

The federal government of Bosnia and Herzegovina plans to offer its stake in Aluminij d.d. Mostar for sale by end of this year, as part of a privatisation initiative involving five other companies.

It will be the second attempt by the Bosnian government to sell Aluminij after it halted the privatisation process launched in 2007, despite a high level of interest among international companies. In comparison to the first attempt, when the Aluminij smelter had a brand new, upgraded technology and a modern cast house and anodes plant, this time round it is in a much worse position. Poor management along with a higher electricity price and lower aluminium price have led to rising debt and lack of investment in recent years.

Talking to Radio Free Europe, the Prime Minister of the Federation of BiH, Fadil Novalic, recently stated: "We're thinking about what to do with some loss-making companies, such as Aluminij, so we called the World Bank, and it will probably be privatised after the opinion of the World Bank". "The sooner, the better," he added when asked about the timing of the sale of Aluminij Mostar, and concluded with: "We need money."

Aluminij d.d. Mostar is 44% owned by the federal government, while the other 44% is in the possession of small shareholders. The remaining 12% is owned by the Croatian government, which invested in restarting Aluminij after the war.

Employing some 850 workers Aluminij's exports are worth over €150 million /year, its main buyers being Glencore and TLM Šibenik. However, due to high electricity costs and unfavourable aluminium prices, Aluminij has recorded a permanent loss in recent years. Aluminij produced 98,540 tonnes of primary aluminium in 2015, mostly in the form of slabs and billets along with some small ingots and wire. It has a primary aluminium capacity of 130,000 tonnes and cast house capacity of 160,000 tonnes. The average metal purity is 99.76%.

The total debt of Aluminij at this moment exceeds €170 million, out of which some €85 million is debt for electricity supplies to Elektroprivreda HZ-HB. However, some €66 million of this debt is considered obsolete and will probably be written off.

In 2015, an additional €55 million of debt matured for payment, meaning Aluminij will not be able to service production and payments without the government's support. Hope now rests with the Federal government of Bosnia and Herzegovina, although it has limited financial resources to help. According to experts from Aluminij and the former management, in order to avoid bankruptcy and closure, Aluminij needs at least €60 million to cover urgent obligations and payments and to service production processes, including urgent potcell overhaul.

Regardless of future ownership, the future of Aluminij Mostar largely depends on substantially higher LME aluminium prices, a much lower electricity price and the continued and substantial support by the federal government or eventually new owner. Finally, the privatisation of Aluminij would mean a decrease or complete disappearance of political influence on the company by both local and federal governments.

Goran Djukanovic is a speaker at 31st Metal Bulletin Aluminium conference, Madrid, September 27-29, 2016. He will present "The Sustainability of Aluminium Smelters in Southeast Europe."

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