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**To the head of EU Delegation to Serbia, Mister Vincent Degert,**

**To the European Parliament Special Envoy for the Balkans, Mister Jelko Kacin,**

**To the European Commission,**

**Subject: a proposition to involve workers' and small shareholders' associations in monitoring Serbia's advance in the way to EU membership**

By article 17 of the Resolution on the European integration process of Serbia number B7–0000/2012 European Parliament called on Serbian authorities to investigate controversial privatization cases of 24 companies about whose legality European Commission believed there were considerable doubts, and at that time it especially pointed out five individual cases: Sartid, Jugoremedija, Mobtel, C-market and ATP Vojvodina. Fulfillment of this request of European parliament is indeed of crucial importance for the democratization of Serbia. A series of crude illegalities in privatization and sale of Sartid, Mobtel and C-market testifies to devastating proportions of political corruption in Serbia, that is to inability even of such influential actors as German and Italian creditors in Sartid's bankruptcy, or Slovenian company Merkator in C-market's privatization, to protect their rights in proceedings before corrupt Serbian authorities; on the other hand, we saw that domestic tycoons, like Bogoljub Karic and Slobodan Radulović, who acquired their positions in the time of Milosević's regime and consolidated them after year 2000, also don't have any chance to protect themselves against self-will of executive authorities if they confront them. Furthermore, in the cases of Sartid and C-market, it showed that all state institutions in Serbia, whether under formal control of executive authorities or not, were in fact prolonged arm of the ruling political structures. Namely, in the case of Sartid's bankruptcy, grafter's arrangement between minister of economy Aleksandar Vlahović and American company US Steel was carried out by the administration of justice, while the secret cartel's agreement of sale of C-market's shares, famous *Memorandum of Understanding*, was concluded by Miroslav Misković, Milan Beko, Slobodan Radulović and Danko Djunić on the initiative of the prime minister Vojislav Kostunica, and the executor was the Security Commission, independent body named and controlled by the National Assembly.

Every one of mentioned cases also proved the worrisome state of Serbian media: the sale of Sartid was accompanied by a media campaign announcing it was a losing, obsolete, dysfunctional socialistic system, so it was a pure luck that US Steel company wanted to take over Smederevo ironworks at any price at all. In reality, Sartid was sold through illegal procedure at a price many times lower than estimated value, and the obligations to defrauded creditors were paid by the money of Serbian citizens. On the other hand, the sale of C-market was accompanied by a nationalistic campaign announcing that these chain stores should *stay in Serbia*, directed against Slovenian Merkator and other foreign bidders. Sometimes in liberal, sometimes in nationalistic tones, media reports about important privatizations in Serbia were, with rare exceptions, most often in accordance with current interests of political and economic centers of power. Unfortunately, same can be said about the most part of the expert public and civil society organizations. Furthermore, without any exaggeration, the following assessment can be made: if in the last 10 years the Council for Fight against Corruption hadn't have thoroughly investigated these and many other cases and introduced the public with its findings, Serbian authorities could, today, without serious obstacles, deceive citizens that there was no law-breaking in privatization, and that demands from article 17 of European Parliament's Resolution are unjust.

Privatizations of Sartid, Mobtel and C-market have, without doubt, earned attention of European Commission because of economic and strategic importance of these firms, as well as because they show that in Serbia systemic corruption is generated from the very tops of authority. The two remaining cases, however, stand out from entirely different reasons. In privatizations of Zrenjanin drugs factory Jugoremedija and the bus transport company Vojvodina, as important actors, besides authorities and tycoons, appear aggrieved citizens, who decisively oppose self-will of the authorities and fight, both before institutions and in public, for respect of the law and contracts and against destruction of their firms.

### **Jugoremedija**

In 2002, the Share Fund of the Republic of Serbia sold its portion of 42% Jugoremedija shares to the Macedonian company Jaka 80 owned by off-shore fund from Cyprus and Jovica Stefanović. In that moment, Stefanović was wanted by Interpol for smuggling cigarettes in the nineties. By the share sale contract, Share Fund enabled Jaka 80 to become, through capital increase, majority owner of Jugoremedija, without consent of other shareholders, which was violation of Serbian regulations on stock corporations. That time, Stefanović didn't invest in modernization of production, as was determined by the contract, but carried out capital increase by *investing* raw materials from his Macedonian factory – materials which Jugoremedija didn't need at all. Because of that, workers and small shareholders of Jugoremedija initiated legal proceeding for annulment of illegal capital increase, as well as public protests demanding that state break share sale contract. Stefanović reacted by sending, in August 2004, his private guards to force a few hundred shareholders out of the factory, and then by illegally firing workers who participated in the strike. While driving shareholders out of the factory, Stefanović's army was assisted by a police unit sent from Belgrade, by the order of the minister of internal affairs Dragan Jočić. In

other words, while before the court litigation between small shareholders and Jovica Stefanović about capital increase has been conducted, the government, by a brutal police action, *adjudged* that factory belonged to Stefanović, thereby demonstrating that **there are two kinds of owners in Serbia: those who enjoy government protection even when they break the law, and those who cannot protect even those rights guaranteed by the law.** In two and a half following years, workers and small shareholders of Jugoremedija impressed foreign and domestic public by persistently struggling for their factory. In the beginning of 2007, Serbian courts rendered legally binding judgment in favor of the small shareholders, and March first 2007 they appointed their management in the factory. Till this very day, Jugoremedija stands for the most important victory of the citizens against systemic corruption in Serbia.

Jovica Stefanović not only didn't invest in modernization of Jugoremedija, he also piled up its debts to the edge of bankruptcy and led it to the cessation of production. For years, Tax Administration has tolerated his not paying his liabilities to the state, so by March first 2007 the debt has increased to a hundred million dinars. Nevertheless, after appointment of the new management, former minister of finance Mladjan Dinkić ordered Jugoremedija to pay its accumulated debt immediately, or otherwise he would drive it into bankruptcy. However, thanks to the efforts of workers and shareholders, in short time Jugoremedija restored production, paid back all Stefanović's debts and in two following years invested over ten million euros in modernization of the factory, in order to bring its production into compliance with European GMP standards. Jugoremedija represents the most important victory of the citizens against systemic corruption in Serbia, which is the main reason for the factory's management, since the end of 2009, after completion of investment, being again under constant pressure from Serbian executive authorities. Namely, after two years of truce, in the moment when all financial investments in construction works were completed, and before a GMP certificate was granted to Jugoremedija, that is before the investments could have been realized through the increase of shares value, the Ministry of Economy started putting pressure on the factory's management to sell the shares again as soon as possible. The representatives of Jugoremedija's small shareholders refused to offer the shares for sale before the multi-month GMP certification procedure being completed. Soon after that, beginning at June 18<sup>th</sup> 2010, the management, shareholders and employees of Jugoremedija all have been put under constant police investigation instigated on the basis of anonymous denouncements about alleged abuses during the factory's reconstruction. Against distinguished carriers of Jugoremedija's business activities till this very day new investigations have been conducted and initiated, not leading to any discovery, but therefore creating very negative publicity and distrust in the banks and amongst Jugoremedija's business partners. At the same time, Republic Health Insurance Fund, by reducing the prices of Jugoremedija's medications, is financially draining the factory, so that it's no more in the condition to pay out the credit it took from state funds and business banks for investing in modernization.

**ATP Vojvodina**

While in Jugoremedija's case executive authorities have by any means been protecting the buyer, who didn't carry out his contractual duty to invest in modernization of the factory, in the case of ATP Vojvodina the buyer Ilja Dević invested 30 million euros in the construction of new bus station, but the Agency for Privatization broke his contract and took away his company and his investment. Like the small shareholders of Jugoremedija, the buyer of ATP Vojvodina belongs to the class of owners who cannot exercise their legally recognized rights, because they don't enjoy the protection of the authorities. After Ilja Dević had invested in the construction of new bus station, systemic chase after him began, with the city of Novi Sad and the Agency for Privatization as the main actors. Although the moving of bus station was anticipated by the relevant city acts, Novi Sad authorities have changed city planning documents after the project construction, thereby disabling putting the new station into work. That sort of violence upon investor can be explained only in two ways: either by a great irresponsibility or by a great corruption. Disabled in making profit out of realized investment, Dević soon found himself unable to pay installments for buying ATP Vojvodina, so the Agency for Privatization broke his contract and took away his company, not acknowledging the problems that investor has faced because of illegal actions of the city of Novi Sad. We especially remark that Agency, while deciding about breaking the contract with Dević, totally ignored the fact that buyer had fulfilled his contractual duty to invest in the company. This circumstance is very important if we know that contractual duty to invest is the most frequent object of litigations and controversies. The number of buyers in privatization that completely fulfilled that duty in the way determined by a contract is slight, and the Agency most often came to their assistance<sup>1</sup> by granting additional deadlines, by changing contracts, even by accepting false investments (as in the case of Jugoremedija) – and the same applies to other contractual duties too (paying the purchase price, duties toward employees, etc). In the case of Ilja Dević, though, Agency stayed completely deaf to the objective problems that buyer confronted, that is to the fact that because of arrogant and corrupt actions of the city of Novi Sad he was disabled in doing business. Synchronization of actions of the city of Novi Sad and Agency for Privatization is simply eye-hurting.

Especially worrisome aspect of ATM Vojvodina's case is reflected in the fact that, at the time of privatization contract breaking, buyer enjoyed full support of employees in the company, which Agency also ignored. In the last years, our organization has accompanied a large number of strikes and protests of workers and small shareholders from privatized firms, who, led by intention to protect their jobs and properties, demanded respect of the law and privatization contracts. The majority of those firms in the meantime has failed, because the authorities ignored the arguments of workers and small shareholders, or acknowledged them too late. We'll give two characteristic examples.

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<sup>1</sup> Characteristic example of Agency for Privatization's charitableness toward unscrupulous investors is privatization of Beopetrol. The buyer of this company committed himself by privatization contract to invest 70 million euros in Beopetrol's gas stations in the period of one year, and for default in that obligation contract provided a penalty of 30 million euros. However, the buyer didn't fulfill his duty, and Agency spared him his contractual penalty and extended a deadline for investment. The investor toward whom Agency showed such a generous understanding is Russian Lukoil, one of the richest companies in the world.

– The company for production of electromotors, generators and transformers **Sever** from Subotica was privatized in 2004 by the method of public tender. This method, in which the bidden price isn't the only factor of deciding about the best bid, but the quality of investment and social program is equally valued, is intended for sale of the companies of special importance, for which the search for a good owner is more important than privatization profit in the state budget. However, in the procedure of public tender, Sever was sold to known Austrian speculator Mirko Kovac. In spite of multi-year workers' struggle for obeying the law and contracts, in spite of their numerous appeals to the Agency for Privatization and warnings that buyer was shutting down the company's activities and selling out its assets, Agency has tolerated the breaking of the contract. Amongst a large number of cases in which there was a conflict between interests of financial speculators, oriented solely on profit, and public interest in saving jobs and production, Sever particularly distinguishes itself not only because the Agency, by ignoring the shutting down of the basic activities, broke the law and the contract, but also because for years the employees of this company have been taking numerous actions in order to protect their jobs and production, that is to force the Agency to obey the law. It turned out that, in the conditions of systemic corruption, their persistence, consistency, competence and credibility of their arguments simply don't have any effect. After Kovacević's parent company fell into bankruptcy, Sever is fighting today for restoring its production. Workers who for years have resisted collapse are now unemployed.

– Workers and small shareholders of the company for production of electroproducts **RS Partners PES** from Surdulica (formerly Zastava PES) have, after multi-month struggle, succeeded to prove that the buyer, Russian RS UNITED PARTNERS GROUP, had completely ceased production, thereby violating the Law on Privatization which obligated him to continue basic company's activities. Namely, it turned out that RS UNITED PARTNERS GROUP bought former Zastava PES only because this company in its possession had hospitality facilities on Vlasina lake, and that basic company's activity didn't concern him. For three years, Agency had been granting the buyer additional deadlines for restoring production in the company, but in November 2010 it was nevertheless forced to break the contract. **That which followed was a precedent even in Serbian privatization practice.** Under a direct pressure of the ambassador of Russian Federation in Serbia Aleksander Konuzin (which the president of Surdulica's community Novica Tončev publicly admitted), Ministry of Economy and Regional Development revoked the Agency's decision about breaking the contract and brought RS UNITED PARTNERS GROUP back in the company, with a new contract and new deadline for restoring production, which has been constantly delayed till this very day. Agency also, by a new contract, enabled buyer to reduce the number of employees, which in practice actually means settling a score with the workers who have been active in the strike and in protest against illegal privatization. Although RS Partners PES by economic importance cannot compare with Sartid or NIS, on political level it's the most drastic of all publicly known cases in which political intrigues have suspended the law and public interest. Namely, while breaking the law in privatizations of NIS and Sartid went by with tacit acceptance by workers of those firms, who

expected that they too would benefit from grafter's agreement between authorities and foreign companies, in privatization of RS Partners PES workers and small shareholders decisively opposed the lawlessness, and were severely punished for that.

At the time when Agency has decided about breaking the privatization contract of ATP Vojvodina, workers of this company have gathered in front of the Serbian Government to express their support to the investor. As in the case of RS Partners PES, authorities completely ignored positions and interests of employees and small shareholders, whether they supported the investor or were against him. After breaking of the contract, Dević entered in harsh public struggle to protect his interests. As in the case of Jugoremedija, open opposition to systemic corruption only increased the pressure of police and prosecution office on Dević.

The measures that European Union is now taking to restrain systemic corruption are very important support to Serbian citizens' efforts to protect themselves from the self-will of political power and economic monopolies. However, in order for joint efforts of Serbian citizens and European Union to be realized, it's necessary that there be quality communication between them, for which there are two serious obstacles. The biggest obstacle is, of course, posed by Serbian authorities, for they are the generator of problems we are trying to solve. Second big obstacle to communication between EU institutions and Serbian public is presented by a local media.

In June last year, Serbian media carried information about European Union asking authorities in Serbia to investigate over twenty contestable privatizations, among which were Jugoremedija, Srbolek, Zastava elektro, and other companies whose workers and small shareholders had, by their anti-corruption efforts in previous years, become a kind of symbol of civil resistance to the self-will of authorities. Daily newspaper Blic reported that on that list was a number of companies that are controlled by Milan Beko – alone or in alliance with other tycoons (Luka Beograd, C-market and Novosti, among others). Although the representatives of Serbian authorities confirmed this information, company Luka Beograd and Milan Beko launched media campaign to create suspicion in the public that request from Brussels didn't exist at all. In daily paper Politika from July first 2011, Milan Beko even described how he had personally gone „straight to the European Commission“ to check whether that information was correct. „I don't want to mention which European officials attended the meeting, but they just looked each other and said: 'Which one of us two will tell him'? Then they pointed out that they didn't demand investigation and auditing of privatizations in Serbia, neither they were interested in individual cases“. The very fact that this notorious Slobodan Milosević's associate and unscrupulous monopolist, the man whose multi-decade activity in politics and economy is a complete antithesis of everything that Serbian public wants to perceive as *European*, is meeting with the representatives of European Commission, in atmosphere which, as described, appears very warmhearted, is alone a serious blow to already fragile trust of Serbian citizens in the possibility that processes of European integrations could lead to a weakening of systemic corruption in Serbia. Yet, the EU representatives in Belgrade didn't react to the insinuation that Milan Beko is gladly seen guest in their chambers, and Serbian public was left in dilemma whether European

Union is really interested in individual cases of systemic corruption. This dilemma was solved no sooner than March this year, by adopting a Resolution on the European integration process of Serbia.

**Serbian authorities have used these nine months of confusion to cover up the traces of corruption which Brussels indicated. The case of Belgrade drugs factory Srbolek is the best testimony to that.** In 2005 Jovica Stefanović – the same *controversial businessman* who up to year 2007 has illegally managed Jugoremedija – became the biggest shareholder of this company. Labor union and small shareholders of Srbolek have for years trying to prevent a rip-off of the company which was carried out by Stefanović. History of their struggle is equally dynamic and impressive as the efforts of other mentioned groups of workers and small shareholders. In November 2010 it seemed that their devotion, as in the case of Jugoremedija, bore fruit, for, on the basis of criminal charges and evidences that small shareholders of Srbolek have been presenting since 2008, Stefanović was arrested under suspicion that he had damaged Srbolek for more than 5 million euros. After the arrest, small shareholders chose new management and were faced with a blocked account, ceased production and enormous debts, as well as with the fact that Srbolek owed the others less than Stefanović's joined companies owed it. Nonetheless, they succeeded to restore production and started paying back debts. In June last year, when for the first time European Union showed interest about breaking the law in Srbolek's privatization, there was still a chance for this company to recover from ruinous consequences of multi-year plundering. However, at the same time while the media were creating confusion whether *letter from Brussels* even existed, the new management of Srbolek lost its battle with debts inherited from Stefanović and in November 2011 the company went bankrupt. Yet, employees and small shareholders keep fighting for rectification of injustice and restoration of Srbolek, in which interest of European Union could be of decisive help, as it could help other citizens damaged in privatization of companies we mentioned before, which are listed in European Union demands. All these examples clearly demonstrate that there are significant democratic potentials in Serbia, and that those potentials cannot be found in political power or amongst tycoons, but in civil resistances to the self-will of authorities and to monopolies in economy.

However, except daily newspaper Danas, not one significant public media gave adequate publicity to the European Parliament position on corruption in privatization, which was clearly expressed in article 17 of the Resolution on the European integration process of Serbia number B7-0000/2012.

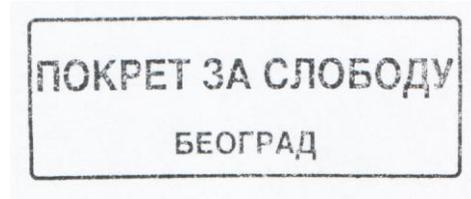
Being certain that you yourselves realize that direct and institutionalized communication between EU institutions and workers, owners, and small shareholders damaged in contested privatizations would be of great benefit for Serbian advance in European integrations, **we suggest that multi-year actors of anti-corruption struggles in privatization of Jugoremedija, Srbolek, ATP Vojvodina, Sever, Zastava elektro, RS Partners PES, and other companies get involved, as representatives of civil society, in monitoring Serbian**

advance. For years, our organization has followed and supported struggles for rights of workers and small shareholders in privatization, so we're at your service for mediation in contacting concrete groups, associations and labor unions.

Sincerely yours,

Milenko Srećković

POKRET ZA SLOBODU



*Milenko Srećković*