

Bargain acquisition of Serbia copper company by Zijin China

Categories : [Mining](#)

Date : September 9, 2018

On the last day of August, Aleksandar Antic, the Minister of Mining and Energy in the Government of Serbia, put an end to several months of speculations on which of the three most serious bidders will buy the year-long ailing giant, Mining and Smelting Combine Bor. With an investment of 350 million euros for 63 percent share of the plant, the new owner will be the Chinese corporation Zijin Mining. Acquiring a large package for a small amount, the Chinese strategic partner has announce investments worth 1.26 billion dollars, Antic said. But he has not confirmed yet if the government of Serbia, as the minority partner, will keep the golden share for the management.

The second remaining candidate for the last draw, a Russian company named U Gold, was abandoned by a decision of the Serbian government. The third, a Canadian company, has already been eliminated before government decision due to improper documentation, but Canadians will definitely be present here, at another mine of this century-long copper mining town.

If someone waged a bet if it is going to be the Russians or the Chinese – he would have guessed and won a slight amount. Apparently, the benefit from the Chinese acquisition for Serbia will be only slight, as well. It is important, however, to mention how the winner was “hinted at”.

This outcome was clearly suggested by Serbian President Aleksandar Vucic a while ago. Some time ago, he stated that in order to the rescue RTB Bor and to find a strategic partner for it, he would “beg, and if necessary, even kneel” in front of Chinese President Xi Jinping. This statement, with its populist goal to maintain social peace not only in the city of Bor, but in the entire eastern Serbia, is the main reason for objection of those who “look a gift horse in the mouth”. The argument is that this unscrupulous predetermination renders the competition meaningless, implying that the tender was rigged.

Furthermore, hinting at the winner beforehand weakens the negotiating position of the Serbian side with respect to numerous flexible and conditional items of the bidding document that are yet to be negotiated. It is not irrelevant that such “cheering” by the most influential persons of the state, clears the way for flexible arrangements. This was clearly shown by early analyses of this epochal success - Zijin Mining has confirmed in its report at the Hong Kong Stock Exchange that all investments in RTB Bor in the next six years will come from the company revenue, not from the fresh money.

Clearing the grounds for the money pit

Political objections are known from before - without excessive politicizing, this method is

called "It will be as I say." The reference to kneeling is just a decoration for the simple-minded, aimed to show how large is the sacrifice of a man, partially belonging to history, for the benefit of Serbia. In spite of the promises to the International Monetary Fund, the privatization of RTB Bor was postponed many times; on some occasions, for the political reasons, even private ones, highly favorable offers from domestic businessmen were rejected.

Bidding conditions, by themselves, seem acceptable. All the more so considering that, for decades, RTB Bor has been a kind of the money pit. Even this time, in order to clear the grounds for the buyer, the government took over 900 million euros of its earlier debt.

The bidding document included a number of specific conditions. In addition to the mentioned capital increase of \$ 350 million, the partner is expected to retain the existing number of employees (around 5,000 people), which was emphasized when the Chinese were selected. But it was not clarified that the tender specified the period - for at least three years. The Bidder also committed to continue to settle the new debts of RTB Bor - more than \$ 200 million - determined by what the red tape charmingly calls the Advance Plan of Reorganization. In fact, those are financial documents to be used as a "fire escape" in the case of bankruptcy. Sources familiar with the topic warn that those 200 million will be allocated - from production. (Even though the Chinese sometimes give loans in such cases, they are to be repaid also - from production.)

Subsidies, debts, percentages...

Well-reputed economists are divided on whether it is good that the government gave up the majority shares to a foreign company, or it should have kept it, as mineral resources are an important national resource. Few have warned of the possibility that Serbia, in the "development" of the contract, regardless of the percentage, agrees to continue to participate in the payment of debts. That is, to continue subsidizing the company and thus "help" the buyer, which happened before with another Chinese company at the Smederevo Ironworks.

The public was promised that the elements of the agreement would be decided by the end of September, so that the new owner and manager could "step into RTB" at the beginning of the next year. However, the critics do not believe in that timeline, and furthermore, doubt that all the important details of the final agreement will ever be disclosed. As they failed to mention that retaining all the workers applies "for at least three years", it may also happen that such conditions apply to other "arrangements" - business plan, scope and dynamics of investments...

There are strategic objections to this operation, included in the dilemma whether the tender was made as a "bargain sale", whereby the sale of RTB Bor is actually a gift to the one who buys it. It is believed that the total, real value of this giant's buildings, infrastructure, even past work, and especially unexploited mineral resources (the mineral body "Borska Reka" just below the city) is many times more than \$ 350 million.

There are many advocates of this view. It is presented most succinctly by an engineer and

Ph.D. (whose thesis is concerned with deposit "Borska Reka") Branislav Mihajlovic, a longtime manager who, due to his criticisms of the irregularities in RTB Bor, was deposed from all positions he had held. (Accidentally, he is currently the Chairman of the Movement "Dosta je bilo").

Ministerial adjustments for the 'Silk Road'

Mihajlovic - as an expert, not as a politician - says exclusively for this article: "RTB has two valuable deposits. One is the deposit Borska Reka, located under the Bor Pit, very similar to the deposit Cukaru Peki, whose value has been estimated by the Canadian company at \$ 100 billion. The other is deposit Juzni Revir in Majdanpek. According to my estimation, the value of both deposits combined amounts to about \$ 50 billion. Before the Canadian company published its estimate, I did not have anything to compare Cukaru Peki with, but now it is clear. And the government is about give it up to a foreign partner for a 150 to 200 times lower amount."

Comparison with the Canadian company, not the one eliminated at the tender, but Nevsun Resources, whose subsidiary Rakita Exploration has started developing a mine on the rich deposit Cukaru Peki (local, Vlach toponym), sheds more light on the tender. Without a detailed calculation, the company is supposed to exploit the \$ 100 billion worth of copper, using its own resources for investing, constructing, hiring and, possibly, melting ore in Chinese-Serbian smelters. On the other hand, the owner of the 63 percent shares of RTB Bor will be able to exploit the 50 billion worth of the 100-year-old coal mine for a modest amount of \$ 350 million.

The selection of Zijing Mining, i.e. its favorable treatment, even before the end of the procedure, once again indicates that other Chinese companies may have a similar treatment when they go over the "Serbian bridge" on their "Silk Road" to Europe. Notably, it has recently been announced that the Minister of Justice in the Government of Serbia, Nela Kuburovic, met with the Chinese Ambassador Li Manchang. In Serbia, the daily meetings of high ranking officials with foreign ambassadors receive the status of top news, but this one was especially interesting. Namely, they discussed the cooperation of the two countries in the field of justice and harmonization regarding the advent of Chinese companies to the Serbian economy.

In the short term, this may have to do with making adjustments for this particular tender. If this is not the case, then it is even more significant - adjustments are possibly made for a larger section of the Silk Road.

Source: Al Jazeera