

Balkan aluminum plants struggle to survive under the free market conditions

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Across the Balkans, vast metals plants are putting governments into a very difficult situation. The state-owned plants provide jobs but they are adding to government debt. Although governments can point to at least one successful sale to a private company in the region, privatizations have in several cases ended in bankruptcy or renationalization.

KAP Podgorica (Montenegro): Electricity supply without a signed commercial contract

At the beginning of December last year it has been reported that Montenegro's huge and bankrupt aluminum plant (Kombinat Aluminijuma Podgorica - KAP) is being prepared for new round of privatization, despite around 100 million Euros lawsuit issued by private shareholder Central European Aluminum Company (CEAC), owned by Russian billionaire Oleg Deripaska.



After the performed privatization of the company, the government had to step in and to prevent the company from being closed. It obtained 50% of the total company's capital. CEAC alleged that the government breached this agreement, leading to lost profits.

In 2009 the Italian company A2A acquired 43.7% of EPCG, after the tender and the subsequent public bid for purchase. While taking over the role of the company's management, it was not possible to renew the contract for the KAP supply which was not profitable for the electric power company. Namely, the government has subsidized KAP over EPCG which was not possible anymore with the new management structure. At the beginning of 2013 EPCG stopped the electricity delivery to KAP due to the debt that reached 60 million Euros. As the CEAC "was not able" to sign the contract and purchase the electricity on the open market, government that holds shares in both companies insisted that EPCG still supplies KAP, until the long-term solution is found.

The situation escalated again shortly afterwards. State-owned company Montenegro Bonus was supplier for KAP in the period from 1st of October until 31st of December 2012. After this period, EPCG stopped to deliver the electricity to Montenegro Bonus as KAP did not pay the bill of 44 million Euros. Since January last year, when KAP has the status of illegal consumer, CGES (Montenegrin Transmission System Operator) used so-called tertiary control to balance the own control area and ordered the energy directly from EPCG to be delivered to KAP. As from 22nd of February 2013, CGES stopped with this activity of "illegal consumer" balancing and therefore KAP windrowed energy until 25th of May 2013 directly from the European interconnection without a signed commercial contract. At the end, all the costs have been transferred to the citizens.

Rather than disconnecting KAP or buying power at the market – which was not possible due to existing Montenegrin regulations – CGES has been taking power from the Continental European Synchronous Area. According to the latest available information of ENTSO-E, CGES has taken an amount of more than 100,000 MWh of unaccounted power from the synchronous system, affecting all TSOs of the synchronous area.

Director of the Energy Community Secretariat (ECS), Janez Kopac, stated that taking power from the electricity system without a proper commercial contract is not allowed, mentioning that the case as one of Aluminium Plant (KAP) has not occurred since World War II. In his opinion, Regulatory Energy Agency (RAE) did not have the authority to react, and the only option was to take away the license of KAP.

From Q1/2014 part of electricity which was illegally taken from the interconnected European system by KAP is being delivered back over government-owned company Montenegro Bonus. The bill again had to be paid by the end consumers, mainly households.

KAP has officially bankrupted at the end of 2013, due to large debts. On the first tender for the sale of KAP, which was announced in early December 2013, four bids were placed. On the second tender, published in January 2014, only one bid has arrived. The bankruptcy trustee of the company accepted the offer in March 2014 from the local company Uniprom who has offered 28 million Euros for the plant's property. Uniprom has additionally offered an investment of 76 million Euros and the hiring of 300 workers. The main precondition to proceed with the further plant production is regulated price of electricity of 38 EUR/MWh over the next five years. Up to now there is neither the agreement with EPCG on the electricity price nor the explanation on how this low electricity price is to be provided.

In the meantime CEAC has initiated two arbitrations against Montenegro, one ad hoc and the other for violating the settlement agreement. Previously the company announced that they will launch arbitration because of non-fulfilled subsidization agreement, violation of investor rights and for falsifying financial statements. The total claim amounts to one billion Euros. CEAC expects indemnity of at least 300

million Euros because Montenegro has violated the settlement agreement.

AoG (Greece): Price of electricity still to be determined

Aluminium of Greece (AoG) is an aluminium producing company in Greece that was founded in 1960. Its production plant is located at Agios Nikolaos, near Distomo in Boeotia, on the north coast of the Gulf of Corinth. The annual production capacity of this industrial complex is 800,000 tonnes of alumina and 165,000 tonnes of aluminium. In total there are 1100 employees. Since 2005 it is member of Mytilineos Holdings.

At the beginning of November 2013, state-owned Public Power Corporation (PPC) announced the termination of supply contract with AoG. The decision is backed up with the Decision of the arbitration tribunal at RAE, which ruled an electricity price to AoG that is clearly below cost, resulting in significant negative retroactive impact on PPC financials. PPC had to undertake this action in order to prevent losses for its shareholders, including the Greek State as major shareholder. The supply of electricity by PPC selectively to Aluminium at a price below marginal costs of production constitutes a state aid which is forbidden by the National and EC legislation.



The controversy problem of PPC supply contract for AoG seems to be easily evolving after the decision of the Arbitration in Q4/2013. The major obstacle is still the position of the main shareholder of PPC, being Ministry of Finance. The government recognized the need to support the competitiveness of Greek energy-intensive industry but the question is still, how to not regard this measure as a "state aid".

PPC was intending to bring the proposal to AoG and offer 5% discount for annual electricity consumption, with a final price of 56.18 EUR/MWh. Instead of that, Aluminium insists on the price which is set by Arbitration and amounts to 40.7 EUR/MWh, which already includes regulated charges such as transmission and distribution fees, but agrees to add costs of emissions. The company based its reasoning on the fact that Aluminium industry is the largest customer of electricity as it needs around 2.5 TWh per year, and that the price it is forced to pay is around 30 Euro/MWh higher than that of its competitors although the technical characteristics of its needs (base product) should be taken into account for the pricing methodology.

Up to now there is still no agreement on the electricity price for AoG. The board of PPC seeks to bring actions plans to the approval by the shareholders of the company, in an

effort to ensure the coverage of losses over the government itself.

Aluminij Mostar (Bosnia and Herzegovina): Casualty of a bad energy supply contract?

Aluminij d.d. Mostar is a stock company with approximately 850 employees. Achieved annual export exceeds 150 million Euros and the company produces around 160,000 tonnes of aluminium a year.

In July 2013, Aluminij Mostar changed its supplier for the band of electricity (100 MWh/h) from Croatian state-owned power utility (HEP) to GEN-I, Slovenian company. The energy had to be delivered until the end of 2013. The old agreement with HEP had to be amended after the Croatian accession to the European Union. The rest of energy which is necessary for the plant to operate (125 MWh/h) was delivered by EPHZHB (Elektroprivreda of the Croatian Community in Bosnian and Herzegovina).

In October 2013, the company that is owned by private investors, a Bosnian regional government, and Croatia's government, began shutting down capacity due to its debts. The company officially asked government to help it settle a debt to the state-owned power company, EPHZHB.

At the beginning of April 2014, EPHZHB blocked accounts of Aluminij Mostar due to the large debts, although the Federation Government of BiH recently pledged to help this company whose continued operation is now put into question. Mostar-based company failed to fulfil the agreement signed in 2013 and debt of 20.5 million Euros from February 2013 increased to 44.2 million Euros (status February 2014). EPHZHB and its Board of Directors stated the company was forced to introduce unpopular measures as the large debt of Aluminij seriously threatened the solvency and operations of the energy company.



Like other smelters, Aluminij Mostar has suffered from a 30% fall in the price of the metal in the last 3 years, caused by oversupply, as well as high power prices. But the firm accounts for more than a quarter of Bosnia's GDP, and the government has already one time saved it from collapse (June 2013) by taking a 44% stake and promising further subsidies. According to available information, Aluminij Mostar used to pay an extremely high price of electricity (52 EUR/MWh), while at the same time Zenica Steelworks Mittal Steel – company fully owned by foreign owners - paid only 31 EUR/MWh. Due to the high cost of supplied electricity and very low metal prices on the world market, company lost around 600 USD per ton of aluminium.