an effort to learn more about the situation in Uljanik. There are three options for Uljanik – bankruptcy, a sustainable restructuring model or a strategic partner willing to invest in the shipyard.

A whole debate about the future of shipbuilding industry in Croatia falls into a broader debate of the sustainability of this industry in Europe. In the last few decades, shipbuilding emigrated to East Asia – over 80% of the global ship manufacturing takes place in China, South Korea and Japan.

The question for Croatia is to decide which path to choose. Extinguishing fires is no longer an option. This crisis may prod Croatia to adopt a comprehensive development strategy including a well-defined industrial policy.