

### Building Ships and Surviving Late Socialism: The Shipyard "Uljanik" in Pula in the 1970s and 1980s

Brunnbauer, Ulf

Veröffentlichungsversion / Published Version

Arbeitspapier / working paper

#### Empfohlene Zitierung / Suggested Citation:

Brunnbauer, U. (2019). *Building Ships and Surviving Late Socialism: The Shipyard "Uljanik" in Pula in the 1970s and 1980s*. (IOS Mitteilungen, 69). Regensburg: Leibniz-Institut für Ost- und Südosteuropaforschung (IOS). <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-65464-7>

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Leibniz-Institut für  
**OST- UND SÜDOST-  
EUROPAFORSCHUNG**

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Arbeitsbereich Geschichte

## **IOS Mitteilungen**

No. 69 November 2019

### **Building Ships and Surviving Late Socialism: The Shipyard “Uljanik” in Pula in the 1970s and 1980s**

Ulf Brunnbauer \*



Pula. Bildquelle: Ulf Brunnbauer

\* Leibniz Institute for East and Southeast European Studies, Regensburg.



Landshuter Straße 4  
D-93047 Regensburg

Telefon: (0941) 94354-10  
Telefax: (0941) 94354-27  
E-Mail: [info@ios-regensburg.de](mailto:info@ios-regensburg.de)  
Internet: [www.leibniz-ios.de](http://www.leibniz-ios.de)  
ISSN: 2363-4898

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## **Abstract**

This paper analyses business strategies to survive the economic crisis of late socialism in Yugoslavia. It takes one of Yugoslavia's flagship exporter enterprises, the shipyard "Uljanik" in Pula as a case study. It argues that the most widespread response to growing economic difficulties in the 1970s and 1980s was a strategy of muddling-through. Yugoslavia, while aiming to become an exporter of industrial goods, never actually managed to adapt its domestic economic institutions to that goal. "Uljanik", like the other shipbuilders in Yugoslavia, produced mostly for export yet failed to earn profits. Domestic conditions and the political over-determination of industry prevented the implementation of measures to increase efficiency. "Uljanik", for example, expanded capacity and hired new workers even at a time when the global demand for ships was depressed after the 1974 oil-price shock. Employment and other social functions turned out to be more salient than any business rationale. Since the mid-1970s this made "Uljanik" dependent on customers, such as the Soviet Union or Third World countries that did not pay in hard currency, or did not pay at all. Frequent illiquidity was the consequence. The paper presents the ship-building industry as a case in point for the increasing tensions between Yugoslavia's institutional set-up and its integration in the international economy, and for the unwillingness of policy-makers to affect structural change. The country failed to build resilience for mediating the outfall of global economic crisis.

Research for this article was supported by the German Research Foundation, DFG (project grant BR 2937/17-1, "Transformations from Below"). Research travel support was also provided by the DAAD (PPP Croatia 2018–2019).



## Introduction

In October 1990, the Uljanik shipyard in the town of Pula (Croatia/Yugoslavia) commissioned the international consulting firm PriceWaterhouse to help drawing up a strategic plan for the forthcoming years. The plan outlined measures to increase profitability based on a candid analysis of the status quo. “Until recently, our main objectives were employment and social security, whereas profitability was secondary.”<sup>1</sup> PriceWaterhouse’s SWOT analysis of Uljanik consisted of many weaknesses and few strengths.<sup>2</sup> Actually, the consultants managed to identify only five advantages of the shipyard: long experience in the building of special-purpose ships, good reputation for the quality of the vessels, convenient location (weather-wise), “strong informal relations”, and the “willingness of the government to support shipbuilding”. The much longer list of weaknesses pictured an enterprise, which lacked organization and purpose, never delivered ships on time, worked with outdated technology and machinery, had no marketing to speak of, did poor accounting, suffered from low labor discipline and high overhead costs, did not care for work safety, had little money and produced high losses. In a word: the consultancy’s assessment confirmed all suspicions that one might have from a typically socialist enterprise of that time – but not necessarily from a firm that produced for the world market and enjoyed name recognition; so, how can a firm be both sides of this coin at the same time?

PriceWaterhouse suggested that in the future the shipyard should focus its business on earning money. This was certainly a good idea but easier said than done, as became clear almost 30 years later. At the time of writing (end of 2019) the shipyard stands idle because a regional court has opened bankruptcy procedures in May 2019, after it had turned out that the firm was illiquid and in deep debt. Since the beginning of 2018, work on unfinished ships had all but ceased because the shipyard could pay neither its workers nor its suppliers. The increasingly desperate search for a “strategic investor” has so far yielded no results, not least because the costs of getting the shipyard going again were increasing by the day.

Local newspapers, usually sympathetic to the shipyard, started to present “Uljanik” as an remnant of socialism, which suffered from its legacy of mis-management. While this would be a gross simplification, it is true that today’s problems of the shipyard have their roots in the past: this paper argues that they have to be located in the 1970s. The 1970s are often described

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<sup>1</sup> “Uljanik Brodogradilište Strateški plan, 1991.–1996”. Transl. from the English original “*Uljanik Shipyard Strategic Plan for 1991–1996*”, PriceWaterhouse/IKO, May 1991, in: Archive of the (former) Croatian Funds for Privatization (HFP), p. 3.

<sup>2</sup> *Ibid.*, p. 16A–17A.

as the “golden age” of Yugoslav socialism when livings standards and incomes were rising and people enjoyed a decently good life.<sup>3</sup> Yet, this was also a time of momentous shifts in the way how the Yugoslav economy operated because of two major developments, which *per se* were unrelated: on the one hand, the constitutional reforms of 1974 substantially transformed the way how business was organized (or dis-organized) and to which extent the state supported it or not. On the other hand, the oil price shock and the ensuing recession in the West changed the international economic environment, into which the Yugoslavs had increasingly integrated themselves since the 1950s. The conjuncture of these two developments stimulated responses by economic organizations which in the long term produced new problems, while at the same time creating state-business ties that would survive the end of communist rule and greatly deflect the post-socialist vector of economic reform. Firms such as Uljanik learnt survival techniques in the 1970s and 1980s that came handy in the difficult 1990s, but ultimately prevented them from becoming resilient enough to withstand global competition once the government stopped acting as a shield.

While this full story is yet untold, this paper has a narrower focus: the question it asks is how – despite all odds – “Uljanik” managed to survive the last decade of socialism even though its business case became increasingly unviable in the 1980s. This is linked to the larger question of the economic – and political – downfall of Yugoslavia’s export orientation. The contradictions between self-managed socialism and integration into the international division of labor were not immediately obvious. Yet, for a company, which almost exclusively produced for export, they were. Uljanik and Yugoslav shipbuilding in general represent, on the one hand, an idiosyncratic industry because no other sector of Yugoslavia’s industry depended so much on foreign customers as this one (in the 1970s, about 90 percent of the Yugoslav built tonnage went abroad). On the other hand, idiosyncrasy can make things clearer: in shipbuilding, important structural problems of the Yugoslav economy crystallized earlier than elsewhere because of its direct exposure to the world market.<sup>4</sup>

The specific problems of this industry in the 1970s manifested unintended consequences of the earlier decision of Yugoslav policy makers (in the late 1950s and 60s) to seek increased integration into the global economy whose rules were mainly set by capitalist powers. The basic conundrum was the question how to pacify the requirements of the market with the premises of

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<sup>3</sup> Also other authors stress that behind full shop windows, the economy began to fall apart in the 1970s: Marie-Janine Calic: “The Beginning of the End. The 1970s as a Historical Turning Point in Yugoslavia”, in: Marie-Janine Calic, Dietmar Neutatz, Julia Obertreis (eds.): *The crisis of socialist modernity. The Soviet Union and Yugoslavia in the 1970s*. Göttingen: Vandenhoeck & Ruprecht, 2011, p. 66–86.

<sup>4</sup> On these contradictions and Yugoslavia’s economic policy making in that period more generally see especially Vladimir Unkovski-Korica: *The economic struggle for power in Tito’s Yugoslavia. From World War II to non-alignment*. London, New York: I.B. Tauris, 2016.

self-managed socialism. Very similar to the famous *Gastarbeiter* migration from Yugoslavia – another major process of integrating Yugoslavia into the international division of labor –, it appears that participation in the world economy, while alleviating some problems on the short term, only helped to make the shortcomings of Yugoslavia’s self-managed socialism more evident and to intensify its inherent contradictions.<sup>5</sup> Shipbuilding was affected by these trends already in the 1970s which meant that it entered the even more difficult 1980s, when the whole Yugoslav economy declined, in an already pretty poor shape.

Some of these developments must have puzzled the Yugoslavs. Their shipbuilders, while embracing the international market and exploring a language of competitiveness, were forced to learn capitalist double-speak the hard way. After 1974, when Yugoslavia embarked on dismantling the state and reducing the government’s economic role in favor of self-management, West European and especially East Asian countries massively subsidized their shipbuilders. It was thanks to state support that many of them managed to wither the outfall of the 1974 oil shock, which led to a lasting drop in the global demand for new ships.<sup>6</sup> The geography of “soft budgetary constraints” can sometimes shift.<sup>7</sup> Actually, to “soften” constraints by lobbying the government was one of the paramount purposes of the association of large shipbuilders in Yugoslavia, the opaque *Poslovna Zajednica (PZ) “Jadranbrod”*. Its main function was to help finding a solution for the financing difficulties of shipbuilding, to coordinate the operations of the shipbuilders and to act as their representative vis-à-vis the government. They never tired of pointing out to the government the obvious irony that West European and capitalist Asian countries provided more state support – at least in the view of Jadranbrod – to their shipbuilding industries than socialist Yugoslavia.

So, Uljanik and the other major shipbuilders in Yugoslavia first had to survive late socialism before they could even think of how to survive post-socialism. The strategies and tactics used by Uljanik to negotiate between demands arising from international competition and from the technic peculiarities of shipbuilding on the one hand, from the constraints and opportunities of self-managed socialism on the other, were quite illustrative for creative but often also futile business practices in Yugoslavia at that time. These involved complex interactions between different levels of decision making, coalitions and antagonisms between different groups of actors, and deals with questionable legitimacy. The details of securing financing for building ships alone opens up a vivid picture of the problems plaguing the wider

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<sup>5</sup> On the case of labor migration this argument was made by Carl-Ulrik Schierup: *Migration, socialism and the international division of labour. The Yugoslavian experience*. Aldershot: Avebury, 1990.

<sup>6</sup> Hugh Murphy: “Appendix 1: The effects of the oil price shocks on shipbuilding in the 1970s”, in: Raquel Varela, Hugh Murphy, Marcel van der Linden (eds.): *Shipbuilding and ship repair workers around the world. Case studies 1950–2010*. Amsterdam: Amsterdam University Press, 2017, p. 665–673.

<sup>7</sup> János Kornai: “The Soft Budget Constraint,” *Kyklos*, 39(1), 1986, 3–30.

Yugoslav economy. The case of Uljanik shows that the prevailing conditions nourished tactics of muddling through. These muddling-through techniques would proof useful also in the 1990s and 2000s but the came with a major price: they helped to eternally postpone structural reforms – until it was too late. As an appreciative participant in one of the negotiations between the Croatian republic and the Yugoslav federal government about state support for shipbuilding recognized already in 1979: “We always search ad-hoc-solutions, in constant danger of the problem to persist and not to be solved.”<sup>8</sup>

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<sup>8</sup> “BILJEŠKA o vodjenim razgovorima članova delegacije Sabora SRH”, 25 May 1979, in: HDA (Croatian State Archive, Zagreb), f. 280, kut. 174, br. 481.

## **A brief Look back**

The acute liquidity problems plaguing Uljanik since the mid-1970s and throughout the 1980s were a direct result of the global slump of the demand in ships but also of the firm's peculiar response to it. Yet, this raises the question why this shipyard in a socialist country was so exposed to world market developments. The reasons for this were connected with decisions taken in the two decades earlier, when Uljanik and the other large Yugoslav shipbuilders embarked on an ambitious strategy to become export-oriented while still operating under the constraints of a socialist system. To enter the world market seemed a smart move in the mid-1950s and aligned well with Yugoslavia's hyperactive foreign policy, which helped to open up market opportunities across the globe, especially in the "Third World" but also the West. Uljanik started to espouse the world market with optimism: in 1960, when the global postwar boom in the demand for new ships came to an end, Uljanik struck a self-confident tone. Its company journal "*Uljanik*", launched in 1960, informed its readers about the correct way to respond to the world market challenge: "We could either prepare for the struggle of competition or reduce capacity. Naturally, we took the first way."<sup>9</sup> With huge investments from the state, Uljanik indeed managed to become an internationally well-known brand; but it also grew dependent on export – a dependency that proved difficult to square with the specific conditions of a self-managed country especially when the global market turned sour.

From 1969 to 1975, Uljanik delivered zero ships to Yugoslav customers, whereas as many as 25 went to foreign owners. This was a source of pride for the shipyard, also given the low post-war starting point of the company. It seems natural that neither management nor workers wanted to question the export-oriented business strategy. Had they not also repaired and refurbished Tito's official yacht, *Galeb*, another source of pride? In 1947, when Yugoslavia gained control over Pula, Uljanik looked like an improbable success story. The shipyard, founded by the Austrians in 1856 and flourishing until World War One, had become a shade of its former self during the interwar period, when Istria belonged to Italy. Under Italian rule, it did not get commissions for any new constructions and was reduced to repair and dismantling work. The workforce of *Cantiere Navale Scoglio Olivi* as the shipyard was known during Italian times did not surpass a couple of hundred workers (in Austrian times, up to 7,000 people worked on it).<sup>10</sup> To make matters worse, the shipyard suffered from heavy bombardment by Allied raids on Pula during the Second World War because the Italian and

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<sup>9</sup> "U borbi za opstanak jači pobjeduju", *Uljanik*, no 10, 1960, p. 22.

<sup>10</sup> Tone Peruške: "Historijat "Uljanika" do 1947 godine," in: *Pomorski zbornik*, vol. 2. Zadar: Društvo za proučavanje i unapređenje pomorstva Jugoslavije u Rijeci, 1964, p. 408.

German navies used the port. 70 percent of the shipyard's buildings and 30 percent of its machinery were destroyed.<sup>11</sup> The only worthwhile legacy from the Italian period was the memory of labor unrest by the workers, which helped to solidify Pula's antifascist credentials.<sup>12</sup>

The political situation after the end of the war was not conducive to business either. Istria was claimed by both Yugoslavia and Italy, and Pula first became an exclave of the Italian administered Zone A in the Yugoslav Zone B. Effectively, it was controlled by an Anglo-American military mission. At the beginning of 1947, before Yugoslavia and Italy agreed on the ownership of Pula, the sound of the passing bell to the shipyard could be heard when its Italian owners prepared to move the remaining machinery to Italy. This provided the scenery for another heroic act of workers defense – so, at least, was the official communist storyline: “(...) the workers, although dismissed, organized ‘workers guards’ and watched over the machinery.”<sup>13</sup> When it became clear that Pula would belong to Yugoslavia, the owners of the shipyard, the Trieste based Cosulich family (which owned also the Monfalcone shipyard until its nationalization, today's Fincantieri) agreed to sell the shipyard to the Yugoslav government, allegedly for 64 million lire. Here is how the communist-time narrative describes what followed next: “On March 10, 1947, the workers choose their management who were prominent workers and trade union activists. On the following day the shipyard was reopened and 168 new workers were employed.”<sup>14</sup> *Cantiere Navale Scoglio Olivi* became *Uljanik* – both names derive from the name of the Olive Island in the Bay of Pula, which forms the center of the shipyard. September 16, 1947, when the Anglo-American forced left the city, became the day of the second liberation of Uljanik and the starting point of spectacular post-war growth:

“(...) that was the final day of its [Pula's] liberation. As far as the shipyard was concerned it was the beginning of a period distinguished by great transformation and progress, during which history has become interlaced with the reality we are still living through.”<sup>15</sup>

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<sup>11</sup> Hrvoje Markulinčić, Armando Debeljuh (eds.): *Uljanik 1856–2006*. Pula: Arsenal design, 2006, p. 97. In the whole of Pula, only 26% of all buildings remained unscathed (Darko Dukovski: *Povijest Pule. Deterministički kaos i jahači apokalipse*. Pula: Istarski ogranak društva hrvatskih književnika, 2011, p. 201).

<sup>12</sup> The archive of the Italian prefecture of Istria contains interesting information on workers' protest and defiance, see: DAPA (State Archive in Pazin), f. 55: Prefettura dell'Istria di Pola (Prefektura Istre u Puli). For a brief summary of the communist official account see Josip Iskra (ed.): *Brodograđevna industrija Uljanik*. Pula 1986, p. 17–8.

<sup>13</sup> Iskra, *Brodograđevna industrija Uljanik*, p. 19.

<sup>14</sup> *Ibid.*, p. 19.

<sup>15</sup> *Ibid.*, p. 19.

Indeed, after the takeover by the Yugoslav government, rehabilitation began quickly and employment numbers increased, from 436 at the end of 1947 to 2,513 by the end of 1953.<sup>16</sup> However, the trajectory to become an export-oriented enterprise that embraced market competition was far from pre-ordained. On the contrary, during the early post-war years Uljanik looked destined to become a ‘typical’ socialist factory: large, inefficient, oriented towards the domestic market, and dominated by the party-state. Until 1953, *Uljanik* such as other Yugoslav shipyards was controlled by the Central Shipbuilding Administration of the Ministry of Defense, which assigned to *Uljanik* the task to build large ships.

The party committee in the shipyard showed the usual obsessions like those harbored by party committees in factories across the Soviet bloc.<sup>17</sup> From the – very long – minutes of Uljanik party committee meetings in the late 1940s and early 1950s, it transpires that the communists at Uljanik considered their main task to execute orders coming from above. The party cells were to act as a transmission belt translating decisions taken by the Central Committee into local action. The goal was to achieve rapid, state-led industrialization, which was the central economic policy objective at that time.<sup>18</sup> The committee minutes speak of socialist competition and shock workers, of the brigade organization of labor and of the mobilization of workers, of norm overachievement, work discipline and the never-ending struggle to “raise productivity”. In a word, the party tried to control the enterprise and its workers and promoted ideas typical of Stalinist shopfloor politics.

The surviving documentation of Uljanik party committee meetings also point to the fact that these initiatives suffered a similar fate like those in other socialist countries. Workers found ways how to evade mobilization and to subvert party control. Discipline remained slack and productivity low.<sup>19</sup> One party official concluded in August, 1951, that “discipline is dreadful and cannot get worse. The authority of foremen and department heads is at zero.”<sup>20</sup> Labor fluctuation was high, absenteeism as well because many workers called in sick. The organization of production was haphazard. It frequently happened that some workshops stood idle whereas others did overwork. All this sounds similar to workers’ tactics of evasion across

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<sup>16</sup> *Ibid.*, p. 23.

<sup>17</sup> These documents are kept in the regional state archive of Pazin (Istria), DAPA, f. 390/2.3 (Gradski komitet Saveza komunista Hrvatske Pula).

<sup>18</sup> More on communist economic policies in Yugoslavia see Susan L. Woodward: *Socialist unemployment. The political economy of Yugoslavia, 1945–1990*. Princeton, NJ: Princeton Univ. Press, 1995; Vladimir Unkovski-Korica: *The economic struggle for power in Tito’s Yugoslavia. From World War II to non-alignment*. London, New York: I.B. Tauris., 2016.

<sup>19</sup> “Program rada partijskog komiteta pri poduzeće “Uljanik” za period august-septembar 1951 g.,” in: DAPA (State Archive in Pazin), f. 390/2.3, kut. 29.

<sup>20</sup> “Zapisnik sa sastanka Tvorničkog Partijskog Komiteta održanog dana 28.8.1951 god.,” in: DAPA, f. 390/2.3, kut. 29.

the socialist bloc in the years of Stalinism.<sup>21</sup> By the mid-1950s, the local party committee apparently lost its hope to effect radical change. A 1954 report stated that the party had not succeeded in becoming a political factor in the shipyard.<sup>22</sup>

A reason why the party accepted defeat was one of the most important pieces of legislation in Yugoslavia's incremental departure from Soviet orthodoxy: the "Basic Law on the Administration of State Enterprises" in June 1950, which introduced workers' self-management in state-owned enterprises. Uljanik belonged to the pioneering 215 major industrial enterprises, for which the new law stipulated the creation of a workers' council.<sup>23</sup> This law was one of two important legislative changes that greatly supported the transformation of Uljanik into a dynamic, export-oriented enterprise. The second innovation was the abolishment of the state monopoly over foreign trade in 1952. While the long-term economic effects of the two laws were not immediately obvious and the changes required some time to become social reality, they would soon create new opportunity structures but also impose new constraints. Eventually, business would be done in a very different way as compared to the mixture of government micro-management *cum* Stalinist mobilization efforts characteristic for the late 1940s and early 1950s.

Why did the two laws transform business practices? Self-management – regardless of the contested question, how much power blue-collar workers really wielded in enterprises – led to the concentration of decision making on the enterprise level. It brought about a strong coalition between management and workers, mediated through skilled and white-collar workers who dominated the workers councils. Workers councils at least offered an opportunity to put pressure on directors. While the party committee in the shipyard had spent much time on discussing broader political questions and international relations, the workers' council focused on bread-and-butter issues, such as workplace safety and salaries.<sup>24</sup> Previously, such concerns had been denounced as "social-democratic attitudes" by party activists.<sup>25</sup> Now they were considered perfectly legitimate and helped to turn workers into stakeholders in the success of their factory.

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<sup>21</sup> Good starting points for a comparative exploration are two important edited collections: Peter Hübner, Christoph Kleßmann, Klaus Tenfelde (eds.), *Arbeiter im Staatssozialismus: ideologischer Anspruch und soziale Wirklichkeit*. Cologne, Vienna, Weimar: Böhlau, 2005; Marsha Siefert (ed.): *Labor in State-Socialist Europe, 1945–1989. Contributions to a History of Work*. Budapest: CEU Press, 2019.

<sup>22</sup> "Referat sa konferencije Saveza Komunističara 'Uljanik', 28.4.1954," in: DAPA, f. 390/2.3, kut. 29.

<sup>23</sup> The first workers' council was created in December 1949 in a cement factory in the town of Solin, near Split. Igor Stanić: "Što pokazuje praksa? Primjer funkcioniranja samoupravljanja u brodogradilištu Uljani 1961.–1968. godine," *Časopis za suvremenu povijest*, 46(3), 2014, p. 455.

<sup>24</sup> Stanić, "Što pokazuje praksa?", p. 461.

<sup>25</sup> "Zapisnik sa sastanka partijske jedinice „Uljanik-a“, 31.1.1949“, in: DAPA, f. 390/2.3, kut. 29; 2.3.2.2.

The workers' council understood well that if it helped the shipyard to earn money, all workers would benefit; it awarded, for example, bonuses to workers showing exemplary commitment and discipline on the workplace.<sup>26</sup> At the same time, the management knew that however strong their actual influence in the workers' council was, they needed the consent of workers – especially skilled ones – in order to keep things running. Working in tandem, management and workers representatives managed to emancipate the enterprise from the party. As Goran Musić has observed in his detailed account of shopfloor relations in two factories in Slovenia and Serbia, “the introduction of self-management (...) created distinct local identities.”<sup>27</sup>

At the same time, workers' councils helped enterprises entering market-based relations with each other because they limited vertical control by political bodies outside of the factory. Decision-making on business issues was increasingly concentrated on the enterprise level.<sup>28</sup> Self-management turned enterprises from a department of a state ministry into a company that would increasingly – although never exclusively – follow a business rationale. Of course, the economy in Yugoslavia was always more than ‘just’ the production of profits and never became fully separated from state and government – but where is this really the case? Business is embedded in wider social relations, thus its functioning is always also a function of the prevailing social fabric.<sup>29</sup> Still, market liberalization and the liberalization of foreign trade had significant consequences for the shopfloor.<sup>30</sup> Efficiency was not only an ideological catchphrase any more but a practical necessity for entering the international market. Shipbuilding became one of the export industries through which the government hoped to earn much needed hard currency. This gave the management of shipyards like Uljanik bargaining power vis-à-vis the government: on the one hand, the management could reject overtly partisan interventions by stressing that party instructions would harm international competitiveness. On the other hand, the strong export position was a convenient argument whenever the enterprise asked for state support – which, after 1974 would become a state of permanence, then showing the downside of the reliance on export.

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<sup>26</sup> Stanić, “Što pokazuje praksa?,” p. 461.

<sup>27</sup> Goran Musić: *The self-Managing Factory after Tito. The Crisis of Yugoslav Socialism on the Shop Floor*. PhD dissertation, European University Institute, Florence, 2016, p. 55.

<sup>28</sup> Vladimir Unkovski-Korica: “Worker’s Councils in the Service of the Market: New Archival Evidence on the Origins of Self-Management in Yugoslavia 1948–1950,” *Europe-Asia Studies* 66(1), 2014, p. 108–34.

<sup>29</sup> See Mark Granovetter: “Economic action and social structure: the problem of embeddedness”, *The American Journal of Sociology* 91(3), 1986, p. 481510. DOI: 10.1086/228311.

<sup>30</sup> Musić, *The self-Managing Factory after Tito*.

Uljanik flagship projects of the 1950s indicated the shift away from the domestic to the international market. The first success was the finishing of the fundamental repairs of the ship *Galeb* (Seagull), which Tito would frequently use for his journeys abroad. In 1956, the first newly built large ship, the cargo ship *Uljanik*, was delivered to the Yugoslav shipping company *Jugolinija* (seated in Rijeka). Tito was present at the christening of the ship. Yet, the future lay somewhere else, as manifest in the next big project: in 1958, the first cargo ship for a foreign owner was completed, *Al Mokattan* for Egypt.<sup>31</sup> The new, more conducive conditions for foreign business made it easier for Uljanik also to buy and use foreign technology and supplies. This was essential for producing ships for international customers. In 1953, for example, Uljanik signed a license agreement with the Copenhagen-based diesel engine maker *Burmeister & Wain*, which helped turn Uljanik into a supplier of diesel engines for other Yugoslav and even foreign shipyards.<sup>32</sup> The number of workers in the shipyard in the meantime reached 4,000 by 1959.<sup>33</sup> A party committee session in February 1957 stroke a completely different tone from those in the early 1950s: now, optimism and satisfaction of what has been achieved shined through its minutes, which boasted of the enterprise's "great results." Thanks to that, Uljanik had become an essential part of the social fabric of the municipality of Pula: in 1956, it contributed 436 million dinar in contributions to local self-government bodies.<sup>34</sup>

*Uljanik*, such as the other main shipyards in Yugoslavia, benefitted from the unprecedented worldwide boom in shipbuilding after the end of the Second World War. It was greatly supported by the government, which invested more than 4 billion dinar in the shipyard from 1948 until the late 1950s.<sup>35</sup> This expansion of capacity was much more than the home market could absorb, which is why the export orientation came almost naturally.<sup>36</sup> In order to meet the growing international demand, *Uljanik* planned to invest further nine billion dinar in the 1960–65 period in order to build up new capacity.<sup>37</sup> Accordingly, output was greatly increased with a clear emphasis on export. Out of fifty ships delivered by Uljanik in the 1960s, thirty-six were

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<sup>31</sup> Iskra, Brodograđevna industrija Uljanik, p. 24.

<sup>32</sup> Željko Šesnić: "Posljednjih 60 godina Brodogradilišta Uljanik", in: Bruno Dobrić (ed.): Stotinu i pedeset godina brodogradnje u Puli. Zbornik radova s međunarodnog skupa prigodom 150. obljetnice osnutka C.kr. pomorskog arsenala (Pula, 8. prosinca 2006.) Pula: Društvo za proučavanje prošlosti C. i. kr. Mornarice "Viribus unitis, 2010, p. 244.

<sup>33</sup> Markulinčić, Debeljuh, Uljanik 1856–2006, p. 107; "Razvoj brodogradilišta," Uljanik 1(4–5), 1960, p. 12.

<sup>34</sup> "Zapisnik održane konferencije organizacije SK 'Uljanik', 10.2.1957," in: DAPA, f. 390/2.3, kut. 29; 2.3.2.2. (2.3.2.2.1. Zapisnici sastanaka, izvještaji TK SKH brodogradilišta "Uljanik").

<sup>35</sup> "Deset godina uspjeha," Uljanik 1(7), 1960, p. 3.

<sup>36</sup> Michael Palairet: "Croatian shipbuilding in crisis, 1979–1995", in: Srećko Goić (ed.): Enterprise in Transition. Proceedings. Fourth International Conference on Enterprise in Transition, Split-Hvar, May 24–26, 2001. Split: Faculty of Economics, 2001, p. 759 [CD Rom].

<sup>37</sup> "Preko devet milijardi dinara za proširenje i modernizaciju pogona," Uljanik 1(9), 1960, p. 2.

for foreign owners.<sup>38</sup> The government supported such exports, when they went to hard currency countries or to developing countries; such export subsidies covered between 20 and 33 percent of the call price, depending on country of delivery. In case of clearing and barter, though, no export support was provided by the state.<sup>39</sup> Yugoslav shipbuilding became heavily geared towards export markets: almost 90 percent of built tonnage between 1964 and 1975 was for foreign purchasers.<sup>40</sup> Shipbuilding became the most export-oriented sector of Yugoslavia's industry. No other shipbuilding nation had such a high export percentage like the Yugoslav one (from 1969 to 1978, 93 to 100 percent of the annual deliveries went abroad).

The list of Uljanik's customers reflected Yugoslavia's foreign policies: they included friendly 'Third World' countries, especially non-aligned ones, such as Egypt, Sudan, and India, but also Western countries (Norway, Sweden), and countries of the Soviet Bloc after relations with them had been normalized. The single most prolific purchaser was the Soviet Union through its import organization *Sudoimport*. Western costumers, such as Greek ship-owners, were 'hidden' behind flags of convenience (Liberia, Panama). The largest ship Uljanik anytime built – the tanker *Berge Istra* with almost 230,000 dwt – went to Norway. In the 1970s, Uljanik became practically exclusively focused on exports: only two out of forty-two newly built ships in the 1970s were delivered to domestic customers.<sup>41</sup>

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<sup>38</sup> "ULJANIK Group reference list", [https://uljanik.hr/images/reference/ULJANIK\\_Group\\_reference\\_list.pdf](https://uljanik.hr/images/reference/ULJANIK_Group_reference_list.pdf) (last accessed 8 October 2019).

<sup>39</sup> Jadranbrod: "Sadašnje stanje, ekonomska položaj i problemi razvoja brodogradnje" (Zagreb, 1980), in: HDA, f. 1398, kn. 6.

<sup>40</sup> Ante Bulić: "Razvojni tok jugoslavenske brodogradnje od početka do danas", *Brodogradnje* 36(1–2), 1988, p. 63.

<sup>41</sup> "Preko devet milijardi dinara za proširenje i modernizaciju pogona," *Uljanik*, 1(9), 1960, p. 2.

## Global Business Cycles and the Ensuing Yugoslav Economic Malaise

“Seaborne trade is the backbone of the world economy. About 90 per cent of world trade is transported by ships,” stresses the introduction of a pioneering volume on shipyard labor.<sup>42</sup> Yet, the inverse relationship is also true: as an internationally competitive industry, the cycles of shipbuilding closely follow those of international trade, usually with a time lag of few years. Yugoslav shipbuilding was not spared this lesson either: it was hugely affected by the slump in the demand for new ships after the 1973 oil price shock. However, in contrast to capitalist countries, Yugoslavia did not restructure its shipbuilding during the long stagnation of demand, nor was employment cut. Uljanik is a case in point: it reached peak employment in the late 1980s, with more than 8,000 workers, at a time when the company constantly struggled with illiquidity, and when its international competitors cut costs.

The global economic crisis after the oil price shocks of 1973 and 1974 ended the long-lasting expansion of international shipbuilding in the 1950s and 1960s, which had been driven by booming demand for oil tankers. In the early 1970s, more than 80 percent of the vessels in the world’s order books were tankers.<sup>43</sup> The average size of vessels had increased greatly, also as result of the blockade of the Suez Canal after 1956. Ship-owners sought to compensate the longer journey around Cape Horn by increasing tonnage. After 1974, the demand for new ships collapsed as less oil was traded and international trade in general collapsed: in 1976, the worldwide annual volume of new orders for ships was 46 percent of the 1974 level.<sup>44</sup> The price for newly built ships declined by 40 percent in 1975.<sup>45</sup> Many customers cancelled orders, even though they had to pay high penalties, or renegotiated the term of their contracts or flatly refused to accept deliveries. The second oil price shock of 1979–80 again reduced demand for new ships. It took twenty-seven years to reach again the 1974 peak of new launches in terms of tonnage, which was 36.4 mgt. Between 1978 and 1991, world output was less than half of the 1974 level and did not start to grow consistently again until 1989–90.<sup>46</sup>

Governments all around the world came to help and supported their struggling shipbuilders with subsidies and import restrictions. According to information provided to the Croatian government, Western countries covered 20 to 30 percent, in Great Britain allegedly even up to 50 percent of the prices of ships, allowing shipyards to survive by selling ships for deflated

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<sup>42</sup> Marcel van der Linden, Hugh Murphy, Raquel Varela: “Introduction”, in: *ibid.* (eds.): *Shipbuilding and ship repair workers around the world. Case studies 1950–2010*. Amsterdam: Amsterdam University Press, 2017, p. 15.

<sup>43</sup> Murphy, “Appendix 1”, p. 667.

<sup>44</sup> *Ibid.*, p. 667.

<sup>45</sup> “Zapisnik od proširene sjednice Republičkog odbora sindikata radnika proizvodnje i prerade metala SR Hrvatske”, Rijeka, 14.11.1975, in: HDA, f. 1398, kn. 1, p. 8.

<sup>46</sup> Anthony Slaven: *British Shipbuilding 1500–2010. A history*. Lancaster: Crucible, 2013, p. 212.

prices on the world market.<sup>47</sup> In Sweden and Great Britain, governments nationalized shipbuilding in the late 1970s (in both countries, this would not prevent the fatal decline of the industry). Western shipbuilders also delivered the majority of launches to domestic customers, benefitting from protection of the domestic market and government support for ship-owners to renew their fleets. Yugoslavia, in contrast, had no functioning system of supporting a specific industry hit by external shocks – a fact, which even the federal ministry of finance had to admit.<sup>48</sup>

At the same time, Western shipbuilders greatly reduced capacity, by restructuring, closing wharfs, and downsizing their workforce. West Germany's shipbuilding industry, for example, retained in 1990 only 32 percent of its 1975 employment level.<sup>49</sup> At the same time, it increasingly moved towards the construction of cruise ships, where profit rates were higher. The leading producer worldwide, Japan, reduced capacity by more than a third and cut the shipbuilding workforce even by two thirds until the late 1980s.<sup>50</sup> One notable exception to capacity reduction was South Korea, where massive state aid stimulated the emergence of new, large-scale shipbuilding companies. Hyundai, which built its first large tanker in 1973, became the world's largest shipbuilder by the early 1980s.<sup>51</sup> South Korea climbed to second place in the world's ranking of shipbuilding nations behind only Japan by the mid-1980s. It would become number one in the 2000s, before being overtaken by the PR of China. In the meantime, European shipbuilding was marginalized, its global market share falling into the low single digits.<sup>52</sup> European shipyards increasingly concentrated on special fabrications while conventional large ships, such as tankers and bulk carriers, were built by the Asian producers.<sup>53</sup> However, South Korea was not the only producer not reducing capacity: Yugoslavia also refrained from it in the 1970s and 1980s – but with much less success than South Korea.

The shift of production towards East Asia was the major trend in global shipbuilding after World War Two, and it was greatly accelerated by the 1970s crisis. Great Britain, which for decades had dominated shipbuilding, experienced an unstoppable decline. In 1930 it had launched half of the total tonnage in the world, in 1964 ten percent, three percent in 1980, and

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<sup>47</sup> Jadranbrod: "Stanje, ekonomski položaj i problemi nezaposlenosti kapaciteta brodogradilišta" (Zagreb, June 1980), in: HDA, f. 1398, p. 19; SRH, IVS: "Platforma za rješenje problema brodogradnje i brodarstva", 14.7.1977, in: HDA, f. 280, kut. 108, br. 979,

<sup>48</sup> "BILJEŠKA o vodjenim razgovorima članova delegacije Sabora SRH", Zagreb, 25.5.1979, in: HDA, f. 280, kut. 174, br. 481.

<sup>49</sup> Murphy, "Appendix 1", p. 672.

<sup>50</sup> Ibid.; Slaven, *British Shipbuilding*, p. 214.

<sup>51</sup> van der Linden, Murphy, Varela, Introduction, p. 20.

<sup>52</sup> Slaven, *British Shipbuilding*, p. 214.

<sup>53</sup> "Jučer, danas, sutra – naše brodogradnje", *Brodogradnje*, 34(1), 1986, p. 6.

less than one percent in 1990.<sup>54</sup> At the same time, Japan rose to global predominance: its share of the world market of constructed volume grew from less than five percent in the mid-1950s to more than fifty percent in the 1970s.<sup>55</sup> Many European shipyards did not survive Asian competition and closed, while others shifted to more profitable, specialized segments of the market.

For Uljanik and the other large Yugoslav shipbuilders, 1974 was a turning point not only because of the start of the long global recession, but also because of domestic developments: the new constitution of that year greatly transformed the conditions for business. One major change concerned the further decentralization of economic policies, as the powers of the republics were strengthened and the federal government weakened. This included decentralization of banking. In the end, the 1974 constitution and subsequent legislation increased antagonisms between the territorial units of Yugoslavia, because the republics and autonomous provinces ended up with widely diverging economic interests. The veto power of republic leaderships also hamstrung the federal government, especially when it tried to implement economic reforms in the 1980s.

Another major development was the expansion of self-management culminating in the 1976 Act of Associated Labor, which run to 671 articles.<sup>56</sup> Officially, enterprises did not exist anymore. The 1974 constitution and the 1976 law did not speak of “firm” (*poduzeće*). The 1976 law split enterprises in smaller units, so called Basic Organizations of Associated Labor (in Serbo-Croatian abbreviation OOUR). These were organized around certain production tasks and were supposed to be the fundamental economic organizations; several OOURs formed an Organization of Associated Labor (Serbo-Croatian OOUR) or a Work Organization (*radna organizacija*, RO), which in turn could form a so-called Complex Organization of Associated Labor (SOOUR) and a Business Community (*poslovna zajednica*). These overarching organizations were legally thought as purely coordinating bodies, while decisions should be taken on the basis. By 1978, 19,000 OOUR’s existed throughout Yugoslavia. Uljanik was split into five work organizations with a total of 12 OOUR’s.

Obviously, these reforms increased complexity, made decision-making even more difficult, and impeded efficiency. The flourishing of self-management bodies led to higher transaction costs, manifest in the rise of the share of administrative employees and the inflation of directors.

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<sup>54</sup> Hugh Murphy: “Labour in the British shipbuilding and ship repair industries in the twentieth century”, in: Raquel Varela, Hugh Murphy, Marcel van der Linden (eds.): *Shipbuilding and ship repair workers around the world. Case studies 1950–2010*. Amsterdam: Amsterdam University Press, 2017, p. 61, 78, 103.

<sup>55</sup> van der Linden, Murphy, Varela, “Introduction”, p. 20 (table 1.1).

<sup>56</sup> John R. Lampe: *Yugoslavia as history. Twice there was a country*. Cambridge: Cambridge Univ. Press, 1996, p. 310.

n Uljanik, for example, the share of blue collar workers allegedly declined from more than 50 percent to some 30 percent in the second half of the 1970s.<sup>57</sup> OOURs often charged each other higher prices than external suppliers. Instead of market relations, so called “social compacts” and “self-management agreements” should direct allocation of capital, production and distribution.<sup>58</sup> For Uljanik – and the other shipbuilders – such a fundamental reorganization could not come at a worse time. It compounded their problems from the outfall of the decline in global demand for new ships. Uljanik – it appears from company documents and newspaper reporting – struggled for years to adapt the new organizational principles. In 1978, for example, the enterprise magazine deplored that “the constitutional transformation is still under progress” and not all self-management stipulations have been implemented.<sup>59</sup> These organizational complications increased the time it took to build a ship up to almost twice as long as for comparable vessels in Western shipyards.

Uljanik’s struggle to survive the ensuing global shipbuilding crisis illustrates the effects of these constitutional changes on business, and the strategies developed by an enterprise – which formally was not anymore an enterprise – to “muddle through”. One of the major problems was the volatile nature of regulations which often changed. Aside from that, the overall economic outlook continued to darken in Yugoslavia. Economic actors, therefore, lacked security and predictability which greatly impeded long-term, strategic planning. Yugoslav shipbuilders did not struggle only with a hostile international market but also with opaque domestic conditions. Such a situation made short-termism and ad-hoc-solutions the strategy of choice, as Uljanik’s struggle to stay afloat shows. Yugoslavia’s shipbuilding industry fell into crisis earlier than other branches of the economy – overall, annual GDP growth rates still averaged more than five percent in the 1970s.

Shipbuilding is closely tied to many other industries: it has linkages to heavy industry, from which it gets its steel and machinery, and with a myriad of suppliers. It is also directly affected by changes in the exchange rate of the domestic currency to the US-dollar, the currency of the international ship market.<sup>60</sup> In a way, shipbuilding thus acted like a seismograph for general economic developments, and its crisis fed back to domestic suppliers of equipment and services. Hence, Uljanik and the other Yugoslav shipyards were neither isolated from global nor from domestic economic trends. This meant a double punch because by the mid-1970s, the structural shortcomings of the Yugoslav economy became ever more evident, even before the economy

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<sup>57</sup> I “Pucaju zidovi koji su zaklanjali vidike”, *Novi list*, 18–19.10.1980, p. 5.

<sup>58</sup> For a concise treatment of these reforms and their impact, see Lampe, *Yugoslavia as history*, p. 309–312.

<sup>59</sup> “U »Uljaniku« je tek oko svaki drugi radnik nagrađen prema stvarno izvršenom radu”, *Uljanik*, no 24, May 1978, p. 5.

<sup>60</sup> van der Linden, Murphy, Varela, “Introduction”, p. 15.

began to contract in the 1980s. Marie-Janine Calic called the 1970s the “beginning of the end”, when the post-war boom fizzled out but the government did not manage to transform the economy towards a new, intensive growth pattern.<sup>61</sup> The crisis in shipbuilding, therefore, anticipated the forthcoming general economic malaise. It also connects the 1970s and 1980s with the time after 1991, when Croatia became independent.

Facing growing economic difficulties the government did not embark on structural reforms but tried to borrow its way out in order to maintain investment into industry and consumption and to finance the country’s current account deficit. Foreign liabilities of the state increased from 4.6 billion to 21 billion US-\$ between 1973 and 1981.<sup>62</sup> At that point, Yugoslavia could not service its debt anymore and reached a stand-by-agreement with the IWF. As usual, aid from the IWF was conditional on austerity programs, which intensified economic contraction in Yugoslavia and made access to credit more difficult.<sup>63</sup> While living standards had been growing for many years, citizens now started to feel the economic squeeze in their own pockets. Real wages declined by 34 percent between 1980 and 1984.<sup>64</sup> Inflation grew incessantly: the annual price increase of industrial goods reached 57 percent in 1984 and 82 percent in 1985, with further increases in the coming years.<sup>65</sup> Interest rates as well reached three-digit figures by the late 1980s imposing severe difficulties on business to finance its operations. All this heavily affected shipbuilding as an industry in which the production of its output, i.e. ships, was mainly financed by credits, due to long production cycles with high material costs and substantial fixed expenses; the costs of materials made up a large part of the production costs. Domestic inflation and the dinar’s devaluation against West European currencies increased the real costs of supplies from abroad.

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<sup>61</sup> Calic, “The Beginning of the End”.

<sup>62</sup> Ibid., p. 73.

<sup>63</sup> Milica Uvalić: *The rise and fall of market socialism in Yugoslavia* (DOC Research Institute, 2018). Online: <https://doc-research.org/2018/03/rise-fall-market-socialism-yugoslavia/>, last accessed 27 August 2018, p. 10.

<sup>64</sup> Ibid., p. 21.

<sup>65</sup> Mladen Kmetić: “Zaostajanje američkog dolara u odnosu na valute zemalja Zapadne Evrope i inflaciju u zemlji ima za posljedicu sve nepovoljniji poslovni rezultat u brodogradnji”, *Brodogradnje* 34(4), 1986, p. 303.

## **Muddling Through and Building Ships**

Thus, both international and domestic economic conditions were not exactly fortunate for Yugoslav shipbuilders since the mid-1970s. The crisis would prove to be persistent and actually go on – it seems forever (at least judging from the standpoint of today). The breakup of Yugoslavia in 1991, the ensuing war and general economic decline certainly aggravated these problems but they did not cause them. They rather crystallized them and made evident that despite near-constant debates on the republican and federal level, no structural solution to the problems of Yugoslav shipbuilding had been found in the 1970s and 1980s. What we see are stopgap measures, ad-hoc-solutions and desperate efforts to find money in order to fill liquidity holes. Decision makers embraced a strategy of muddling-through – a strategic non-strategy, actually, or in de Certeau’s words a tactic, not a strategy. This was mainly caused by the unwillingness of the ruling communists to question the basic pillars of Yugoslav socialism, such as social ownership – which implied opaque ownership terms –, self-management, state interventionism, and their monopoly of power. Actually, some of their economic reforms even restricted the functioning of the market, when the opposite was warranted. Milica Uvalić wrote about the economic reforms in response to the demands by the IMF in the early 1980s:

“The resulting economic reforms were slow, inefficient, and did not bring any effective changes in the functioning of the Yugoslav economic system. As those in the past, they did not touch upon the most fundamental features of the Yugoslav economic system (...).”<sup>66</sup>

The problems of shipbuilding highlighted several structural shortcomings of the Yugoslav economy and its political framework: first, shipbuilding faced peculiarly pressing financing issues because of the nature of its business – but illiquidity would become a perennial problem of the whole economy; this was directly related to the inefficient banking system. The archive of the Executive Council of the *Sabor* (parliament) of the Socialist Republic of Croatia (the government of the republic) registers repeated debates about “financial difficulties” and the “problem of financing” of shipbuilding.<sup>67</sup> It contains frequent requests from the shipbuilders for financial support – any extraordinary event, such as a fire destroying the equipment of a newly built ship, could jeopardize their fragile liquidity.

The shipbuilding industry’s fate manifests the Yugoslav economy’s systematic preference for imports, while exporters were disadvantaged – in contrast to official rhetoric that encouraged producers to export. An joint open letter by the League of Communists’

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<sup>66</sup> Uvalić, *The rise and fall of market socialism*, p. 10.

<sup>67</sup> HR-HDA-280: Izvršno vijeće Sabora.

and the Trade Unions' Economic Committees in Rijeka in 1975 drily made this point: it demanded to "stop treating domestic shipbuilders like foreigners in their own country and to give them the same rights such as foreign shipbuilders."<sup>68</sup> Yugoslav economists at that time asserted that it was more profitable to sell at home than to export; Robinson and Tyson's CGE based analysis of Yugoslavia's trade and the effects of export incentives corroborated this finding.<sup>69</sup> Uljanik's long term director, Karlo Radolović, constantly complained that the government did not value the specific needs of this emblematic export industry. As the mentioned research shows, this was not only a self-interested lament but grounded in 'hard' facts of economic policy. The government wanted industries like shipbuilding to earn hard currencies, which it needed to balance its account, but this did not translate into a preferential treatment.

Consequently, three issues dominated the frequent debates at all government levels in regard of the crisis of shipbuilding: first, how to design export incentives in a way that they made Yugoslav shipbuilders competitive abroad? Second, how to enable domestic shipping lines to buy ships from domestic producers, instead of importing them? Third, how to guarantee sufficient funds for the long production cycles of shipbuilding, where customers paid most of the price only upon delivery, while production costs had to be financed by the shipyard from its cash flow? To spoil suspense: policymakers failed to solve any of these problems, despite the sense of urgency nourished also by frequent press reports about the crisis of shipbuilding. Pula's local newspaper *Glas Istre*, for example, ran articles in 1976 on "Shipbuilding in deep water" or "Idle shipbuilding", highlighting the lack of money and the dearth of new orders.<sup>70</sup>

Apart from eminent political impediments to structural reform, problem solving was also thwarted by entrenched competition between different industries and administrative units. Shipbuilding is another example showing the many unintended side effects of de-centralization on the ability of strategic policy-making. To put it bluntly: Istria and Dalmatia, where the large shipbuilders were located, did obviously not wield the same sort of leverage in industrial policy like other regions of Yugoslavia.

When all these crises culminated in the second half of the 1970s, the promising beginning of the decade turned into distant memory for the shipbuilders in Uljanik. It had been in the late 1960s, when Uljanik finally entered the then booming market for large oil tankers. This lifted

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<sup>68</sup> *Glas Istre*, no. 12, 17 January 1975, p. 3.

<sup>69</sup> Sherman Robinson, Laura D'Andrea Tyson: "Foreign trade, resource allocation, and structural adjustment in Yugoslavia: 1976–1980", *Journal of Comparative Economics* 9(1), 1985, 46–70. Online: [https://doi.org/10.1016/0147-5967\(85\)90004-6](https://doi.org/10.1016/0147-5967(85)90004-6), p. 65.

<sup>70</sup> *Glas Istre*, no. 252, 26 October 1976, p. 3; no. 301, 24 December 1976, p. 3.

Uljanik from its crisis of the late 1960s, when it hardly earned money and even had experienced a strike (in 1967).<sup>71</sup> At the beginning of 1970, the company feared to end the year with a loss, after it had completed only 50 percent of its 1969 plans and had to pay substantial penalties on late deliveries. *Glas Istre* called it a “wounded lion”.<sup>72</sup> Orders for large tankers and freight carriers, therefore, seemed to come as a rescue just at the right time. On February 14, 1970, in Stockholm, the director of Uljanik, Alfred Foskio, signed a contract with the Swedish shipping company Grengsberg for the delivery of two ships with 265,000 dwt and more than 330 meters long – by far the largest ships Uljanik had ever built. At that time, newspapers called these orders the biggest successes of Yugoslav shipbuilding.<sup>73</sup> In 1973, the new general director of Uljanik, Karlo Bilić, called the “Mammoths” the future of Uljanik, not only because of the global demand for such ships but also because these ships were paid in cash: “With these ships, we actually finance ourselves.”<sup>74</sup> The shipyard invested around 300 billion dinar in extending its capacities to be able to build even 400,000 dwt carriers.<sup>75</sup>

Only two years later, though, *Glas Istre* reported about the “End of the Era of ‘Mammoths’”. It turned out that this had not been a particularly successful era: instead of “wealth”, the large ships brought “large losses”. The newspaper concluded that the fickle world market, “apparently showed its teeth”.<sup>76</sup> A last, ninth, *mamut*, was delivered in July 1976, for a Liberian customer. At that time, global demand for large tankers had totally collapsed.

The construction of these large ships also showed the technical limits of Uljanik. The hull had to be built in two separate halves before these were united.<sup>77</sup> The vessels required more steel than Yugoslav steelmakers would provide, so Uljanik had to purchase steel abroad which amounted to delays and payments in direly needed hard currency. Large ships generally meant more supplies from abroad and, therefore, more tariff payments. The *mamuti* were an oversized micro-cosmos of Uljanik’s and the other large Yugoslav shipbuilders’ structural difficulty: to operate as export-oriented enterprises in an economic system geared towards import substitution and towards producing social welfare. Uljanik, for example, for years continued to struggle with high debts because of the loan requirements to finance the building

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<sup>71</sup> On the strike, see Stanić, Igor: “‘Jedan od najtežih dana u Uljaniku!’ Štrajk u brodogradilištu Uljanik 1967. godine”, *Sjeverni Jadran* 15, 2016, 73–95. DOI: 10.21857/9xn31cvkzy.

<sup>72</sup> *Glas Istre*, no. XX, 4 February 1970, p. 3.

<sup>73</sup> “Serija kolosa iz ‘Uljanika’”, *Vjesnik*, 25.02.1970.

<sup>74</sup> “‘Mamuti’ budućnost ‘Uljanika’” [interview with Karlo Bilić], *Glas Istre*, no. 162, 14–15 July 1973, p. 3.

<sup>75</sup> *Novi list*, 18 January 1975.

<sup>76</sup> “Nastaje era ‘mamuta’”, *Glas Istre*, no. 13, 18–19 January 1975, p. 5.

<sup>77</sup> See e.g. “Dva porinuća jednog broda – ‘Uljanikova’ ideja”, *Vjesnik*, 1 September 1969; “Mamut – brodovi na dva djela”, *VUS*, 7.8.1974. There was an interesting twist to this construction idea, which had been suggested by a Croatian engineer. Uljanik was sentenced by Croatia’s highest court to pay the engineer indemnity because they had not paid him a fee (*Vjesnik*, 9 February 1975).

of ships for foreign customers, and these large ships posed particular risks if a client would fail to heed its commitments.<sup>78</sup> In the crisis of the 1970s, this problem became even worse as customers cancelled orders or asked for discounts.

Therefore, no solution to the problems of Yugoslav shipbuilding seemed more obvious than re-orienting it towards domestic customers. International demand from purchasers who would pay in real, that is, convertible money had anyway all but evaporated. Secondly, the Yugoslav government wanted to expand its merchant shipping fleet so that a higher share of Yugoslav exports would be transported by domestic firms, rather than by foreign ship owners. The Yugoslav merchant fleet was also in the urgent need of replacing outdated vessels with new ones. Could not an international crisis be used as a chance to give the domestic market a boost? As the following section will show this apparently so self-evident solution, though, would never work, despite frequent high-level policy debates and constant lobbying by the Yugoslav shipbuilders.

An event in another of the major shipbuilders, “3rd of May” in Rijeka, from 1975 can illustrate the underlying tensions. In mid-January 1975, extraordinary sessions of the League of Communists’ committee and the trade-union in this shipyard passed a protest note to the *Jugolinija* shipping company (seated a couple of hundred meters to the east of the shipyard on the Rijeka shoreline), and also made this letter known to the republic and federal governments. The shipyard representatives fiercely denounced the recent signing by *Jugolinija* of a contract with the East German shipyard *Warnowerft* in Rostock for the purchase of four container vessels priced 52 million US-\$.<sup>79</sup> *Jugolinija* had not even waited until the expiration of the deadline of the announced tender, so that *Jadranbrod* even could not file an offer. The protest letter drily stressed that all this was especially unacceptably because for years, there had been talks about the purchasing of ships by domestic shipping lines from domestic suppliers. The director of the shipyard in Rijeka, Aldo Žefran, demanded that “We need to end, once and for all, the situation unique in the global economy that we [the shipbuilders] are strangers in our own house.”<sup>80</sup> What was the problem? For domestic shipping companies, it was cheaper to buy from abroad. Could that not be changed? As the next section will show, the answer was no; in 1986, ten years after its conclusion, the program for building ships for Yugoslav ship-owners still waited for solid financial foundations.<sup>81</sup>

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<sup>78</sup> “‘Uljanik’ – teškoće zbog duga”, *Vjesnik*, 2.7.1972; “‘Mamut’ pokrio mamustki gubitak”, *Novi list*, 4 September 1974.

<sup>79</sup> “Protest riječkih brodograditelja. Protiv još jednog ugovora o gradnji domaćih brodova u inozemstvu”, *Glas Istre*, no. 12, 17 January 1975 p. 3. See also the protest letter by the shipyard’s management, 16 January 1975, to the republic and federal governments, in: HDA, f. 280, Kut. 30; br. 1010 (“Izgradnja brodova za domaće brodare u našim brodogradilištima. Prigovor na rješenje Saveznog deviznog inspektorata”).

<sup>80</sup> “Izgradnja brodova za domaće brodare u našim brodogradilištima. Prigovor na rješenje Saveznog deviznog inspektorata”, in: HDA, f. 280, Kut. 30. br. 1010.

<sup>81</sup> “Jučer, danas, sutra – naše brodogradnje”, *Brodogradnje* 34(1), 1986, p. 9.

Ultimately, Yugoslav shipyards would construct ships for Yugoslav shipping companies though not exactly in the way one would have expected from a socialist country. On April 11, 1987, high officials from Belgrade and Zagreb came down to Pula attending the launching (*porinuće*) of the new 177 meters long container ship “*Koper ekspres*”. The president of the Yugoslav parliament (*skupština*) was here, Ivo Vrandečić, who previously had been head of *Jadranbrod*, the main industry body; he was joined by the head of the Federal Executive Council, Branko Mikulić, and the head of the Executive Council of the Croatian *Sabor*, Anton Milović. On the surface, it seemed that, finally, a Yugoslav shipyard had built a large ship for a Yugoslav customer, as the ship was to enter into service of Rijeka based *Jugolinija*. This was probably the reason why high officials attended the launching of an otherwise ordinary ship. However, *Jugolinija* was neither customer nor owner: the ship was delivered to an owner in Panama, from whom *Jugolinija* would lease it.<sup>82</sup> Such arrangements – delivery to a foreign owner, lease by a Yugoslav shipping line – were apparently common at that time. In 1987 alone, Uljanik delivered at least three more ships to foreign owners (one each in Lebanon, Panama and Liberia) – all notorious flags of convenience), that then went into the service of Yugoslav shipping lines (*Splošna plovba, Jugolinija, Jugotanker*).

From the existing documentation, not the full business logic can be reconstructed. There were rumors about strawmen, shell forms and kickbacks for the participants, which naturally left no trace in the business documentation. What is sure is that Uljanik enjoyed export subsidies and tariff exemptions for exporting to a “developing country” such as Liberia.<sup>83</sup> Yugoslav shipping lines apparently at that time had already switched to the wide-spread practice to lease rather than purchase ships in order to keep fixed capital ratios low. There were also tax breaks for the import of ships. These practices not only point to the business acumen of Yugoslav managers but also to the fact that the government, by promoting the reorientation of Yugoslav shipbuilders towards domestic customers, had initiated new unintended practices. These helped shipbuilding to survive the 1980s without restructuring. This was another example for the political economy setting incentives that favored a strategy of muddling through.

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<sup>82</sup> “Vjesti i zanimljivosti iz brodogradnje”, *Brodogradnje*, no. 2–3, 1987, p. 135.

<sup>83</sup> See Palairat, “Croatian shipbuilding in crisis”.

## Export vs. Domestic Orientations

The necessity to do something for shipbuilding became obvious to the government soon after the beginning of the global crisis of shipbuilding after the 1973 oil price shock. Jadranbrod, as the main lobbying organization of Yugoslavia's shipbuilders did not fail to hammer down this message to various government bodies. Beginning in 1975, there were frequent debates on the republic level, and sometimes also on the federal one, about the "Construction of ships for domestic shipping companies in our shipyards."<sup>84</sup> This program built on earlier, though fruitless efforts starting in 1969 to stimulate production of ships for domestic costumers. Despite many high-level meetings, no solution had been found so far. The problem was – and continued to be – that domestic production was simply more expensive than imported ships, and neither the government nor the banks had been ready to pay up for the price difference. Yugoslav shipping lines were also not keen to purchase ships more expensively than necessary.<sup>85</sup> Now, with global demand rapidly collapsing, the idea of domestic ships for domestic ship-owners gained new urgency. The involved stakeholders now undertook more systematic efforts to realize it, although ultimately in vain.

The effort to support shipbuilding by reorienting it towards domestic demand was based on sanguine analyses of its current problems. In early 1975, the Ministries (*sekretarijat*) for Energy, Industry and Crafts, and for Shipping, Transport and Communication of the Socialist Republic of Croatia produced a joint, detailed report on the "Problems of Shipbuilding and Shipping" together with recommendations for their solution.<sup>86</sup> The report noted that recently, "there were a lot of discussions about the situation of shipbuilding and shipping", such as in the federal government and the Croatian government. Shipbuilding deserved special attention because, first, it was a major industrial employer with 24,000 employees and at least 20,000 sub-contractors (*kooperanti*). Second, it was Yugoslavia's industry with the "most beneficial currency effect": during the last four years, shipbuilding had earned 16 billion Dinar in currency income, while its outflow – mainly for materials from abroad – was only 7.6 billion.<sup>87</sup> In an economy that was constantly short of hard currency, this was a major reason why this industry enjoyed sympathy by the government.

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<sup>84</sup> For a first such discussion see "Izgradnja brodova za domaće brodare u našim brodogradilištima", in: HDA, f. 280, kut. 30, br. 1010.

<sup>85</sup> See the report "Kronologija akcija oko gradnje brodova za domaću trgovačku mornaricu u domaćim brodogradilištima, 25.4.1977", in: HDA, f. 280, kut. 93, br. 569.

<sup>86</sup> Republički sekretarijat za energetiku, industriju i zanatstvo/Republički sekretarijat za pomorstvo, saobraćaj i veze: "Informacija o prolematici brodogradnje i brodarstva s prijedlogom mjera", Zagreb, January 1975, in: HDA, f. 280, kut. 33, br. 1140.

<sup>87</sup> *Ibid.*, p. 2–3.

Yet, as the report made clear, shipbuilding was in a major crisis. As the main reasons the ministries identified the slump in demand on the world market, just after Yugoslav shipbuilders – like their peers in other countries – had increased capacity. Yugoslav shipbuilders were especially undercut by Japanese competitors, who offered ships for dumping prices; aside from that, the report noted that Western governments began to heavily subsidizing their shipbuilding industries or supported it through military contracts. Subsequent documents deplored that subsidies in Western countries such as France, the FR Germany, Norway, Sweden and the UK, amounted to 25–35 percent of the ship’s price, allegedly much higher than in Yugoslavia.<sup>88</sup> As a result, there were hardly any new orders from Western consumers for Yugoslav ships. The situation was a bit better in the developing countries, especially the oil producing ones, but there Yugoslav shipbuilders faced competition by the heavily subsidized, and more efficient West European and Japanese shipyards. The only bright spot was the Soviet Union, which was spared the recession of the 1970s and expanded its oil industry. However, pricing modalities with the Soviets, who did not pay in hard currency, were a cause of concern (see below).

As result of adverse market conditions, the report projected substantial idle capacity for the forthcoming years.<sup>89</sup> The solution of shifting production to domestic customers had so far not been taken because of the specific Yugoslav system of export subsidies. Exporters got support in cash and tax deductions, while domestic shipping lines would have to pay high prices for ships from domestic shipyards and faced high interests on loans taken for that purpose.<sup>90</sup> The report concluded:

“It thus follows that shipbuilding and shipping, both of which work exclusively for the world market should not be subjected to the ruling regulations valid for the domestic market, if certain negative consequences for the whole system are to be avoided.”<sup>91</sup>

Not all difficulties were foreign made, though: the 1975 report also highlighted the decreasing competitiveness of Yugoslav shipbuilders, which suffered from outdated technology and a lack of capital. Low efficiency translated into high prices: data from the late 1970s indicate that Yugoslav ships were on average between 31 and 38 percent more expensive than world market prices for the same kind of vessels.<sup>92</sup> The price difference was

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<sup>88</sup> IVS, Juni 1979: “Stanje, ekonomski položaj i problemi nezaposlenosti kapaciteta brodogradilišta”, in: HDA, f. 280, kut. 174, br. 481, p. 2.

<sup>89</sup> “Informacija o prolematici brodogradnje i brodarstva s prijedlogom mjera”, in: HDA, f. 280, kut. 33, br. 1140, p. 4–5.

<sup>90</sup> *Ibid.*, p. 6–7.

<sup>91</sup> *Ibid.*, p. 12.

<sup>92</sup> Jadranbrod: “Sadašnje stanje, ekonomski položaj i problemi razvoja brodogradnje”, Zagreb, June 1980, in: HDA, f. 1398, kn. 6, p. 9.

even higher if price subsidies by Western governments were accounted for. The high prices of Yugoslav ships, which impeded their international competitiveness, were also caused by the fact that primary products of Yugoslav origin were 50 percent more costly than comparable materials supplied from the world market.<sup>93</sup> Material inputs amounted to almost two thirds of the costs of a vessel – and domestic supplies alone around 45 percent –, thus this difference in the price of supplies was hugely consequential.

Here, one of the structural problems of Yugoslav economic policy became evident: exporters were politically forced or at least pressured to procure as much as possible from domestic suppliers, even if these asked higher prices than international ones and often provided only inferior quality. The government considered the export sectors, such as shipbuilding, to be responsible for helping other, non-competitive industries to become indirectly integrated in the world market.<sup>94</sup> Shipyards were, for example, compelled by the government to use steel from a steel mill in Skopje, although it was of low quality and often delivered with delays – if at all –, and more expensive than foreign steel (for a Suez-max ship, 18,000 tons of steel were needed).<sup>95</sup> Minutes from a meeting between delegates from the Croatian Sabor and the federal government on shipbuilding in May 1979 show that the participants were well aware of these problems but never followed through with respective measures. Producers in shipbuilding, it was said,

“can exert minimal influence on the price of their product because into its production go materials, whose price is mainly determined by state organs, and which embody low productivity, weak organization and aged technology, which then are built into the ship.”<sup>96</sup>

As government experts put it: shipbuilding was the “finalizer (*finalizator*)” of a chain of industrial supplies by the domestic industry. This also meant that “in shipbuilding, contradictory interests of many domestic producers and domestic customers of these products collide”, as one participant in these debates asserted.<sup>97</sup> Hence, it became evident that a shipyard could hardly maintain international competitiveness, if it sits on top of a chain of inefficient suppliers. Shipbuilders, by the way, although unhappy with this arrangement, often used their role as a “climactic” producer to justify their demands for money from the state.

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<sup>93</sup> Ibid., p. 6; “Materijalni položaj jugoslavenske brodogradnje: Društvenom podrškom premostiti teškoće,” *Brodogradnje* 28(1), 1980, p. 12.

<sup>94</sup> Palairat, “Croatian Shipbuilding in Crisis”, p. 762.

<sup>95</sup> Ibid., p. 772–3.

<sup>96</sup> “BILJEŠKA o vodjenim razgovorima članova delegacije Sabora SRH”, 25.5.1979, in: HDA, f. 280, kut. 174, br. 481.

<sup>97</sup> IVS, Juni 1979: “Stanje, ekonomski položaj i problemi nezaposlenosti kapaciteta brodogradilišta”, p. 1, in: HDA, f. 280, kut. 174, br. 481, p. 1.

Yet, to change such arrangements was politically too sensitive that it was almost out of question. The government favored supply chains across republics for reasons of regional policy, even if their economic rationale was questionable. Neither did policy makers and industry representatives ponder about possible capacity reduction as a way forward to adapt to reduced global demand (in contrast, for example, to the Japanese who combined massive state support with substantial reduction of capacity). The trade union was also strongly opposed to any reduction of capacity, as this would have implied lay-offs. The idea of converting some capacity to other production purposes, or to reduce the number of shipyards, both also often floated, was strongly rejected by the industry. Ivo Vrandečić, then still head of the industry body *Jadranbrod*, made that clear in a discussion with the metalworkers' trade union in October 1976. Discussing the problems of shipbuilding, he maintained that "to fire workers is, to my mind, out of question."<sup>98</sup> Hence, there were only two possible ways forward for the Yugoslav shipbuilders: becoming less export oriented and/or finding new markets.

In the second half of the 1970s, experts and policy-makers as well as people from the industry turned their attention mainly to the question of how to make Yugoslav shipping lines buy ships from Yugoslav shipyards. In the wake of the catastrophic slump on the world market and the ensuing glut in shipping capacity, Yugoslav shipbuilders and shipping-lines, together with government bodies managed to sign a so-called self-management agreement for that purpose in the Slovenian coastal town of Piran in June 1976. Its goal was to facilitate the production of ships for Yugoslav shipping companies by Yugoslav shipyards. Before that, as a representative of the metalworkers' trade union had declared in February 1976, "support [for this solution] had been only orally", without practical consequences – now there was a contract.<sup>99</sup>

The so-called Piran Agreement would become a mantra that never materialized. It envisioned the building of sixty-two ships with 429,000 BRT, and a value of 7.7 billion Dinar, by Yugoslav shipyards for Yugoslav owners in the period 1976 to 1980.<sup>100</sup> Its realization, though, was dependent on two conditions that themselves were not part of the agreement: the shipping companies demanded that someone – most likely the government – had to cover the difference between world market and domestic prices, since the latter were around 30 percent higher. The shipyards only promised to give a discount of two percent on their call price. The agreement also urged banks to cover 50 percent of the financing costs of the production of ships (the rest would be covered by the companies involved). A bit counter-intuitively, the shipping companies also demanded a reduction of the tariff on imported ships from 21 to

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<sup>98</sup> "Zapisnik sa sjednice Republičkog odbora", Split (Brodosplit), 16.10.1976, in: HDA, f. 1398, kn. 2 (1976), p. 10.

<sup>99</sup> "Program rada za 1976. godinu", Zagreb, January 1976, in: HDA, f. 1398, kn., (1976), p. 10.

<sup>100</sup> For an analysis see also Palairet, "Croatian Shipbuilding in Crisis", p. 767.

9 percent because they would also in the future import ships.<sup>101</sup> For Croatia, as both the major producer and user of ships, the cost difference that had to be covered was estimated at almost 1.5 billion dinar, more than 860 million of which the government was supposed to pay. The municipalities where the shipyards were located were also called to provide money. In the case of Pula, the city was expected to give 15 million Dinar, mainly in form of tax rebates to Uljanik.<sup>102</sup>

These financing conditions would prove to be the obstacle preventing the full, or even half implementation of the plan. The partners had made their calculation especially without the banks, which proved reluctant to foot the bill and never fully signed up.<sup>103</sup> The federal government as well appeared to be reluctant to come forward with significant help. While the program to build ships for domestic customers by domestic shipyards became the mantra of policy-making in this area, the reports from relevant authorities equally frequently stressed, “the Piran Agreement is not implemented as had been envisioned.”<sup>104</sup> By mid-1978, only five out of an agreed number of forty-eight ships envisioned until that year were built.

One of the difficulties was the unresolved question who would pay the price difference between ships sold to domestic and those to foreign customers. The Republic of Croatia did pay more than 850 million dinar to its shipbuilders between 1978 and 1981. In 1981 and 1982 alone, Uljanik received state subsidies to the amount of 254 million dinar – far more than the other large shipyards (on second place came Split with 148 million).<sup>105</sup> The City of Pula paid its share as well. While *Jadranbrod* continued to complain about a lack of support by the government, the government accountants might have begged to differ because a substantial amount of taxpayer money was flowing into the shipyards – laying down a tradition that would survive into the 2000s.

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<sup>101</sup> Information on the content of the Piran Agreement is available in “Rep. Sekr. za energetiku, industriju i zanatstvo; Rep. Sekr. za pomorstvo, saobraćaj i veze: Informacija o sadašnjem stanju problematike gradnje brodova u domaćim brodogradilištima, 24.3.1977”, in: HDA, f. 280, kut. 88, br. 442.

<sup>102</sup> Radna grupa Republičkog sekr. za energetiku, industriju i zanatstvo/Republičkog sekr. za pomorstvo, saobraćaj i veze/“Jadranbrod”, 26.10.1977: “Informacija o provodjenju mjera iz ‘Platforme za rješenje problema brodogradnja i brodarstva’”, in: HDA, f. 280, Kut. 108, br. 979. The municipality followed through on its commitments, as press reporting indicates (*Vjesnik*, 24 November 1977).

<sup>103</sup> Jadranbrod, letter to IVS: “Predmet: ‘Prijedlog ,Društvenog dogovora o osiguravanju i usmjeravanju sredstava za plasman domaće opreme i brodova u zemlji’”, 16.12.1986, in: HDA, f. 280, kut. 337, br. 618.

<sup>104</sup> Rep. Sekr. za energetiku, industriju i zanatstvo: “Informacija o realizaciji ‘Dogovora o osnovama Društvenog plana Jugoslavije za razvoj strojogradnje i brodogradnje u razdoblju od 1976. do 1980. godine’”, May 1978, HDA, f. 280, kut. 145.

<sup>105</sup> Jadranbrod: “Izvještaj o raspodjeli i upotrebi sredstava prikupljenih u razdoblju od 1.1. do 31.12.1982 po osnovi obveza Republike preuzetih Platformom za rješenje problema brodogradnje i brodarstva”, 22.2.1983, in: HDA, f. 280, kut. 250, br. 272; Jadranbrod: “Izvještaj o raspodjeli i upotrebi sredstava”, Zagreb, 23.2.1982, in: HDA, f. 280, kut. 232, br. 251.

Yet, the banks did not follow up. Therefore, the crisis could not be solved. The interested parties, such as *Jadranbrod*, the ship-owners, the Chamber of Commerce in Zagreb, and concerned government organs in Croatia even formed the informal “Platform for the Solution of the Problems of Shipbuilding and Shipping”. The platform continued to hold meetings, to produce white papers and to lobby the federal government. Yet, the problem with the commercial banks persisted. A 1983 analysis about the under-exploitation of capacity in shipbuilding stressed that the commercial banks did not give enough credit, nor had they signed the agreement between shipbuilders and ship-owners to support domestic production. Despite repeated calls by the Croatian Sabor, leading Croatian banks would not join the agreement, which is why eight billion dinars lacked for the domestic fleet renewal program.<sup>106</sup>

In the course of the second half of the 1980s, when inflation constantly increased and the whole Yugoslav finance system got close to a complete meltdown, a more forthcoming response of the commercial banks could not be expected. Regional banks in Istria, Rijeka and Dalmatia who worked most closely with the shipyards, functioned almost as outlets of the shipyards. Already a 1979 report by *Jadranbrod* stressed that those few banks, which gave money to shipbuilding, such as *Riječka banka* and *Istarska banka*, faced almost depleted coffers so that they could not provide sufficient credit to shipbuilding.<sup>107</sup> In the 1980s, when these banks faced increasing difficulties to re-finance themselves from the National Bank or from the government, their financial potency was further reduced. Because of their particularly high rate of export and the practice of getting payed in instalments, shipbuilders faced high demand for credit in hard currency, which was particularly challenging for ‘their’ banks. Shipyards sometimes used their own funds to finance their exports, risking illiquidity.<sup>108</sup> Inland banks were anyway loath to engage with the shipbuilders, for understandable reasons given their frequent liquidity problems.<sup>109</sup> Only fourteen out of 168 Yugoslav banks actually worked with shipbuilding and supported their exports.

Taking loans abroad was no solution because it was not allowed to enterprises. The difficult credit situation in the 1980s was compounded by the gradual decline of Yugoslavia’s export finance bank, JUBMES, which less and less covered the needs left uncovered by commercial banks. JUBMES (*Jugoslavenska banka za međunarodnu ekonomsku suradnju*) had been established by federal law in 1978 as a specialized financial organization to support foreign

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<sup>106</sup> Republički komitet za energetiku, industriju, rudarstvo i zanatstvo: “Informacija o problemima u poslovanju brodogradnje”, September 1983, in: HDA, f. 280, Kut. 263, br. 1181.

<sup>107</sup> *Jadranbrod*, letter to IVS: “Traženje povoljnije kreditne politike za brodogradnju u 1980. godini”, 11.12.1979, in: HDA, f. 280, kut. 181, br. 627–693.

<sup>108</sup> *Jadranbrod*, letter to IVS: “U skladu sa zaključcima”, 26.3.1987, in: HDA, f. 280, kut. 366, br. 743.

<sup>109</sup> “Rekorder pred bankrotstvom”, *Večernje novosti*, 31 October 1987.

business of Yugoslav entities.<sup>110</sup> Its main instruments was the refinancing of export credits by commercial banks, to the amount of 65 to 70 percent of their value. However, since its establishment the gap between the banks' capabilities and the financing needs of Yugoslav exporters continued to grow, so that JUBMES could less and less meet their demand.<sup>111</sup> In December 1982, for example, shipbuilding asked forty billion dinar export loans but JUBMES could provide only six billion.<sup>112</sup> The state helped repeatedly by turning short-term liabilities of JUBMES into long-term credits, but such stopgap measures did not alter the structural problem: JUBMES did not have enough money, or sufficient drawing rights, to meet the demand from the export industries. Neither a stable co-financing arrangement with the commercial banks nor a sufficient source of funding for JUBMES were achieved.<sup>113</sup> At the end of the 1980s, JUBMES was supposed to finance 80 percent of the price of exported capital goods, such as ships, the remaining 20 percent coming from commercial banks.<sup>114</sup> Yet, the commercial banks failed to pay their share, and JUBMES lacked the resources for its own.

At the same time, and almost miraculously, the shipyards continued to build ships. Some of these went to domestic customers, but the majority continued to be exported. In the second half of the 1970s, shipbuilding accounted for seven percent of Yugoslavia's exports.<sup>115</sup> Only eighteen out of ninety-one ships launched by Yugoslav shipyards in the 1975–79 period went to domestic clients – less than four percent of the assembled tonnage. Uljanik is a good example: from 1975 to 1989, that is, during poor years on the global ship-market, Uljanik managed to deliver sixty-nine ships, of which only ten went to domestic customers (and these were relatively small vessels, of 16,000 to 19,000 dwt).<sup>116</sup> One reason for continuous production, and the non-reduction of capacity, was the readiness of shipyards to sell ships cheaply, as long as the government was somehow able to foot the bill. At the depth of the global shipbuilding depression Uljanik accepted prices that hardly covered costs – and when inflation subsequently increased and the dinar lost value, they made a loss on each ship at the time of delivery.<sup>117</sup>

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<sup>110</sup> For an analysis see Palairat, "Croatian Shipbuilding in Crisis", 783–4.

<sup>111</sup> "Nacrt zakona o pretvaranju kratkoročnih kredita danih Jugoslavenskoj banci za međunarodnu ekonomsku suradnju dugoročne kredite za namjene dopunskog kreditiranja izvoza opreme, brodova i izođenja investicijskih radova u inozemstvu" (AS-715), in: HDA, f. 280, kut. 329, br. 195.

<sup>112</sup> Skupština SFRJ AS Br. 137/1: "Nacrt zakona", Dec. 1982, in: HDA, f. 280, kut. 235, br. 1338.

<sup>113</sup> Mladen Rakelić: "Izvoz na kredit bez prave podrške", *Brodogradnje* 34(3), 1986, p. 146.

<sup>114</sup> Jadranbrod: "INFORMACIJA o problemima u poslovanju brodogradnje i prijedlozi rješenja", Zagreb, 20.3.1987, in: HDA; f. 280, kut. 366, br. 743.

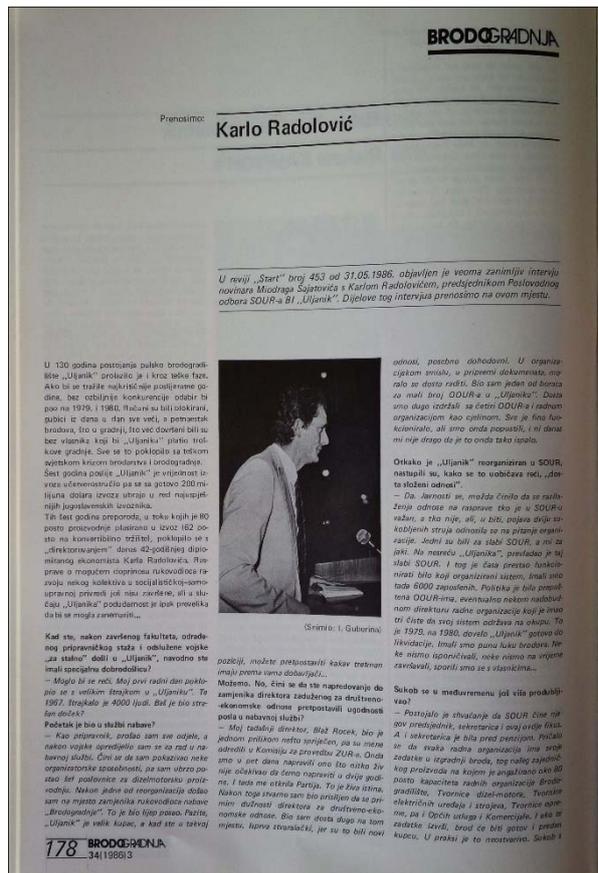
<sup>115</sup> "Djelatnost koja svojom svestranom i dinamičnom aktivnošću snažno utječe na razvoj sveukupne jugoslovenske privrede", *Brodogradnje* 28(1), 1980, p. 6; "Položaj brodogradnje u privrednom sistemu: Dugoročno dohodovno povezivanje", *Brodogradnje* 28(1), 1980, p. 20.

<sup>116</sup> Markulinčić, Debeljuh, *Uljanik 1856–2006*, 57–8.

<sup>117</sup> "Stenografski zapisnik sa sajedničke (proširene) 10. sjednice", 1.7.1980, in: HDA, f. 1398, kn. 6.

The government helped the shipyards to find new clients. A report by the Secretary of Energy, Industry and Trades of the Socialist Republic of Croatia from April 1977, for example, details the steps taken by the government and the Chamber of Commerce to land foreign contracts. Yugoslav trade delegations including a representative of Jadranbrod visited, and sometimes negotiated with potential clients, Algeria, France, Iran, Cuba, India, the USSR, Morocco, Uruguay, Venezuela, Columbia, Egypt, Syria, Somalia, Nigeria, the Gabon, Congo, the Solomon Islands, all countries of the Arab Peninsula, Romania, Bulgaria and Turkey in the mid-1970s. While only few contracts came out of these activities at a time when global shipbuilding hit its nadir, the Yugoslavs at least managed to keep a foothold in these markets and remind potential customers of their brand.<sup>118</sup> Western markets, however, remained practically closed since the mid-1970s, as these countries put up protectionist barriers and massively subsidized their own producers.

At that time, the customer of last resort was not any of the Yugoslav shipping lines but the Soviet Union. The Soviets were relatively unaffected by the global recession of the 1970s and continued to increase their oil output and their foreign trade, for which they needed new ships for transport. Orders from the Soviet Union played an important role in keeping Uljanik and the other shipyards in Croatia afloat. Ships were delivered based on long-term bilateral economic agreements between Yugoslavia and the Soviet Union.<sup>119</sup> Uljanik delivered twelve ships to the Soviet Union (out of fifty-five deliveries in total) in the 1980s.<sup>120</sup> Uljanik workers even put in extra-hours to fulfill the so-called “Soviet Program”. One of its flagship ships was a railway ferry that carried 108 railcars; according to Uljanik’s director, Karlo Radolović, it was the largest such ship ever built anywhere.<sup>121</sup>



Source: *Brodogradnje* 34(3), 1986

<sup>118</sup> Rep. Sekr. za energiju, industriju in zanatstvo: “Kronologija akcija oko nudjenja brodova za izvoz koje su povezane sa akcijama Jugoslovske vlade i Republičkih Privrednih komora”, 24.4.1977, in: HDA, f. 280, kut. 93, br. 569.

<sup>119</sup> *Ibid.*

<sup>120</sup> Markulinčić, Debeljuh, *Uljanik 1856–2006*, p. 58.

<sup>121</sup> “Prenosimo” [Interview with Karlo Radolović], *Brodogradnje* 34(3), 1986, p. 179.

There was just one problem: Uljanik (and the other shipbuilders serving the Soviet market) did hardly earn money with these contracts because the Soviets did not pay in hard currency, if they paid in money at all. Business with the Soviets was usually based on barter trade or on payments in non-convertible currency. This posed a serious financial burden on the shipyards: from their deliveries to the Soviets, they eventually earned dinars but they had to purchase many primary products that went into the ships from suppliers in the West who naturally were paid in hard currency. The head of Jadranbrod, Ivan Vrandečić, once said in a trade union meeting that even “a conjuror” could not earn money by doing business with the Soviets.<sup>122</sup> The Soviets were also conscious of their strong negotiating position because of the international recession in shipbuilding. In 1977, they insisted that in the future the full price of a vessel should be paid upon delivery, whereas previously 40 to 50 percent of the price was paid during the construction of the ship.<sup>123</sup> This, of course, further increased the financing difficulties of the shipyards.

Another problem was caused by Yugoslavia’s export support system: exporters received subsidies from the state, such as a refund of taxes and tariffs, only if they exported to the convertible currency area or to ‘Third World’ countries, but not to countries practicing clearing, such as the Soviet Union. From the late 1970s, there were near constant attempts by the Croatian government, pushed by its shipbuilders and the shipbuilding association Jadranbrod, to convince the federal government to extend export subsidies also for deliveries to COMECON countries, but to no avail.<sup>124</sup> The Croatian delegates in the federal parliament were left to articulate their frustrations about the intransigency of the federal authorities, which saw this flatly as a Croatian only problem. They kept pointing out that shipbuilding was a crucial industry that employed (in 1976) almost 28,000 workers in Croatia, which was the second largest number for any industrial sector in the republic.<sup>125</sup>

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<sup>122</sup> Zapisnik sa sjednice Republičkog odbora, Split, 16.10.1976, in: HDA, f. 1398, kn. 2.

<sup>123</sup> Jadranbrod, an IVS: “Traženje povoljnije kreditne politike za brodogradnju u 1980. godini”, 11.12.1979, in: HDA, f. 280, kut. 181, br. 627–693.

<sup>124</sup> E.g. Delegacija Sabora SRH u VRP Skupštine SFRJ: “INFORMACIJA o rezultatu vodjene rasprave tokom 1978. i 1979. godine, STROGO POVJERLJIVO”, 1979, in: HDA, f. 280, kut. 174, br. 481.

<sup>125</sup> HDA, f. 1398.

## **Starring into the Abyss: the 1980s**

The 1980s continued in a similar way like the 1970s had ended: the shipbuilders lobbied the government for support, the Croatian government sought help from the federal government, the federal government hoped that things would fall in line by themselves; and at the same time, the structural problems of shipbuilding – such as those of other industries in Yugoslavia – went unaddressed. The involved organs continued to try to fulfill the Piran Agreement and indeed in the 1980s, more ships were constructed for domestic customers than in the previous two decades. Yet, the planned numbers as laid down in the Piran agreement were not met by a wide margin.

The large shipbuilders continued to be heavily dependent on exports for employing their capacity, yet these export deals often were loss making. Uljanik, as one of the biggest loss makers, was always on the brink of illiquidity in the 1980s. At least three times, in 1980, 1981 and again in 1987, its bank accounts were blocked for many months as it could not service its debts and liabilities. Uljanik, of course, suffered from the second oil crisis (1979–80), which led to another slump in the demand of ships, such as shipyards across the globe. These external difficulties were compounded by homemade shortcomings. The darkening clouds on the overall Yugoslav economy – rapidly rising inflation and an ensuing debt crisis, which brought the country to the brink of default by the late 1980s – did not help to improve the situation of shipbuilding, as an industry closely related to overall economic trends at home and abroad.

The findings of a 1979 government report on the “economic situation and capacity exploitation problems of the shipyards” could have been repeated each year. It started, as usual, with the assessment that “shipbuilding is an industry of special and common interest for the whole of associated labor of our country”<sup>126</sup> (an argument probably made by all other industries searching for government protection as well). The report highlighted that since 1977, fifteen new ships for domestic customers could be contracted but forty-six for foreign ones, thirty-eight of them in developing countries. In terms of value, the newly concluded contracts with domestic clients were valued at 37 million dinar but 381 million dinar with foreign clients – so much for the intended reorientation towards the domestic market! Among the developing countries, the PR China was the most prolific customer (fifteen ships), followed by Nigeria (eight), Sudan (six), India and Liberia (four each), and one ship for Bangladesh between 1977 and 1979.

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<sup>126</sup> VS: “Stanje, ekonomski položaj i problemi nezaposlenosti kapaciteta brodogradilišta”, June 1979, in: HDA, f. 280, kut. 174, br. 481.

As the report made clear shipbuilding produced a substantial share of Yugoslavia's export earnings (6 percent) and even a fifth of Croatia's. It employed more than 22,000 people and gave work to more than 4,000 sub-contractors.<sup>127</sup> However, at a huge cost: the shipbuilders were loss making and projected further losses of more than 1 billion dinar in 1980 and a whopping 2.5 billion in 1981. The losses were so steep that the shipbuilding industry even could not work out a five-year development plan, as was required from all industries.<sup>128</sup> Uljanik worked at a loss as well – in 1980, almost half a billion dinar –, which they could cover only partially from their own resources. The losses at Uljanik were caused not only by the global crisis in demand for ships but also by insufficiencies in the organization of work between its individual OOURs. This led to delayed completion of orders, and subsequent penalty payments; lack of coordination also resulted in disadvantageous contracts for new constructions.<sup>129</sup>

The crisis at Uljanik attracted national interest: the communist daily *Borba* for example published a very critical piece in 1979, highlighting organizational problems and mentioning rumors that director Bilić was about to resign.<sup>130</sup> The national daily *Politika* stressed that the global depression in the demand for ships “only made all the weaknesses of unorganized self-management relations visible” and that the Uljanik shipyard had organizationally not adapted to its reorientation from super-sized ships towards smaller vessels. The newspaper suggested that the managers of the shipyard should not run from responsibility by resigning, but finally take self-management classes.<sup>131</sup> Uljanik was also criticized for its bloated administration, which – according to press reports – made up 40 percent of its staff while only 36 percent of employees worked in production.<sup>132</sup> The cooperation between OOURs was described as “insufficient” and “un-synchronized.”<sup>133</sup> It appeared that the implementation of the 1974 and 1976 organizational reforms had led to un-coordinated relations between the constitutive elements of the shipyard, to unclear responsibilities, and to a lack of forward planning, resulting in low productivity and high transaction costs.

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<sup>127</sup> Ibid., p. 5.

<sup>128</sup> “Stenografski zapisni 9. sjednice Republičkog odbora”, 5.6.1980, in: HDA, f. 1398, kn. 6.

<sup>129</sup> “Izlaz u drugim proizvodima”, *Novi list*, 11 July 1979; “Pucaju zidovi koji su zaklanjali vidike”, *Novi list*, 18–19 October 1980, p. 5.

<sup>130</sup> “Krizna na svjetskom tržištu”, *Borba*, 29 August 1979.

<sup>131</sup> “Ničiji brod”, *Politika*, 5 August 1979.

<sup>132</sup> “Graditi brodove koji će donositi dohodak”, *Vjesnik*, 11 June 1980; “Karlo Radolović”, *Start*, 31 May 1986, p. 12.

<sup>133</sup> “Pucaju zidovi koji su zaklanjali vidike”, *Novi list*, 18–19 October 1980, p. 5. See also “Taškoće savladati vastitim snagama”, *Novi list*, 13 November 1980.

In 1980, Uljanik's deputy director Karlo Radolović was appointed new director, and he surrounded himself with a team of youngish managers. He took over at a difficult moment: in June 1980, Uljanik's bank account with more than 473 million dinar was frozen because of outstanding liabilities of 900 million. A major reason for the dire financial state of the shipyard was the fact that for most ships contracted, the purchase price just covered the production expenses: all these ships had been contracted during the depth of the shipbuilding depression when shipyards had accepted almost any price. Some ships did not even have an owner because the initial customers had cancelled or had went out of business, so Uljanik built them completely on their own costs.<sup>134</sup> The freeze of the bank account made the internal problems of Uljanik visible to the public and forced the local municipality and its party committee to tackle the issue.<sup>135</sup> The local, regional and republic governments came forward with a 280 million dinar loan injection; two regional banks also provided support by making credit conditions more lenient. The devaluation of the dinar also helped Uljanik servicing its domestic liabilities.<sup>136</sup>

Yet only a year later, in 1981, Uljanik's bank accounts were frozen again because it could not service loans received from banks. Its liabilities now stood at some two billion dinars, more than half of it owed to Riječka banka in Rijeka; the bank itself faced difficulties because of Uljanik's near default. It duly declined financing the four ships currently under construction, for which there was now a financing gap of more than 770 million dinar. On top of that, in June 1981 Uljanik had liabilities in hard currency to the amount of more than 20 million US-\$, which was not nothing for a Yugoslav enterprise at that time.<sup>137</sup> One of the reasons why Uljanik and the other shipyards struggled to earn money was the international price war for ships. In order to remain competitive on the global scale, they had to accept below-production-cost prices because West European and Japanese shipyards were not only more productive but also enjoyed more subsidies from their governments. Eastern Bloc shipyards also undercut the Yugoslavs. Uljanik director Karlo Bilić in a 1979 interview with *Borba* complained, "not rarely, we build ships that don't bring us any profits."<sup>138</sup>

This also affected the realization of the domestic program because for Yugoslav shipping lines, the opportunity costs of buying from domestic shipyards increased, as the world market prices for ships kept falling, while the Yugoslav ones increased because of the high level of inflation in the country. The shipbuilders could not roll on price increases of materials (e.g. of

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<sup>134</sup> "Graditi brodove koji će donositi dohodak", *Vjesnik*, 11 June 1980.

<sup>135</sup> "Pucaju zidovi koji su zaklanjali vidike", *Novi list*, 18–19 October 1980, p. 5.

<sup>136</sup> *Ibid.*

<sup>137</sup> Jadranbrod: "U vezi za ranije dostavljenim materijalima", 30.6.1981, in: HDA, f. 280, kut. 218, br. 516.

<sup>138</sup> "Krizna na svjetskom tržištu", *Borba*, 29 August 1979.

steel) on their customers. Domestic ships were more than 30 percent more expensive than imported ones. Neither the government nor the Yugoslav banks were ultimately ready, or able, to fully finance this gap; the banks faced increasing constraints on refinancing given the dire state of Yugoslavia's current account.<sup>139</sup> On top of that, Slovenia and Montenegro even failed to live up to the committed purchases of domestic ships. These two maritime republics seemed to regard shipbuilding as a mainly Croatian problem, given the location of the shipyards. As a result, Yugoslav shipbuilding continued to be export-dependent at a time, when its international market position continued to worsen. Talks about a partial re-orientation of production to something other than ships never turned into a reality.

Reports from Uljanik and from government authorities indicated that none of the mentioned problems was solved during the 1980s. Instead, the shipyard feverishly tried to find purchasers. Yet, exporting to the Soviets and to countries in the Third World was fraught with additional risks. In the early 1980s, for example, Uljanik delivered ten ships to Sudan and Liberia and was not paid in due time. Such delays in payment impeded its cash flow and thus threatened the construction of new ships, as their production was to be funded by the earnings from already delivered ships. In case of the Soviets, the Yugoslav shipbuilders had to accept barter as part of the payment. They did not barter directly, though, but through central bodies on the federal level responsible for the distribution of the in-kind exchange from abroad. So, from the 200,000 tons of steel sent by the Soviets annually in exchange for ships and other products from Yugoslavia, the shipbuilders got only a small share which satisfied just 8 percent of their total demand of steel.<sup>140</sup> A 1979 government report had already stated, "so far, the export of ships to the USSR resulted in losses because no export stimuli came to application."<sup>141</sup> This continued in the 1980s, not least because the ship-makers needed to buy materials from Western suppliers with hard currency, while they earned only dinars (or less) from the trade with the Soviets. According to Palairet's analysis newly built ships for the Soviets had as large an import component as ships delivered to convertible currency countries.<sup>142</sup>

Nevertheless, in the pursuit of keeping capacity busy, the Yugoslavs agreed on another package with the Soviet Union that envisioned the delivery of eighty-eight ships between 1981 and 1985. Uljanik director Karlo Radolović also endorsed the Soviet program and negotiated

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<sup>139</sup> VS, Juni 1979: "Stanje, ekonomski položaj i problemi nezaposlenosti kapaciteta brodogradilišta", in: HDA, f. 280, kut. 174, br. 481, 8. See also "Izlaz u drugim proizvodima", *Novi list*, 11 July 1979.

<sup>140</sup> Rep. komitet za energetiku, industriju, rudarstvo i zanatstvo: "Informacija o problemima u poslovanju brodogradnje" (September 1983), in: HDA, f. 280, kut. 263, br. 1181.

<sup>141</sup> IVS, Juni 1979: „Stanje, ekonomski položaj i problemi nezaposlenosti kapaciteta brodogradilišta“, in HDA, f. 280, kut. 174, br. 481, p. 10.

<sup>142</sup> Palairet, "Croatian Shipbuilding in Crisis", p. 769.

with the Soviets in order to secure orders for his shipyard.<sup>143</sup> One reason for this was the lack of progress on the domestic program. The most important Croatian banks still refused to sign the Self-Management Agreement on the Financing of Ships for Domestic Customers built by Domestic Shipyards. In 1983, there was, therefore, a hole of eight billion dinars in this program, despite repeated calls by the Sabor to the banks to support the deal.

The orders from the Soviets and from developing countries nonetheless helped Uljanik to keep its capacity employed, and even to increase its workforce to more than 8,000 employees in 1986 (from 6,500 at the end of 1980) – at a time when West European and Japanese shipyards reduced capacity. Uljanik and the other Yugoslav shipbuilders pursued a strategy to fill their order books in order to maintain high employment levels, “without proper regard to profit and loss.”<sup>144</sup> A full order book became almost a goal in itself (another tradition that survived until recently). On basis of a full order book and many new launches, Uljanik’s director, Karlo Radolović boasted of a successful turn-around (“*sanacija*”) from near extinction to new flourishing in a 1986 newspaper interview. Export earnings were increased from 60–70 million US-\$ per year to 200 million, and annual production to six ships.<sup>145</sup> Radolović qualified the deliveries to the Soviets as a success and stressed that a time, when the international market was depressed, required creativity. Uljanik accepted, for example, special conditions for contracts with Sudan: they would train people from Sudan, “their whole fleet”, in Radolović’s words.

Radolović also found a creative solution to the problem of clients forfeiting ordered ships: when in 1987 three ordered ships became owner-less because the intended purchasers went bankrupt, Uljanik decided to exploit these ships on their own, as nobody else wanted to buy them.<sup>146</sup> This would earn them 200,000 to 300,000 US-\$ per ship and year. Out of nothing the shipping line *Uljanik plovidba* was born (to the disappointment of the existing Yugoslav shipping lines that suffered from a lack of modern ships).<sup>147</sup>

To his credit Radolović – characterized by Palaret as a “tough and able” manager – implemented structural changes and cost-cutting measures as well.<sup>148</sup> The new director managed to bring order into the “Complex Organization of Associated Labor” named Uljanik by streamlining the twelve individual OOURs and implementing rationalization measures, so that nine ships per year could be built. He re-established central coordination and control by

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<sup>143</sup> On the importance of the “Soviet Program” in the 1980s see Jadranbrod, “Predmet: Međudržavni sporazum između SIV-a, Skupštine SFRJ i Vlade SSSR-a o međusobnim isporukama brodova i brodske opreme u periodu 1986–1990. god.”, 9.10.1984, in: HDA, f. 280, kut. 291, br. 947.

<sup>144</sup> Palaret, “Croatian Shipbuilding in Crisis”, p. 765.

<sup>145</sup> “Karlo Radolović”, *Start*, 31 May 1986, p. 12–6.

<sup>146</sup> “Osnovali vlastitu brodersku kompaniju”, *Politika*, 19 September 1988.

<sup>147</sup> “Bankrot-brodovi”, *Nedjeljna Dalmacija*, 19 October 1986, p. 7.

<sup>148</sup> Palaret, “Croatian Shipbuilding in Crisis”, p. 777.

making clear to the OOURs that in case they did not accept his decisions, they would have to find other customers for their products and services, which was of course nearly impossible.<sup>149</sup> Instead of five independent supply divisions (for each Work Organization), joint provision was established again. Radolović forced the workers' council to accept overtime work and the cancellation of vacations in order to finish ships on time and avoid penalty payments. Such measures apparently led Uljanik out of its existential crisis and on to a new course of expansion: in November 1986, it was announced that the shipyard would add 1,250 workers over the forthcoming five years.<sup>150</sup> The shipyard's bosses claimed that in terms of productivity, Uljanik now was better than most of its European competitors. In general, the Yugoslav shipyards were said to be more efficient – measured in working hours spent for the production of 1 grt – than the South Korean ones, and even more than 50 percent more than the Italians. They lagged behind the industry leader, Japan, by around 30 percent, and the most productive West European producers by 10 to 25 percent.<sup>151</sup>

The press was equally ebullient. *Vjesnik* ran a story in 1986 praising Uljanik's export prowess and calling it not only the "leading Yugoslav", but even "one of the most important global shipyards."<sup>152</sup> The shipyard was said to fully embrace the principle "export or die", in view of the fact that "for years no satisfying solution for the construction of ships for domestic clients" had been found. The "internationalization of operations and the extension of activities from the national to the world market" are the fundament of Uljanik's existence.<sup>153</sup> Between 1981 and 1985, 79 percent of all Uljanik produced ships went to foreign customers. For 1986, the launching of seven ships was planned of which only two would remain in the country.<sup>154</sup> In January 1987, *Glas Istre* called Uljanik built ships the "Rolls Royce of shipbuilding."<sup>155</sup> Uljanik specialized in complex, purpose built ships, with flexible adaptations to the purchaser's wishes. This earned it a good name in the world – on which it could capitalize until very recently – but it was not tantamount to earning money.

By the mid-1980s, the whole of Yugoslav shipbuilding seemed to have withered the global crisis: while shipyards in other countries struggled and greatly cut capacity, the Yugoslavs in the early 1980s recorded an increase of orders. In terms of orders for new ships, they climbed to number three globally in 1986 (behind only Japan and South Korea), with orders for more

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<sup>149</sup> "Karlo Radolović", *Start*, 31 May 1986, p. 13.

<sup>150</sup> "Posao za 1250 brodograditelja", *Vjesnik*, 25 November 1986, p. 7.

<sup>151</sup> Petar Milat: "Društveno-ekonomska opravdanost razvoja brodogradnje u SFRJ", *Brodogradnje* 36(1–2), 1988, p. 6, table 2.

<sup>152</sup> "Za sva mora svijeta", *Vjesnik*, 10 December 1986, p. 8.

<sup>153</sup> *Ibid.*

<sup>154</sup> "Pozicija izvoznika uvijek je ugrožena", *Privredni vjesnik*, 7 April 1986, p. 22.

<sup>155</sup> "'Rolls Roycevi' brodogradnje", *Glas Istre*, no 22, 21 January 1987, p. 4.

than one million dwt, priced at around one billion US-\$.<sup>156</sup> Almost six percent of the globally ordered tonnage stood in the order books of the Yugoslav producers. In terms of launches, Jadranbrod became the tenth largest producer of ships worldwide.<sup>157</sup> In no other country but South Korea was the share of export of ships as high as in Yugoslavia. 58 percent of orders were for convertible currency markets, 35 percent for clearing markets and only 7 percent for domestic clients.<sup>158</sup> Jadranbrod head Ivo Vrandečić, just before he was elected president of the federal parliament, boasted in a 1986 interview that in the preceding five-year plan period, Yugoslav shipbuilding “realized very good results and especially in the last two years achieved records in the production for export.”<sup>159</sup>

However, the export ‘success’ was not necessarily a strength because it also meant an extremely high exposure to the vagaries of the global market, which at that time was clearly a buyers’ market. Aside from this, Yugoslavia’s rise in the share of orders was also due to the global decline of orders, thus, pointed more to relative than to absolute growth. In October 1986 global orders stood at 35 million dwt while at their peak, at the beginning of 1975, they had been 205 million dwt, while the Yugoslav order declined ‘only’ by 50 percent.<sup>160</sup> Yugoslav shipyards also signed contracts on “ruinous terms”, just to fill their order books.<sup>161</sup> Industry specialists calculated that world market prices would have to increase by 15 to 20 percent so shipyards can break even.<sup>162</sup>

Only ten months after Uljanik was proclaimed to be the Rolls Royce of shipbuilding, in October 1987, the mood soured again: *Glas Istre* ran an article on “Shipbuilding in the ‘Bermuda Triangle’”, when the shipyard’s account experienced another freeze imposed by the banks.<sup>163</sup> How was such a turn-around to the worse possible? As Michael Palaret has noted the “impression of a thriving industry was deceptive.”<sup>164</sup> It appeared that the mentioned success was based on very shaky financial foundations. It took one important customer to default on its liabilities to Uljanik to reveal the lack of financial resilience and to push the shipyard again into deep financial distress.

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<sup>156</sup> “Naši pomorski uspjesi”, *Glas Istre*, no 71, 26 March 1987, p. 3; “Jučer, danas, sutra – naše brodogradnje”, *Brodogradnje* 34(1), 1986, p. 6; Ivan Adum: “Tržišna orijentacija – stabilizirajući element u našoj brodogradnji”, *Brodogradnje* 34(1), 1986, p. 11 (on the situation at the end of 1985).

<sup>157</sup> Ivan Adum: “Godina iskušenja”, *Brodogradnje* 35(1), 1987, p. 7; Boris Dušić: “Mogućnosti plasmana proizvoda naše brodogradnje u svjetlu globalne tržišne situacije u svijetlu”, *Brodogradnje* 34(1), 1986, p. 79.

<sup>158</sup> Boris Dušić: “Mogućnosti plasmana proizvoda naše brodogradnje u svjetlu globalne tržišne situacije u svijetlu”, *Brodogradnje* 34(1), 1986, p. 80.

<sup>159</sup> “Jučer, danas, sutra – naše brodogradnje”, *Brodogradnje* 34(1), 1986, p. 5.

<sup>160</sup> Ivan Adum: “Godina iskušenja”, *Brodogradnje* 35(1), 1987, p. 7–8.

<sup>161</sup> Palaret, “Croatian Shipbuilding in Crisis”, p. 781.

<sup>162</sup> Boris Dušić: “Mogućnosti plasmana proizvoda naše brodogradnje u svjetlu globalne tržišne situacije u svijetlu”, *Brodogradnje* 34(1), 1986, p. 82.

<sup>163</sup> “Brodogradnja u ‘Bermudskom trokotu’”, *Glas Istre*, no 231, 3–4 October 1987, p. 3.

<sup>164</sup> Palaret, “Croatian Shipbuilding in Crisis”, p. 762.

This story started in 1983, when the Sudan Shipping Line failed to pay the full price for three ships from Uljanik (the same happened to 3rd of May, from which they had also commissioned ships).<sup>165</sup> Sudan Shipping Line had ordered six freight container carriers from Uljanik and from 3rd of May in 1977. It was a well-known customer to them, that had started to buy ships from Yugoslavia already in 1960 and previously had paid them in due time. Now, payments for the second delivery of the ships ordered in 1977 were delayed. Uljanik and its Sudanese client negotiated the payment in four installments until 1982, but the Sudanese would not heed the arrangement and instead asked for a payment moratorium, which Uljanik refused. When it had transpired that the Sudanese would not pay, Uljanik and 3rd of May wanted to stop the delivery. Yet, they were told by the government to go ahead because Sudan was a developing country, which Yugoslavia sought to support. Now, with 50 million US-\$ outstanding receivables, Uljanik asked JUBMES and the government to step in. After some round of negotiations in Belgrade, the Sudanese suggested to pay in kind – with cotton, to which the shipbuilders in general agreed. However, by 1987 they still had not seen any money from this barter trade and again asked for government intervention. One of the problems was the fact that Yugoslav cotton importers actually got their stuff from other sources, with whom they had already concluded contracts, so would not be able to turn additional cotton from Sudan into money. The “Sudan program” turned into the “Sudan problem”, commented *Vjesnik*.<sup>166</sup> A delegate from the shipyard Split in the Assembly of Associated Labor in Croatia commented drily on the question whether such a business arrangement was beneficial for the country:

“Of course it is, but only if you pay for it with a drastically lower standard for the workers in these enterprises, who also cannot be sure whether, at around the tenth of each month, they will receive their salary from the last month.”<sup>167</sup>

International solidarity and an ambitious foreign policy, it appears, did not come for nothing. In the meantime, Uljanik (and 3rd of May) had run out of money and had their bank accounts blocked in 1987. Thus, the default of one customer on its bills “brought Uljanik and 3rd of May in a situation of total illiquidity so that they have no opportunity to continue their work.”<sup>168</sup> Financing the building of new ships was, as shown above, always on the edge, which is why the default even by one client could have severe consequences. The delay of new constructions

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<sup>165</sup> Jadranbrod, for SIV: “Predmet: Nenaplaćena potraživanja “Uljanika” i “3. Maja” iz Sudana”, 30.3.1987, in: HDA, f. 280, kut. 366, br. 743.

<sup>166</sup> “Neizvjesnost na navozima”, *Vjesnik*, 14 October 1988.

<sup>167</sup> “Velikodušnost po glavi brodograditelja”, *Glas Istre*, no 267, 14–15 November 1987, p. 3.

<sup>168</sup> Jadranbrod, for SIV: “Predmet: Nenaplaćena potraživanja “Uljanika” i “3. Maja” iz Sudana”, 30.3.1987, in: HDA, f. 280, kut. 366, br. 743.

would make the hole even bigger because of penalties for delayed deliveries. Delays were not always caused by insufficiencies in Uljanik's production process but also by late deliveries from domestic suppliers.<sup>169</sup> The mechanisms for export support being increasingly in disarray, Uljanik and the other shipyards struggled to pay for the necessary inputs from abroad, which was another reason for frequent delays of deliveries. The shipyards complained, for example, that export subsidies and JUBMES loans were paid out too late.<sup>170</sup> Because of all these impediments, Yugoslav shipbuilders needed on average of 24 months to finish a ship, which industry specialists regarded as too long.<sup>171</sup>

For Uljanik, the 1987 crisis and the freeze of its account for almost two years was a near-death experience. From an extraordinary joint meeting of Pula's municipal council and the district party committee at the end of October 1987, it became known that the shipyard had substantial liabilities: almost 20 billion dinar in unpaid taxes and fees and more than 130 billion dinar debts with banks; they also owed 52 million US-\$ to foreign creditors and suppliers. The local newspaper called the shipyard a "Teetering Diva."<sup>172</sup> In a meeting on October 29, 1987, the City of Pula and the local SKJ organization called for urgent government help, in view of the shipyard's 8,000 workers and 6,000 sub-contractors as well as "at least as many" employees in social services that were mainly funded by Uljanik. Since Uljanik could not make any payments, local social services faced a huge shortfall in revenues.<sup>173</sup> *Večernje novosti* even asked whether the shipyard stood before bankruptcy.<sup>174</sup> Politicians and journalists struggled to explain how it was possible that a shipyard with full order books, which in 1986 was Yugoslavia's record exporter with 200 million US-\$ realized export earnings, could end up in such a dire situation.

A few days later, on November 6, 1987, the parliament of the Socialist Republic of Croatia debated this issue. The head of Jadranbrod, Ivo Vrandečić, stressed again the high export incomes earned by the shipyards – but their success was put under question by illiquidity. Uljanik lacked 43 billion dinar until the end of the year to keep its operation going and to unblock its bank account.<sup>175</sup> The representatives of the shipyard put the primary responsibility for their illiquidity on external factors, such as currency risks, failing customers, and inconsistencies in Yugoslavia's

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<sup>169</sup> As said by the vice-director of Uljanik, Blaž Rocek, in an interview: "Pozicija izvoznika uvijek je ugrožena", *Privredni vjesnik*, 7 April 1986, p. 22.

<sup>170</sup> "Rasprava u Vijeću udruženog rada Sabora o aktualnim problemima poslovanja brodograđevne industrije u SR Hrvatskoj (5.11.1987): Podrška zahtjevima brodogradnje", *Brodogradnje* 35(4–5), 1987, p. 163.

<sup>171</sup> Boris Dušić: "Mogućnosti plasmana proizvoda naše brodogradnje u svjetlu globalne tržišne situacije u svijetlu", *Brodogradnje* 34(1), 1986, p. 81.

<sup>172</sup> "Blokirani navozi", *Glas Istre*, no 253, 29 October 1987, p. 3.

<sup>173</sup> "Zabrinuta cijela Pula", *Večernji list*, 30 October 1987.

<sup>174</sup> "Rekorder pred bankrotstvom?", *Večernje novosti*, 31 October 1987.

<sup>175</sup> "Nelikvidnost potapa brodogradnju", *Glas Istre*, no 260, 6 November 1987, p. 3.

export support system. After months of handwringing, government support and depleting the last own resources allowed Uljanik to overcome temporary illiquidity again – but not to solve the underlying problems. Actually, the situation continued to get worse because there was no money for investments, as everything was spent on day-to-day survival. Director Radolović complained that there was “no investment in new technology or the improvement of technology, simply because there are no sources (...). We need to survive.”<sup>176</sup>

It was therefore no surprise that Uljanik and most other Yugoslav shipbuilders operated at a loss, similar to their peers in the world. 1987 was the nadir of the international depression on the markets for ships.<sup>177</sup> In the first half of 1987, the accumulated loss of the Yugoslav shipbuilders was 37 billion dinar, to which Uljanik contributed ten billion. Financing the construction of a ship became an ever more daunting task. Depending on the country where the buyer was located, the shipyards had to find 85 to 90 percent of the purchase price from banks or other sources of financing. With inflationary pressures raising and interest rates at more than 100 percent (in 1987), the financing costs skyrocketed and amounted to roughly half of the purchase price. Attempts by the Yugoslav National Bank to reign in the free granting of credits by the many commercial banks in Yugoslavia, because many of these loans were bad, only made finding credit more difficult. Calls by the shipbuilders that JUBMES should extend its credit lines went unheeded as well because JUBMES faced increasing re-financing difficulties.

Another of the shipbuilders' ideas was to change the accounting rules. Their argument was that they had to pay for the materials they needed for building a ship in the current year but would realize the earnings from this construction only two to three years later, which is why contracted ships should already be included in their annual income statement – it appears that Yugoslav accounting did not account for future receivables.<sup>178</sup> An additional problem was currency risks. In the mid-1980s the US dollar lost value against other Western currencies, and the dinar lost value against both of them: from 1984 to 1985, the exchange rate of the dollar towards the dinar increased by 48 percent, that to the major West European currencies by 74 to 90 percent. This worsened the balance of payment for the shipbuilders: they were paid – if at all – in dollars but had to buy many of the required materials in hard European currencies, usually German Mark, which had appreciated against the dollar. The price of supplies increases more than the price of ships. Depreciation of the dinar also affected interest payments as loans were based on the initial dollar price.<sup>179</sup>

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<sup>176</sup> “Brod – za sve vremena”, *Nedeljna Dalmacija*, 8 February 1987.

<sup>177</sup> Palairat, “Croatian Shipbuilding in Crisis”, p. 764.

<sup>178</sup> “Prijedlozi mjera za otklananje uzroka bitnog pogoršanja uvjeta poslovanja brodogradnje u 1987. godini”, in: HDA, f. 280, kut. 366, br. 743.

<sup>179</sup> “Prenosimo” [Interview with Karlo Radolović], p. 180. For a detailed analysis: Mladen Kmetić: “Zaostajanje američkog dolara u odnosu na valute zemalja Zapadne Evrope i inflaciju u zemlji ima za posljedicu sve nepovoljniji poslovni rezultat u brodogradnji”, *Brodogradnje* 34(4), p. 301–5.

In a word, the mess in which Uljanik and the other shipbuilders found themselves got messier by the year, and their proposals more desperate. From the responses – and non-responses – of federal authorities to the requests by the shipbuilders and by the Croatian government on their behalf it transpires that the government in Belgrade usually processed them in a dilatory way.<sup>180</sup> That is, nothing was decided. Almost ritually, the federal government would refer to a comprehensive future solution that allegedly was in preparation. With deep frustration, Jadranbrod summarized the catastrophic situation for the Croatian government in October 1987:

“Until today, no substantial measures were taken to stop the galloping growth of illiquidity of the shipyards, so that all shipyards have fallen under blockade, all payments have been stopped, all suppliers stopped deliveries and *the shipyards are in a situation of complete cessation of production, even in danger not to be able to deliver those contracted ships due by the end of this year.*”<sup>181</sup>

It is hardly surprising that such assessments did not increase the readiness of commercial banks to lend to shipbuilding. In 1989, JUBMES sank into “moribundity” and tightening monetary policies by the federal government made access to credit even more difficult.<sup>182</sup> In principle, the shipyards should have been in a better starting position than other enterprises that had been shielded from international competition, when the government introduced far-reaching, liberalizing economic reforms in 1989.<sup>183</sup> Yet, years of underinvestment would make it difficult for them to capitalize on this advantage. Uljanik entered post-socialism in a situation of deep crisis: they had plenty of work but little money, as the financial director complained in the fall of 1989.<sup>184</sup> With no trustworthy export guarantees, after Yugoslavia’s export support finally had collapsed, the shipyard found it increasingly harder to find purchasers for their ships. What the Uljanik management and workers did not know yet, was that the 1990s would become even more difficult to survive than the 1980s. But at least they had learnt how to muddle through.

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<sup>180</sup> See for example SIV. Komisija za planiranje, tekuću ekonomsku i socijalnu politiku, 26.5.1987: “Izveštaj”, in: HDA, f. 280, kut. 366, br. 743. This Commission admits that most federal organs did not even bother to comment in time on the materials sent out by the SIV.

<sup>181</sup> Jadranbrod: “U svibnju tekuće godine”, 29.10.1987, in: HDA, f. 280, kut. 366, br. 743. Italics in the original.

<sup>182</sup> Palairat, “Croatian Shipbuilding in Crisis”, p. 789.

<sup>183</sup> “Koliko koštaju zakoni po ‘hitnom’ postupku?”, *Komunist*, 30 June 1989.

<sup>184</sup> “Blokada, deblokada”, *Uljanik*, no 105–106, 15 September 1989, p. 11.

zaista bilo potrebno uzeti na otoku mađarsku kooperaciju i nije li se to moglo jeftinije riješiti boljim nagradivanjem naših radnika Radolović je rekao da je prema informacijama koje ima Poslovodni odbor, 40 mađarskih brodomontera, koji su prihvatili posao po sistemu „ključ u ruke“, od kojeg kooperacija inače bježi, opravdalo povjerenje te da se dosadašnjom politikom balansiranja kapaciteta u Gradnji trupa, makar uz angažiranje inozemne kooperacije, s obzirom na velike probleme s ključnim profilima radnika, ipak uspijeva na vrijeme napraviti ono što je najvažnije — trup broda — zahvaljujući kojem svi kasnije imaju posla, i Opremanje i TDM i TESU i ostali. Blaž Rocek, potpredsjednik Poslovodnog odbora u kontekstu toga i zahtjeva tedeemovaca za izjednačavanjem s radnicima na brodu rekao je da će Uljanikovci morati prihvatiti činjenicu da će se ono čega nema morati više plaćati. Što se tiče rasprava oko malih plaća, a oko toga da su male složili su se svi, kao što su se složili i da je to u biti glavni razlog izbijanja nezadovoljstva radnika TDM i ostalih Uljanikovaca upravo u ovom trenutku, Rocek je rekao da se previše govori o praćenju troškova života, a premalo o niskoj produktivnosti, o tome da se ne ostvaruju proizvodni planovi.

„Mi nemamo drugog izlaza nego svakog staviti na svoj račun, a na tržištu će se pokazati da će se možda ljevač morati platiti više od tokara“.

Ipak, Poslovodni odbor prihvatio je prijedbu Bruna Bulića, predsjednika Konfederacije sindikata „Uljanika“ o neodrživosti zaostajanja plaća Uljanikovaca za mnogima u gradu.

„Svi mi znamo da su izvoznici do jučer u našem sistemu praktički bili kažnjeni, a posljedice i danas osjećamo. Za razliku od mnogih kolektiva nastojali smo striktno i odgovorno poštovati Zakon i desilo se da smo zbog toga kretali s nešto nižim osnovama u odnosu na neke druge. Naša je obaveza da primjenjujemo Zakon i činjenica je da bi da je on potrajao, mnogi danas imali glavobolje. Činjenica je i da nas već dvije godine prati nelikvidnost koja je bila presudni ograničavajući činilac. Vjerojatno i nismo bili dovoljno hrabri, ali smo do zaključka o povećanju vrijednosti boda i do modela koji predlažemo došli prije izvanrednih zborova u TDM-u i Gradnji trupa. Svjesni smo da je na neki način socijalni nivo „Uljanika“ u gradu pao, na što, nažalost, najkonkretnije ukazuje i „bježanje“ ljudi iz kolektiva, i to moramo riješiti. Mislimo da ćemo se s povećanjem za kolovoz sasvim izjednačiti u plaćama sa splitskim brodogradilištem, a zadatak nam je da s takvim odnosom završimo ovu godinu. Pokušat ćemo, dobro ste nas trgli, vratiti položaj koji „Uljanik“ zaslužuje u gradu. Tražit ćemo politiku trajnosti opstanka i razvoja, standarda“ — obećao je u ime Poslovodnog odbora Karlo Radolović na kraju razgovora.

S obzirom da je do 1. listopada preostalo malo dana sindikalci TDM-a prihvatili su prijedlog Poslovodnog odbora da sada ne inzistiraju na ukidanju 10 posto, da prihvate predloženo povećanje plaće za kolovoz, da sačekaju i podržavaju novi sistem raspodjele kao i reorganizaciju „Uljanika“, kojom bi se, i TDM-u i ostalim Tvornicama, otvorile veće mogućnosti razvoja pa i odlučivanja o vlastitom dohotku. U svemu tome naravno oni moraju što potpunije još informirati radnike Tvornice koji će, nadaju se, također iskazati podršku.

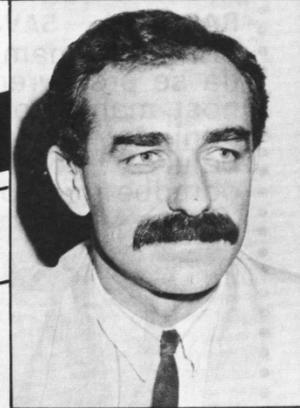
T. B. C.

**Mr Milenko Vidulin  
v. d. financijski rukovodilac  
Uljanika**

**BLOKADA,**

**DEBLOKADA**

**... uz bolji rad  
bit će bolje**



O dnevna Uljanikov Savjet Poslovodnog odbora ima još jednog člana. To je 34. godišnji magistar ekonomije MILENKO VIDULIN, koji je od 1. srpnja ove godine na radnom mjestu v. d. financijskog rukovodioca u RZ bankarski poslovi.

Mr Milenko Vidulin Uljanikovac je od 1981, a do sada je radio na poslovima ekonomskog suradnika te rukovodioca deviznog kredita. Prelaskom na novu dužnost odgovornost je znatno veća, a time se štošta mijenja u njegovom životu, posebice zato što ni Uljaniku, kao uostalom ni cijeloj jugoslavenskoj privredi, ne cvjetaju ruže. Istina, Uljanik ima dosta posla, ali novca je malo. Zato u razgovoru s novim financijskim rukovodiocem Uljanika i postavljamo najprije pitanje: u kakvom je stanju Uljanik u vrijeme njegova postavljanja na navedeno radno mjesto?

— Zna se, manje više, da je stanje dosta složeno. Kada sam prihvatio te poslove bili smo blokirani gotovo na svim računima. Nekako smo se snalazili, preživljavali, da bismo u kolovozu izvršili deblokadu, dakako uz pomoć nekih naših priliva (Sudan...) i uz suradnju obiju banaka koje nas prate. Blokada nije bila ništa novo za Uljanik, jer ih je do sada bilo desetak, no svaka blokada a i deblokada vrlo su složeni i težak posao. Mislim da se znaju i uzroci takvoj financijskoj situaciji u Uljaniku. Istina, kriza u zemlji ima strahovite reflekske i na naše konačne financijske rezultate, no nelikvidnost i naše blokade ipak su slika našeg pošlovanja, dakle našeg rada, počevši od projekta do isporuke, bez obzira na to što smo prije dvije godine ugovorili izgradnju brodova po ondašnjim, dosta niskim cijenama. Nema dakle osnove nekim razmišljanjima da Uljanik ima dosta novca, dapače, mi uz pomoć naših banaka radimo sa kratkoročnim pozajmicama i tako premošćavamo određene praznine. U svojim troškovima međutim, nismo ništa reducirali da bismo se uklopili u cijene koje su ugovorene i koje su bile u tim trenucima na svjetskom tržištu: niti smo povećali produktivnost, niti smo jeftinije radili, a niti smo manje trošili. Čak smo trošili i više, bez obzira kakve nam je cijene brodova diktiralo tržište. Nelikvidnost nas, nažalost, tjera i na devizna i na dinarska zaduženja, uz vrlo velike kamate, no ja mislim da će se s vremenom slika o likvidnosti Uljanika poboljšati, ponajprije jer su slijedeći brodovi povoljnije ugovoreni, a uvjeren sam da ćemo i svi mi u Uljaniku promijeniti svoj način rada, kako bismo smanjili te ogromne troškove poslovanja.

Posao koji sada obavljam jest nov, ali mi nije nepoznat. Uz to imam vrlo dobre suradnike s kojima sam i do sada radio pa mislim da je ekipa u RZ bankarski poslovi na jednom visokom stručnom nivou — sve su to uglavnom mladi ljudi koji imaju volje i znanja, a također i određeno iskustvo stečeno u Uljaniku. U takvim uvjetima može se dobro raditi. Istina, u mom se životu, dolaskom na ovu dužnost, mnogo toga mijenja. Razmišljao sam dugo da li prihvatiti tu obavezu ili ne. Mijenja se u prvom redu odnosi u obitelji, jer sam manje prisutan kod kuće, a i kad sam kod kuće pratil me briga o poslu. Manje je hobija, manje čitanja i pisanja „za svoju dušu“, a više razmišljanja o Uljaniku. To sam osjetio u protekla dva mjeseca. Osjetit ću i dalje, a protekla dva mjeseca bilo je vrijeme prilagodavanja. Nastojanje da budemo „uredni“, održavanje deblokade, ispunjenje obaveza prema dobavljačima, kooperantima... sve to opterećuje, no nadam se da će s vremenom ipak biti nešto manje problema.

U Savjetu Poslovodnog odbora kao najmlađeg člana, po godinama života i po stažu, vrlo su me dobro prihvatili, a jedan od razloga je vjerojatno što ja njih sve dobro poznam, a i oni mene, jer smo i do sada surađivali. Odnos je sasvim normalan, dapače vrlo korektan.

K. Š.

## Conclusions

The director of Uljanik, Karlo Radolović, and other leading representatives of Yugoslav shipbuilders never tired of complaining about the lack of appreciation of their industry by government and society. They quoted the high export earnings of their shipyards – omitting their losses, though. Radolović claimed that Uljanik gave much more to society than it received from it. While the world cherishes the value of Yugoslav shipbuilding, the domestic government fails to recognize its vital importance:

“If we, in Pula, Split, Rijeka, and then in Zagreb and Belgrade would start believing in the shipbuilding industry, and would orient ourselves accordingly, everything would be much easier. There always have been problems, and there always will be; but their solution is much easier if one believes in what one is doing and why.”<sup>185</sup>

He did not demand any special treatment by the government; only that “Yugoslavia needs to resolve its problem with exports and with the stimulation (*propulzija*) of the sector, and there won’t be any problems anymore.”<sup>186</sup> Such claims show a business tendency at work that János Kornai has identified as being typical for economic systems with soft budget constraints:

“The attention of the firm’s leaders is distracted from the shop floor and from the market to the offices of the bureaucracy where they may apply for help in case of financial trouble. (...) If, however, the budget constraint is oft such productive efforts are no longer imperative. Instead, the firm is likely to seek external assistance asking compensation for unfavorable external circumstances. The state is acting like an overall insurance company taking over all the moral hazards (...).”<sup>187</sup>

Uljanik’s behavior, though, does not only confirm that the Yugoslav economy was typically ‘socialist’ in terms of the prevalence of soft budget constraints but it also points to the contradictions created by international integration. As the literature on the economy of Yugoslavia already has suggested, the country’s integration in the world market was always fraught with tensions. The friction worked both ways: exposure to the international market created tensions at home, and domestic contradictions impeded the smooth operating on the international market where the rules of demand and supply, and of capitalist

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<sup>185</sup> “Brodogradnja zaslužuje povjerenje” (Interview with Karlo Radolović), *Glas Istre*, no 305, 31 December 1987/ 3 January 1988, p. 3.

<sup>186</sup> “Kako ostati treći? Intervju: Karlo Radolović”, *Večernji list*, 25 October 1987, p. 5.

<sup>187</sup> Kornai, “The Soft Budget Constraint”, p. 10.

ruthlessness – and not of self-management, or Brotherhood and Unity – were paramount. Vladimir Unkovski-Korica argued in his study of economic policy making in the 1950s and 1960s that

“the deeper the integration of the economy in the world market (...) the more directly the latter’s competition logic became expressed within Yugoslavia, and the more it caused friction on the shop-floor, bringing into question the legitimacy of the governing apparatus.”<sup>188</sup>

The shift towards export-led growth in the early 1960s increased the “pressures on the system as a whole.”<sup>189</sup> Yet, did the country really “eventually succumb to the competition logic dominant in global capitalism”, and did the export orientation “necessitate a different mode of organizing the workplace and the polity” as argued by Unkovski-Korica?<sup>190</sup> The case of shipbuilding at least suggests that tensions were produced both ways: decentralization and self-managed socialism caused frictions for enterprises operating in the international market. Yugoslavia’s decision to enter the world market posed the question of the reorganization of its institutional structure as well as of its class relations. The country became increasingly dependent on integration into the global economy and on loans from the West. This ultimately proved corrosive for the Yugoslav system of self-management. Exposure to the world strengthened internal contradictions and made them more visible, while at the same time the government refused to give up its aim to build socialism. The domestic institutional set up and the incentives it created for economic actors did not correspond to what world market integration required. This reminds of Schierup’s assertion that because of the peculiarities of Yugoslav socialism, Yugoslav enterprises were in a “particularly unfavourable bargaining position” on the international scene.<sup>191</sup>

The stakeholders in the Yugoslav shipbuilding industry did not ‘succumb’ to the competitive logic of the international market, on the contrary: against any business logic they kept expanding the industry, when global trends suggested to cut back on capacity. To paraphrase the perceptive Karlo Radolović: “Only in socialism is [the persistence of failing companies] possible because it is not known, how such a large organization can be liquidated.”<sup>192</sup> Despite their constant complaints, Uljanik and the other shipbuilders operated under conditions of soft budgetary constraints and were repeatedly, in one way or the other, bailed out by the government. Their main purpose was not so much making a profit but

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<sup>188</sup> Unkovski-Korica, *The economic struggle for power in Tito’s Yugoslavia*, p. 3.

<sup>189</sup> *Ibid.*, p. 6.

<sup>190</sup> *Ibid.*, p. 231–2.

<sup>191</sup> Schierup, *Migration, socialism and the international division of labour*, p. 169.

<sup>192</sup> “Prenosimo”, *Brodogradnje* 34(3), 1986, p. 179. Radolović spoke of Uljanik in its miserable years 1980–81.

employing people, subsidizing vital – and not so vital – social services in Pula, and also earning hard currencies. Thanks to government support, Uljanik survived late socialism – but only just.

The story of Uljanik in the 1970s and 1980s confirms a point made by Carl-Ulrik Schierup in his analysis of the connection between labor migration and institutional development. The 1974 and 1976 reforms did not increase but reduced the role of market forces, and thus reversed a trend set by market-oriented economic reforms of the first half of the 1960s. They reinforced “bureaucratic conceptions” of economic development. “Market criteria for judging the success of plants and enterprises, or the level of workers’ wages, became increasingly irrelevant.” He also stresses, “informality and diffuseness of the bureaucratic control, which became especially obvious after 1974, gave the economy an extremely fragmented and arbitrary character.”<sup>193</sup> This pattern helps to explain why the different layers of government were not able to formulate a concise strategy for the most export-exposed industry of the country, which suffered from a global depression not of its making. The reason was not a lack of knowledge – Yugoslavia possessed excellent shipbuilding experts, who knew about global developments, as becomes evident from the pages of the industry journal *Brodogradnje*; but there was a lack of political will and coordination. The decentralization had led to a system in which organizational units looked only after themselves, defining their interests in a narrow way and thus making it next to impossible to create legitimacy for systemic solutions. Muddling through was the best option available.

Uljanik, and its peers, were exposed to international market conditions more than any other Yugoslav industry. For them, this was a source of pride – and a convenient argument to mobilize government support. However, Yugoslavia’s political economy and institutional mechanisms were not really set up in a way to help economic units adapting to the vicissitudes of the market. Firms such as Uljanik faced many other, not primarily economic expectations by powerful actors – such as securing employment and welfare and serving Yugoslavia’s foreign policy. Hence, the management had to navigate between very different rationales. It tried to achieve fundamentally incompatible goals. Schierup and Unkovsi-Korica are right when they stress the contentious nature of Yugoslavia’s economic integration into the world. However, Unkovsi-Korica over-estimates the power of the international market to shape domestic relations. The shipyards and their workers suffered from a global depression in the products they produced. Yet, they also suffered from the political over-determination of business and the incoherence of decision making in the unwieldy self-management system that prevented enterprises to take restructuring measures in order to build long-term resilience.

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<sup>193</sup> Schierup, Migration, socialism and the international division of labour, p. 234.

Instead of unilinear causalities, a picture of ambiguity and hybridity emerges. This allowed space for individual ingenuity, as was the case when Uljanik, under Karlo Radolović, set out to specialize on purpose-built, customer-fit vessels that became known for their quality. Yet, these conditions did not produce systematic incentives to reward business reforms. The relevant stakeholders failed miserably in tackling underlying problems such as over-capacity, lack of credit financing, and insufficient protection from external shocks. Self-management's in-built tendency towards strengthening local fragmentation widened the room of maneuver of institutional actors but also often limited it to ad-hoc and beggar-my-neighbor solutions. This was good enough for securing the survival of Uljanik and all the other major Yugoslav shipyards – something, many foreign shipyards could not claim – but at the price of forgoing innovation. Ultimately, it was taxpayers and politically less well-connected branches footing the bill – and they will be asked to do so in the forthcoming decades when the Croatian economy was presumably capitalist.



Pula. Bildquelle: Ulf Brunnbauer