

# CASE STUDY: THE DESTRUCTION OF THE SALTWORKS „BAJO SEKULIC“ FOR THE PERSONAL INTEREST OF LOCAL TYCOONS



*The Saltworks covers 14,5 km<sup>2</sup> of the land*

## I INTRODUCTION:

Saltworks “Bajo Sekulic” in Ulcinj is one of the oldest companies in Montenegro, covering the surface of 14,5 km<sup>2</sup>. With its surface Saltworks is among the largest 10 in the Mediterranean region. Between 1926 and 1934 the first salt pans were constructed and the Saltworks was projected to produce 30,000 tons of salt per year. In 2000, the value of the Saltworks was estimated to DEM 110.3 million, which is equal to €55 million.<sup>1</sup>

Further in the Study will be described the manner in which the Management Society Eurofond, associated with Veselin Barovic<sup>2</sup>, the controversial tycoon, along with the former bankruptcy trustee Milorad IkoVIC, destroyed the Saltworks by adopting a number of harmful business decisions, in order to enable Eurofond to gain the major ownership of the Saltworks.

## II PRIVATIZATION PLAN:

According to the Privatization Plan for 2000<sup>3</sup> and 2001<sup>4</sup> the Saltworks was to be privatized through two methods: mass voucher privatization and offering the shares on market - so called “batch sale”. Mass voucher privatization means transferring of shares to privatization vouchers, while the “batch sale” is a combination of the market sale of shares and the capital increase through the public tender sale of shares. The total of 59.28 percent of the capital was meant for mass voucher privatization, 10.43 percent of the shares was distributed to the employees and 35.83 % was planned for the “batch sale”. In total, 59.37 percent of the Saltworks’ capital was sold by 2003.

The remaining 40.63 percent was planned to be privatized through the strategic partnership<sup>5</sup> in 2003 and 2004.

At the time, a foreign partner showed an interest for the Saltworks, but the Management did not pass the decision on capital increase, since the privatization investment funds did not approve of this manner of the capital increase.<sup>6</sup>

### “SOLANA”

Preko posrednika postoji zainteresovanost inostranog partnera za privatizaciju Solane. Izvršena je priprema tenderske dokumentacije, ali organi upravljanja nijesu donijeli odluku o dokapitalizaciji. Privatizacioni fond ne žele ovaj model dokapitalizacije da se realizuje u ovom društvu.

*Privatization Council Report*

<sup>1</sup> <http://solana-ulcinj.me/login>.

<sup>2</sup> Controversial businessman Veselin Barovic known as a close friend of the Prime Minister Milo Djukanovic.

<sup>3</sup> Decision on Privatization Plan for 2000 (Official Gazette of the Republic of Montenegro, No 31/00).

<sup>4</sup> Decision on Privatization Plan for 2001 (Official Gazette of the Republic of Montenegro, No 18/01).

<sup>5</sup> Decision on Privatization Plan for 2003 (Official Gazette of the Republic of Montenegro, No 12/03) and Decision on Privatization Plan for 2004 (Official Gazette of the Republic of Montenegro, No 24/04).

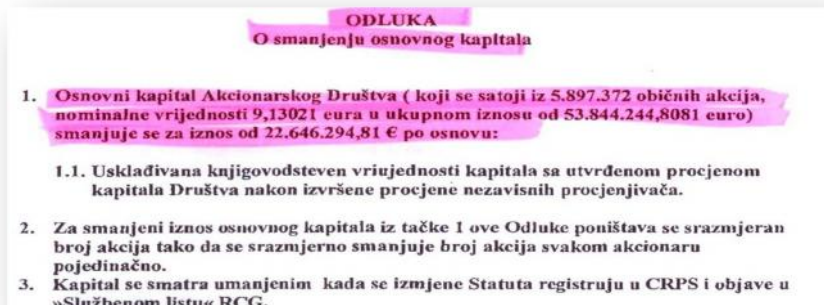
<sup>6</sup> Report on the activities of the Council for Privatization and Capital Projects performed in 2003 (No 01-115, dated 4 March 2004).

In that moment, the Company's major stakeholders were the Pension and Disability Insurance Fund (26.86%), Privatization fund Eurofond (20.39%) and Privatization fund Moneta (11.04%).<sup>7</sup>

### III: VOLUME OF THE ISSUED SHARES OVER €6 MILLION

The Saltworks "AD Bajo Sekulic" entered the bankruptcy procedure in 2005. At the time, Eurofond owned 33.87 percent of the share capital and Moneta owned 34.67 percent.<sup>8</sup> That year, the capital assets of the Saltworks were reduced by €22.6 million due to the accounting adjustments, so they equaled €31.2 million.

MANS does not possess the report on the assessment of the market value based on which the share capital was decreased.



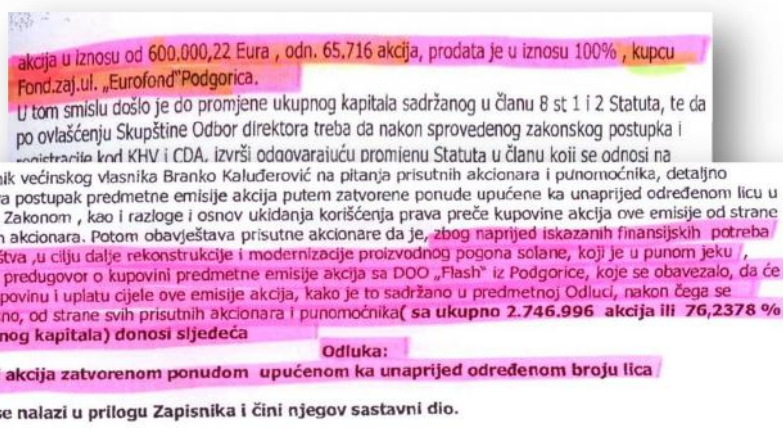
The capital assets reduced by 22.6 million

Between 2005 and 2010, the Assembly of Saltworks' shareholders adopted five decisions on shares issuing in the total value of almost €6.7 million, €5.9 million of which was sold. In the first issuing, the value of the shares issued was €600,000<sup>9</sup>, in the second €1.1 million<sup>10</sup>, third €1.2 million<sup>11</sup>, fourth €2 million<sup>12</sup> and in the fifth almost €1.8 million.<sup>13</sup> All issues of shares were made for the purpose of investments in the production, but the money was never invested for such a cause.<sup>14</sup>

ISSUED SHARES OF THE SALTWORKS "BAJO SEKULIC"		
Year	Planned	Sold
2005	600,000	600,000
2007	1,100,006	1,100,006
2008	1,200,000	995,712
2008	2,000,006	2,000,006
2009	1,794,148	1,200,000
<b>Total:</b>	<b>6,694,160</b>	<b>5,895,724</b>

Table1: The capital increase justified by investments in production

The first issuing of shares was in 2005, when the value of the sold shares was €600,000. The buyer was Eurofond. According to the available data, a new issuing of shares followed.



<sup>7</sup> Comments to the financial statements for the year

<sup>8</sup> Minutes of the fifth Meeting of the Saltworks' S

<sup>9</sup> Decision on the issue of shares on the bases of

<sup>10</sup> Decision on the issue of shares on the bases of

<sup>11</sup> Decision on the issue of shares for sale through

right to purchase No. 35/sk dated 28 February 2008.

<sup>12</sup> Decision on the issue of shares for sale through the closed offering to the beforehand determined number of persons No. 46/sk dated 5 May 2008.

<sup>13</sup> Decision on the issue of shares for sale through the closed offering to the existing shareholders on the bases of the pre-emptive right to purchase No 708 dated 24 July 2009.

<sup>14</sup> The financial report, available to MANS, shows that there were no production investments.

Owning 75 percent of the total share capital, Eurofond gained the major ownership of the Saltworks by 2008.<sup>15</sup>

New decision on the issue of shares was adopted in 2008. This time shares in the volume of €2 million<sup>16</sup> were offered in a sealed offer to the company Flash, founded in 2007. Among others, the founders of the company Flash were Veselin Barovic and Boisa Sotra, both members of the Board of Directors of the Saltworks at the time<sup>17</sup>.

*Issuing of shares for the company associated with Barovic*

Although the bankruptcy trustee of the Saltworks, Milorad Ikovic, was completely aware of the state in the Saltworks and the fact that the money gained through the issue of shares had not been invested in the production, he did nothing to maintain the sustainability of the Saltworks. Moreover, Mr. Ikovic approved every issue of shares<sup>18</sup> despite the fact that, as he himself pointed out, the Reorganization Plan had not been implemented and that the new major owners had used property of the Saltworks as a collateral for the bank loans while at the same time the money had been spent for unintended purposes. In this way, the bankruptcy trustee enabled the privatization fund Eurofond to gain major ownership of the Saltworks.

**IV LOSSES GROWING YEAR AFTER YEAR:** Financial position of the Saltworks got worse since 2005. The company, which operated without any loss by the moment of entering the bankruptcy procedure, was brought to the uncovered losses of €7.9 million at the end of 2013.

According to the financial report for 2005 the company significantly reduced revenues generated by production, increased short-term liabilities to €1.3 million, while the amount of liabilities for taxes at the end of the year was €821,900. The company has reported the total operating loss of €271,900.<sup>19</sup> Uncovered loss of the company in 2006 was €949,017, in 2007 it reached the amount of €1,262,027.<sup>20</sup> In 2008, the loss was €1,232,058<sup>21</sup>, and the year later it increased to €3,209,409.<sup>22</sup> In its financial statements for 2010, the Saltworks reported uncovered loss of €5,457,540<sup>23</sup>, while in 2011 the loss increased to €6,339,458<sup>24</sup>. In 2012, the loss amounted to €6,879,561, and it was €7,965,928 million<sup>25</sup> in 2013.

YEAR	UNCOVERED LOSS
2005.	271,962
2006.	949,017
2007.	1,262,027
2008.	1,232,058
2009.	3,209,409
2010.	5,457,540
2011.	6,339,458
2012.	6,879,561
2013.	7,965,928

<sup>15</sup> Minutes of the Extraordinary Shareholders Meeting of Saltworks "Bajo Sekulic" Ulcinj, No 43/sk dated 28 February 2008.

<sup>16</sup> Decision on the issue shares for sale through the closed offering to the beforehand determined number of persons No 46/sk dated 5 May 2008.

<sup>17</sup> The Registration Certificate of the company Flash from the Central Registry of Business Entities.

<sup>18</sup> Statement permission No 1930 dated 2006; Statement permission No 802 dated 28 May 2008; Statement permission No 50/1 SK dated 25 June 2008.

<sup>19</sup> Balance sheet and Income statement for 2005.

<sup>20</sup> Balance sheet and Income statement for 2007.

<sup>21</sup> Balance sheet and Income statement for 2008.

<sup>22</sup> Balance sheet and Income statement for 2009.

<sup>23</sup> Balance sheet and Income statement for 2010.

<sup>24</sup> Balance sheet and Income statement for 2011.

<sup>25</sup> Balance sheet and Income statement for 2013.

Chart 2: Uncovered loss

**V: SPATIAL PLAN TO MEET DESIRE OF EUROFOND:** In March of 2008 the Parliament of Montenegro adopted the Decision on Spatial Plan of Montenegro<sup>26</sup>, which envisioned conversion of the Saltworks' land into tourist zones. In that manner, the value of the land in possession of Eurofond was increased significantly.

2.4.3.1-3 Pretvaranje vojnih kompleksa i industrijskih zona u turističke zone. Prestanak industrijskih i vojnih aktivnosti obezbijediće potencijale za stvaranje novih turističkih zona u okviru priobalja. Ove lokacije mogu uključiti: Kumbor, Remontni zavod – Tivat, kompleks iza Krašića u Tivtu, preko puta Kumbora, na Luštici - Pristan, rt Trašte pored Bigova, Ostrvo cvijeća, Platomune, Maljevik/Crni rt, dio u okviru Luke Bar, Volujicu, Valdanos, Karaulu na Bojani, Mamulu, Donju i Gornju Arzu, Adu Bojanu, Solanu Ulcinj, Exportbilje u Risnu, Radionica i skladišta u Zelenici i dr.

*Excerpt from the modified Spatial Plan of Montenegro*

However, at the end of July in 2012 the Parliament of Montenegro adopted the Decision on Amendments to the Spatial Plan of Montenegro by 2020<sup>27</sup>, according to which the land of the Saltworks was again declared agricultural. Because of such a decision Eurofond filed the proposal to the Constitutional Court to review the constitutionality.<sup>28</sup>

Meanwhile, in 2011, Saltworks lost the right to the salt exploitation. In May 2007, the Company had submitted a request for the extension of the right to exploit the salt. Although the Ministry of Economy prepared a draft decision on the extension of the sea salt exploitation right<sup>29</sup>, it has not been adopted, but the Government of Montenegro at its session in January 2011 decided to continue the process of extending the right to the sea salt exploitation<sup>30</sup>.

The Government of Montenegro, at its session in late July 2011, approved the draft of the agreement and thereafter contacted the bankruptcy trustee, who informed the competent ministry that, in the meantime, the process of settlement of creditors from the bankruptcy estate of the debtors had been initiated, since the company had not fulfilled the intended reorganization plan for the five year period<sup>31</sup>. The Government of Montenegro then withdrew the right of the Saltworks to exploit the salt<sup>32</sup>.

**VI ENCUMBERED PROPERTY:** Immovable property of the Saltworks was used as a mortgage for the loans granted by Prva banka Crne Gore and CKB bank.<sup>33</sup> The mortgage was registered in accordance with the Decision from 2007 and 2008.<sup>34</sup>

In December 2004, the Saltworks and CKB concluded an agreement. According to the agreement, in order to secure claims in the amount of €291,236 arising from the Loan Agreement concluded on 2 December 2004, the Saltworks accepted to grant lien on its immovable property of 14,527,685 square meters of land,

<sup>26</sup> Decision on Adoption of the Spatial Plan of Montenegro dated 18 March 2008.

<sup>27</sup> Decision on Amendments to the Spatial Plan of Montenegro No. 00-71/11-27/5 dated 26 July 2012.

<sup>28</sup> Newspaper article published in "Dan" on 1 April 2014.

<sup>29</sup> Decision on extending the right to the sea salt exploitation in Stojska kneta, Municipality of Ulcinj.

<sup>30</sup> Conclusion of the Government of Montenegro No. 03-7859 from 1 September 2011.

<sup>31</sup> Information on the Concession Agreement for producing mineral water from spring of Ceoce ("AD Bjelasica Rada") and the Concession Agreement for exploitation of the sea salt from Stojska kneta ("AD Bajo Sekulic").

<sup>32</sup> Conclusion of the Government of Montenegro No. 03-11461/4 from 8 December 2011.

<sup>33</sup> The mortgage was registered on the following property of the Saltworks "Bajo Sekulic AD": public parking, commercial buildings, water supply lines, electric power systems, commercial land, industrial building and gas pipe lines.

<sup>34</sup> Immovable property certificate No. 182, Cadaster Municipality Ulcinj, Municipality of Ulcinj, dated 3 September 2015.

as well as the facilities and buildings,<sup>35</sup> granted the folio number 182 in the Cadaster municipality Ulcinjsko Polje. The Saltworks committed to neither divesting nor to using the property for a mortgage without the consent from the bank<sup>36</sup>. At the end of December, the Real Estate Administration registered the mortgage on immovable property, with CKB as the holder of the encumbrance<sup>37</sup>.

A new Mortgage Agreement was concluded on February 2006 between the Saltworks "Bajo Sekulic" and CKB<sup>38</sup>.

Pursuant to the agreement, based on the loan of €400,000 and maturity period of one year, from 31 January 2006, the property granted the folio number 182 in the Cadaster municipality Ulcinjsko Polje was to be encumbered.<sup>39</sup> The Saltworks could not divest nor lease the property without a consent from the Bank. The Bank, on the other hand, was obliged to release the mortgage after repayment of the loan. In case it failed to repay the loan, the debt would be settled by the trustee sale.

The following long-term loan agreement the Saltworks concluded with Prva banka at the beginning of July 2007. The granted loan was half a million, with the maturity period of 60 months and the annual interest rate of 6.5 percent<sup>40</sup>.

In September 2007, the Saltworks concluded with Prva banka the Agreement on continuous-repayment mortgage,<sup>41</sup> securing the claims in the amount of half a million arising from the Agreement on long-term loan concluded on 6 July 2007.<sup>42</sup> The total value of the mortgaged immovable property was over €33 million.<sup>43</sup> The same year in October, the Real Estate Administration in Ulcinj made the Decision on the mortgage registration<sup>44</sup> in the cadaster records, pursuant to the said agreement.<sup>45</sup>

The Saltworks concluded with Prva banka revolving credit agreement in October 2007. The credit was €100,000, with the maturity date in October 2008<sup>46</sup> and it was to be repaid from the revenues the Saltworks would collect from selling goods and services

The following short-term loan agreement was concluded in 2007 between Prva banka and the company "Flash" from Podgorica. The volume of the short-term loan was €3 million with the maturity period of one year and the annual interest rate of 8.5 percent.<sup>47</sup>

The beginning of August 2008, the Saltworks concluded the Continuous-Repayment Mortgage Agreement with Prva banka to provide for the claims of Prva banka towards "Flash".<sup>48</sup> The claims were registered in the

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<sup>35</sup> Security interest registered on cadastral parcels no. 30, 358, 359, 360, 361, 362, 363, 395, 396, 398 and 410, ownership of the Ulcinj Saltworks.

<sup>36</sup> Record of the Agreement, dated 16 December 2014.

<sup>37</sup> Certificate of the Real Estate Administration Ulcinj No. 060-306/04, dated 24 December 2004.

<sup>38</sup> Mortgage Agreement No. 230, dated 14 February 2006.

<sup>39</sup> Immovable property registered on cadastral parcels no 30, 358, 359, 360, 361, 362, 363, 395, 396, 398 and 410, Cadaster Municipality Ulcinjsko Polje, Ulcinj.

<sup>40</sup> Long-term credit Agreement No. 20073777, dated 6 July 2007.

<sup>41</sup> The Agreement on Continuous-Repayment Mortgage No. 0401/4247, dated 17 September 2007.

<sup>42</sup> Claims registered in the immovable property folio No. 182, Cadaster Municipality Ulcinjsko polje, on the cadastral parcels No. 30/2, 358, 359, 360, 361/1, 362, 363/2, 363/1, 363/3, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404/1, 405, 406, 407 and 410.

<sup>43</sup> The evaluation from 4 May 2007.

<sup>44</sup> The mortgage registered on the cadastral parcels No. 30/2, 358, 359, 360, 361/1, 362, 363/2, 363/1, 33/3, 363/3, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404/1, 405, 406, 407 and 410, immovable property folio No. 182, Cadaster Municipality Ulcinjsko Polje, Ulcinj.

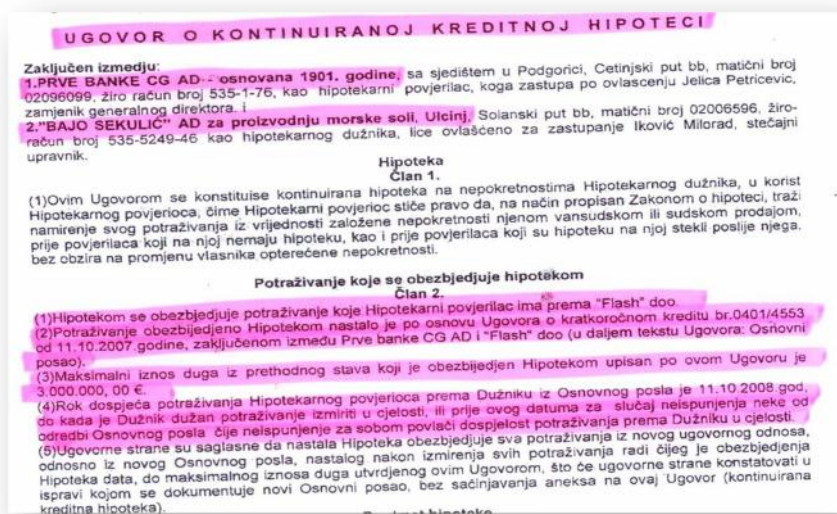
<sup>45</sup> Decision of the Real Estate Administration Ulcinj No. 060-2818/07, dated 17 October 2007.

<sup>46</sup> Revolving Credit Agreement No. 04-420-0400610.3, dated 1 October 2007.

<sup>47</sup> Short-term loan agreement No. 20074553, dated 11 October 2007.

<sup>48</sup> Continuous-Repayment Mortgage Agreement No. 17-01/3485, dated 7 August 2008.

immovable property folio number 182 of the Cadastral Municipality Ulcinjsko Polje, the Municipality of Ulcinj.<sup>49</sup>



*Hipoteka na nepokretnostima Solane zbog duga od tri miliona eura firme "Flash" doo*

Finally, the Agreement on Continuous-Repayment Mortgage between Prva banka and the Saltworks was concluded in March 2008, providing for the claims of €1.1 million, with the annual interest rate of 6.5 percent, and the maturity in March 2015.<sup>50</sup> The claims were recorded in the immovable property folio No. 182 of the Cadastral Municipality Ulcinjsko Polje, Municipality of Ulcinj.<sup>51</sup> In August 2008,

the Real Estate Administration adopted a decision allowing the registration of a mortgage on the basis of the said Agreement<sup>52</sup>.

## VII SALE OF THE ULCINJ SALTWORKS' ASSETS:

In 2012, the bankruptcy trustee announced the sale of the Saltworks' assets. The sale at a starting price of €257.8 million was announced in January 2012. However there were no interested bidders<sup>53</sup>. After that, there were 11 unsuccessful attempts to sell the assets of the Saltworks "Bajo Sekulic", and with each tender the price was lowered. In 2015, the selling price was €169 million.<sup>54</sup>

According to the Report of the Privatization Council published in June 2013, it turned out that there was no consent in terms whether the fair market price was paid for the Saltworks Ulcinj<sup>55</sup> during the privatization process. MANS has no information if the Privatization Council gave the consent by the end of September 2015.

Author: MANS Investigation Center  
Podgorica, September 2015

<sup>49</sup> Decision of the Real Estate Administration Ulcinj No. 060-1501/08, dated 20 August 2008.

<sup>50</sup> Continuous-Repayment Mortgage Agreement No 17-01/3462, dated 14 March 2008.

<sup>51</sup> Claims registered in property folio No. 182 of the Cadaster Municipality Ulcinjsko polje, on the cadastral parcels No. 30/2, 358, 359, 360, 361/1, 362, 363/2, 363/1, 363/3, 395, 396, 397, 398, 399, 400, 401, 402, 403, 404/1, 405, 406, 407 and 410.

<sup>52</sup> Decision of the Real Estate Administration Ulcinj No. 060-1502/08, dated 20 August 2008.

<sup>53</sup> Newspapers article published in "Vijesti" on 25 July 2012 ("The second public sale of the Saltworks failed").

<sup>54</sup> Article published on portal "Bankar" on 28 May 2015 („No interested bidders for the Saltworks“).

<sup>55</sup> Report on realization on privatization plan for the period 1 January - 30 June 2013, dated July 2013.