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to Date and Prospects**

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PANEL 2. BEST PRACTICES IN INDUSTRIAL RESTRUCTURING IN ECE COUNTRIES –
SECTORAL AND TERRITORIAL ASPECTS

Topic 3. Restructuring ailing enterprises, industries and sectors

**EFFECTS OF RESTRUCTURING OF THE POLISH
HARD COAL AND STEEL INDUSTRIES***by Mr. **Wiktor Laszczyk**, Department for Industry Restructuring, Ministry of Economy
Poland**I. Effects of restructuring of Polish hard coal and steel industry****1. Introduction**

The basis of reforming of Polish hard coal industry in 1998-2002 include:

1. Government programme „Reform of hard coal industry in Poland in 1998-2002”, as a medium term economic programme of a sectoral character accepted by the Council of Ministers on 30 June 1998.
2. The Act of 26 November 1998 on adjustment of hard coal industry to operation in conditions of a free market economy and special powers and tasks of mining gminas that came in force on 14 January 1999 together with an executive decree.
3. Revision of the programme „Reform of hard coal industry in Poland in 1998-2002” accepted by the Council of Ministers on 21 December 1999.

* This paper is presented as received from the author. Any remarks should be sent by e-mail to: wiklas@mg.gov.pl.

4. The Act of 15 December 2000 on change of the Act on adjustment of hard coal industry to operations in conditions of a free market economy and special powers and tasks of mining gminas.

The general objectives of the reform of coal are defined as follows:

1. Adjusting the business entities in the coal-mining sector to viable functioning in the social market economy and maintaining the competitiveness of Polish coal on domestic market.
2. Meeting by the year 2010 the domestic demand for coal and economically justified export while maintaining the environment protection requirements and competitiveness under the conditions defined by the European Union and open market for all energy carriers with preserving of a principle of a bilateral benefits.

In the herein presented discussion it has been assumed that the effects of the reform's realisation accomplished in 1998-1999 refer to the government programme from June 1999 where economic and financial data are stated in terms of prices, tariffs and fees of 1998 whereas the results for 2000-2001 and assumptions for 2001 –2002 refer to the Revision of the programme from December 1999 where economic-financial data are expressed in terms of prices, tariffs and fees as of 2000.

2. *Financial restructuring*

As of the end of 1997 total liabilities of entities operating in hard coal industry amounted to 13,3 bln zł whereas at the end of 2000 – 21,8 bln zł. In 2001 a reduction of liabilities occurred which as of 31.12.2001 according to preliminary assessment amounted to 20,6 bln zł.

Because of amendment on 15 December 2000 of the Act of 26 November 1998 on adjustment of hard coal industry coal companies submitted new debt settlement applications. The amount of liabilities proposed for financial restructuring in the submitted applications was 15.861.3-mln zł.

3. *Liquidation of production capacity*

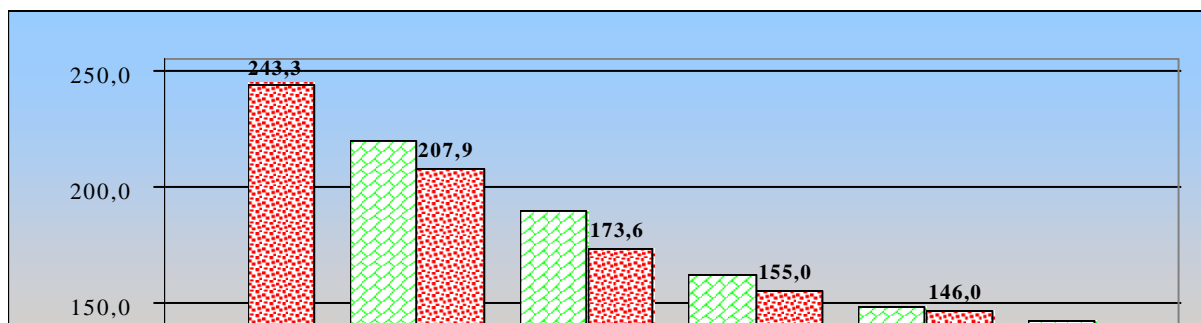
During 01.01.1998 till 31.12.2001 total production capacity reduction in hard coal industry was 31.43 mln t/annum, with the assumptions of the government programme for 1998-2001 in the volume of 32,77-mln t/annum.

Production was terminated at 13 completely liquidated mines and at 10 partially liquidated ones. The loss of production capacity in the completely liquidated mines was 13,9 mln t/annum and in the mines being partially closed – 7,6 mln t/annum.

Further production capacity reduction was accomplished by liquidation of mining regions, areas and levels (by 5,16 mln t/annum) and by reduction of extraction front's length at active mines (by 4,77 mln t/annum).

Fig. 1. Liquidation of production capacity - total

[mln t]



The above-presented liquidation of production capacity in particular years of the reform includes:

- Complete liquidation of mines,
- Partial liquidation of mines,
- Liquidation regions, areas and horizons,
- Reduction of active exploitation front length.

4. *Employment restructuring*

As of end of December 2001 employment in hard coal industry reached the level of 146,0 th persons what means that during four years of implementation of the reform's programme employment was reduced in total by 97,3 th persons, i.e. by 40,0%.

The Mining Social Package's instruments were taken advantage of as follows:

- In 1998. 24,9 th persons,
- In 1999 24,4 th persons
- In 2000 11,9 th persons
- In 2001 5,3 th persons

In 1998-2001 in total 66,5 Th persons took advantage of the instruments of the Mining Social Package, i.e. by 4,8,9 Th more than was assumed in the government programme till the end of 2002.

Fig. 2. Employment reduction in hard coal industry

[th persons]

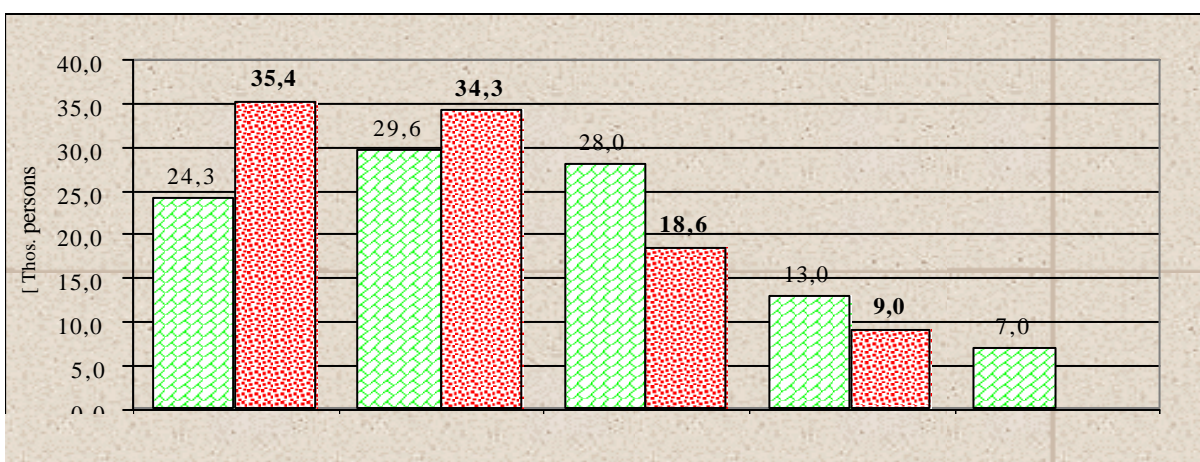
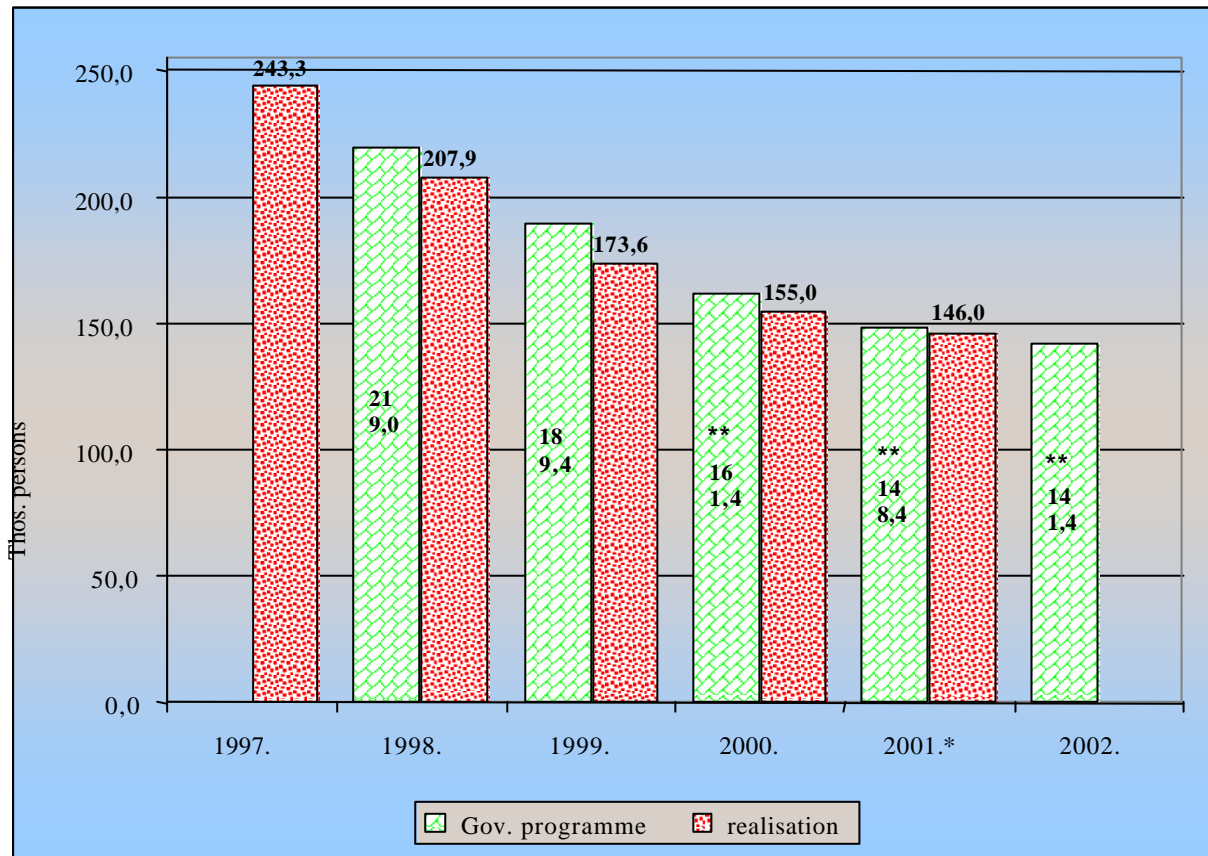


Fig. 3. Employment in hard coal industry at the end of particular year

[th persons]



Employment determined at the end of 2001.
** Employment determined on basis of annual employment reductions assumed in the programme and its Revision.

Table 1. Employment restructuring in hard coal industry in 1998-2001

Lp.	Specification	1998	1999	2000	2001	Total 1998-2001

persons

		Govern. Program.	Realisa- tion	Govern. Program.	Realisa- tion	Govern. program.	Realisa- tion	Govern. program.	Realisation	
0	1	2	3	4	5	6	7	8	9	10
1	Employment at the beginning of the period	243 304	243 304	219 000	207 935	189 400	173 631	161 400	155 032	-
2	Dismissals, in which:	27 304	38 360	32 600	36 059	30 950	19 674	14 310	10 535	104 628
2.1	Utilisation of social protection and activation instruments of Miners' Social Package, in which:	12 400	24 866	20 000	24 413	20 600	11 915	9 020	5 308	66 502
	miners' leaves	5 000	15 068	6 500	10 252	8 150	6 856	3 310	4 524	36 700
	social benefits	1 800	118	3 000	193	1 200	61	240	45	417
	single unconditional lump sum payments	5 600	9 680	10 500	13 968	11 250	4 998	5 470	739	29 385
2.2	Dismissals due to reasons on the basis on the side of the employee:	14 904	13 494	12 600	9 796	10 350	6 551	5 290	4 643	34 484
	old age pensions	7 800	6 018	6 300	5 971		4 324		3 148	19 461
	remaining dismissals	7 104	7 476	6 300	3 825		2 227	5 290	1 495	15 023
2.3	Transfers to the economic unit established on the basis of the mines' assets	0	0	0	1 850	0	1 208	0	584	3 642
3	Enrolment, in which:	3 000	2 991	3 000	1 755	2 950	1 075	1 310	1 498	7 319
3.1	Schools graduates		470		96		106		149	821
3.2	Return to work in conformity with Labour Code		2 211		1 468		950		679	5 308
3.3	Other enrolment, in which:		310		191		19		670	1 190
	- acceptance from PRG and Pbsz		177		125		3		28	333
	- acceptance from outside of the coal industry		133		66		16		642	857
4	Reduction of the employment (items 2 - 3)	24 304	35 369	29 600	34 304	28 000	18 599	13 000	9 037	97 309
5	Employment as of the period	219 000	207 935	189 400	173 631	161 400	155 032	148 400	145 995	-

* Situation determined on basis of annual reduction assumed in the gov. programme and its Revision

** Item 2 and 3 – dismissals and enrolment reduced by internal transfers

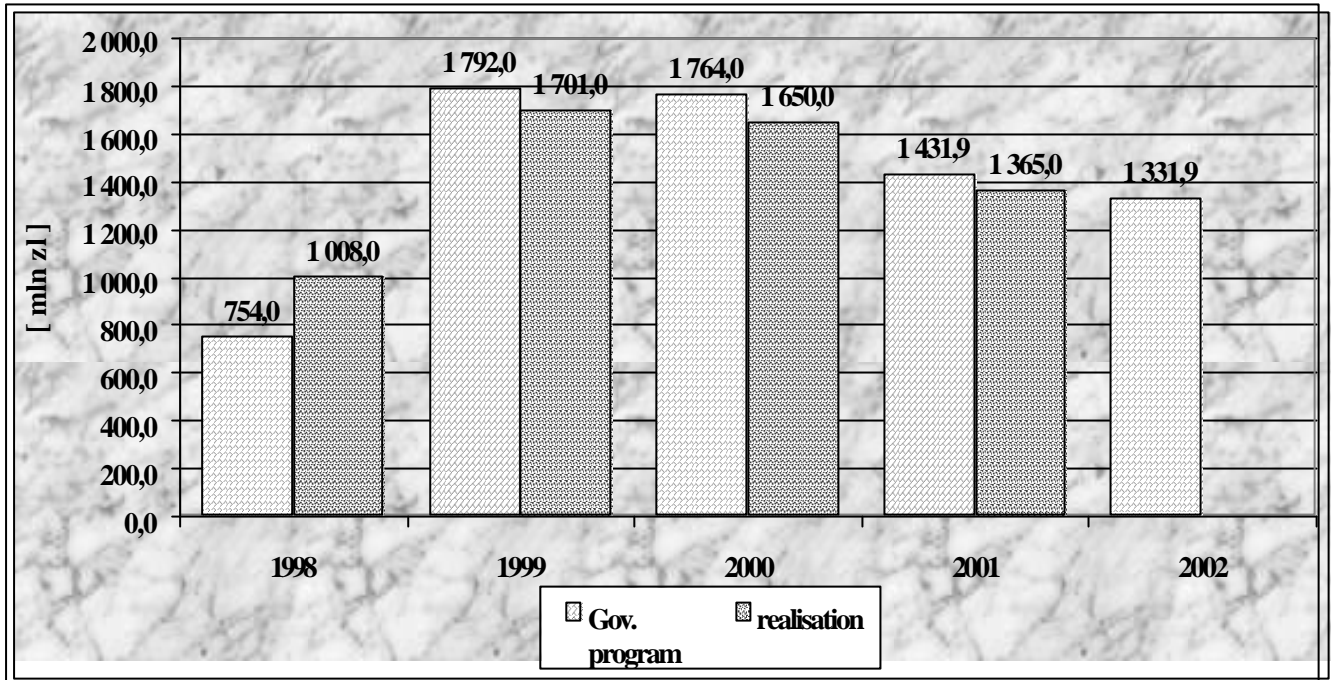
*** In which 507 persons taken over by Bogdanka mine from Lublin Coal Capital Group

5. Financing of the reform

In 1998 the amount of 1 008,0 mln zł was spent from the State Budget for restructuring of hard coal industry; in 1999 it was 1 701,0mln zł with the assumption in the government programme of the amount of 1 792,0 mln zł and in 2000 the amount of 1 650,0 was spent for implementation of this reforms, i.e. by 114,0 mln zł less than assumed in the government programme. For 2001 the government envisaged a budget subsidy in the value of 1 431,9 mln zł and 1 365,0-mln zł was spent from the State Budget.

During 1998-2001 5 724,0 mln zł was devoted for the reform of hard coal industry with the assumed financial means in the programme in the value of 5 741,9 mln zł.

Fig. 4. Financing of hard coal industry's reform [mln zł]



[mln zł]

Specification	1998		1999		2000		2001		2002
	Gov. program	Realisation	Gov. program	Realisation	Gov. program	Realisation	Gov. program	Realisation	Gov. program
Total In which	754,0	^{1/} 1008,0	1792,0	^{2/} 1701,0	1764,0	^{3/} 1650,0	1431,9	1365,0	1331,9
Employment restructuring	505,0	751,8	1044,0	1199,2	1068,7	1002,1	892,1	882,6	777,5
Mines closure	211,4	217,9	413,0	338,0	462,0	454,5	246,9	246,9	198,9
Other directions	37,6	38,3	335,0	163,8	233,3	193,4	292,9	235,5	355,5

1/- Together with additional means from Labour Fund in value of 249,8 mln zł

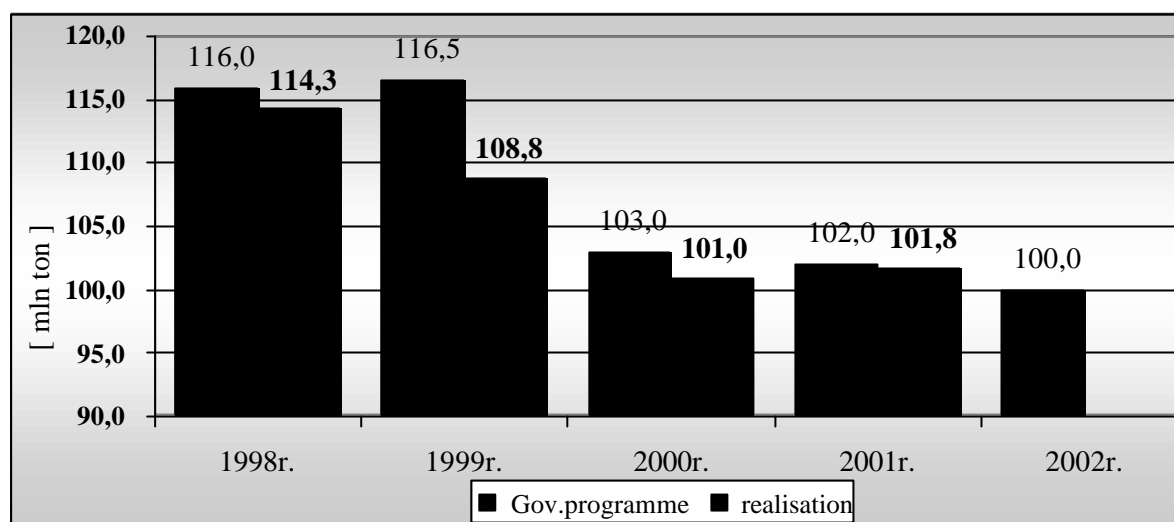
2/- Together with additional m. Means from Labour Fund in value of 249,9 mln zł

3/- Together with additional means from the Fund of Guaranteed Employee Benefits in value of 125,0 mln zł and after deduction of 50,0 mln zł repaid to Labour Fund

6. Hard coal sales

Hard coal sales dropped in total from 132,6 mln tons in 1997 to 101,0 mln tons in 2000, i.e. by 31,6 mln tons, that constituted sales reduction as against 1997 by 23,8 %. On home market the reduction was 24,0 mln tons, and in exports 7,6 mln tons. In 2001 sales of hard coal reached 101,8 mln tons (79,2 mln tons on home market and 22,6 mln tons for exports), the assumed sales for this year the volume of 102 mln tons.

Fig. 5. Sale of hard coal [mln ton]



[mln ton]

Specification		1998	1999	2000	2001	2000.
Total sales	<i>Gov. programme</i>	116,0	116,5	103,0	102,0	100,0
	<i>realisation</i>	114,3	108,8	101,0	101,8	
Home sales	<i>Gov. programme</i>	89,0	92,5	80,0	80,0	80,0
	<i>realisation</i>	86,6	83,6	78,0	79,2	
Export	<i>Gov. programme</i>	27,0	24,0	23,0	22,0	20,0
	<i>realisation</i>	27,7	25,2	23,0	22,6	

7. Economic – financial results accomplished by coal industry in 1998-2001.

Economic –financial result of hard coal industry in 1998-2001 is presented in Table 8 and in fig. 9 and 10.

In 2000- 2001 a positive result was accomplished on coal sales in the value of 238,7 and 758,5- mln zł respectively. The government programme assumed that there would be no losses on coal sales latest from 2001. In conformity with the government programme in 2002 the hard coal industry should accomplish a positive net financial results. The realisation of 2001 indicates that the positive net financial result will be accomplished by coal industry a year earlier the government programme assumed.

Table 2. Economic – financial results of hard coal industry in 1998-2001

[mln zł]

	Specifi- cation	1998	1999	2000	2001	Difference		
						1999 - 1998	2000 - 1999	2001 - 2000
1	Result On coal sales	- 2 578,0	- 1 424,8	238,7	758,5	1 179,5	1 663,5	519,8
2	Net financial result	- 4 276,2	- 3 447,3	- 1 763,0	171,2	828,9	1 684,3	1 934,2

II. Restructuring of Steel Industry in Poland

The system transformation of Poland in 1989-1990 has found Polish iron and steel industry with an unfavourable product range structure, high (relatively to the needs of the market) production capacities, considerable excess of employment, low quality of products, high consumption of energy and raw materials, and also with considerable deterioration of the environment. Production of Polish steel industry has been characterised, among others, by high proportion of semi-products with low share of highly processed high-value-added products.

Such situation in the sector was caused, among other things, by the unfinished programme for development and modernisation which could not be completed owing to the political and economic crisis in late 70s.

This misadaptation of Polish steel industry has caused the need of profound structural changes in this sector through harmonisation of available production capacities with market demand, reduction of environmental impact, and also deep rationalisation of employment.

The restructuring programme for Polish iron and steel industry, endorsed in December 1992 by the Government of Poland has determined basic indicators which should be achieved in medium- and long-term perspectives and introduced the rule of flexibility of the programme i.e. changes of essential elements of the programme are to depend on the progress in restructuring and on changes in the steel market.

Present situation of steel industry in Poland, as a "by-product" of Asian and Russian crises as well as the withdrawal of two strategic investors in the years 1998-2000, has made it necessary to update the restructuring programme once more, to propose changes in its instruments and to introduce of new ones. Absence of many of those instruments makes further restructuring of this sector impossible. This is especially so with regard to comprehensive co-ordination of the restructuring process, product consolidation of the sector (as a supplement or alternative to the privatisation process) and a new diagnosis of the economic and technical situation, and also making the investment programme more realistic.

The Restructuring Programme for Polish Steel Industry Updated in 2001 has been largely based on results of profound analysis of the situation in specific steel mills.

The Programme has taken into account privatisation procedures conducted by the Ministry of State Treasury for the steel mills: Cedler, Florian, Katowice and Sendzimir as well as current financial standing of Huta Katowice.

The most important element of the Restructuring Programme is consolidation of following steel mills: Cedler, Florian, Katowice and Sendzimir, and formation of the company Polskie Huty Stali S.A. (Polish Steel Mills S.A.).

The pillars of the Programme show only basic, indispensable, directional solutions for realisation of the sector restructuring.

Steel mills can use guidelines included in this Programme when developing their own restructuring programmes; in the case of state-owned mills this is obligatory. Restructuring programmes of steel mills will be required if a mill wants to carry out a debt relief procedure or to receive other forms of public aid, and the necessary condition for its approval is compatibility with the Programme, as well as satisfactory economic viability indicators and other indicators provided for in the Parliamentary Act on restructuring the steel industry.

Further effective functioning of Polish steel industry will depend on strict adherence to provisions of the Programme including technical modernisation. Current unfavourable trends in Polish foreign trade and high proportion of imported steel products in domestic consumption results largely from the fact that for technical reasons Polish steel mills are unable to manufacture products which are competitive with regard to the quality and product range required by the market.

Effective implementation of the Programme shall require acceptance of all involved parties, including steel mill managements, trade unions and agencies of the State acting as the owner, with regard to structural and organisational changes, management methods, social issues, production capacities, outputs, investments etc. However, it is to be emphasised that effective and rapid restructuring of the mills is the necessary condition for their existence in the future.

The strategic objective of the programme is to make Polish manufacturers capable to offer competitive steel products to their customers on Polish, regional and world markets with provision of decent working conditions for the employees and due respect for the environment, and all this in conformity with the rules of an open market.

The aim of the employment restructuring programme is to achieve open steel market competitiveness of Polish steel industry with regard to productivity. Reduction in employment planned in the steel mills covered by the Steel Industry Social Package (SISP) in the years 2001-2003 from 38 700 down to 31 000 persons will result in an increase in productivity to 400 tonnes of raw steel per one employee and, with regard to the steel product sector according to the European classification, to 470 tonnes of raw steel per one employee.

The new government has launched an extensive work with a view to continuing the deep restructuring of the sector which faces sharply worsening macroeconomic situation in Poland and worldwide, having strong negative impact on the steel market. Following the principle of the openness of the updated "Restructuring programme of the iron and steel industry in Poland" the Ministry of Economy has undertaken the review and verification of the activities encompassed by the Programme. The first priority is the consolidation of the steel mills by establishment of the Polish Steel Mills S.A. (PHS S.A.). The consolidation is to be concerted with the financial restructuring foreseen by the "Law on the iron and steel industry restructuring" including the issuing of the bonds assigned for the redemption of the steel mills' liabilities in exchange for their assets. The important objective of the programme, including consolidation, is the rationalisation of the material and financial flows between steel mills. It should contribute to cost reduction and the limiting of capital investments to those absolutely necessary in the consolidated organizational and technological shape of the sector. They will be accompanied by substantial cuts in excessive, obsolete and/or inefficient production capacities in particular stages of steel processing. These activities will be thoroughly analysed by the

managements of the PHS S.A. and other steel mills and will be included into their individual restructuring plans.

The preparatory activities to the issuing of the bonds are in progress, as well as the establishment of the PHS S.A. The appointment of the same person to the post of the president of the board of both Polish largest steel mills was the first step in the process of consolidation. Four steel mills to be included to PHS S.A. have been obliged to accelerate the development of their individual restructuring plans. In parallel to the consolidation Minister of the State Treasury continues privatisation negotiations with two strategic investors.

According to the "Law on the iron and steel industry restructuring" those enterprises which want to apply for the restructuring of their liabilities vis-à-vis public institutions should submit to the Minister of Economy the individual restructuring plans of the steel mills for approval by 21 April at the latest. These programmes should be developed by managements of steel mills, and are required as the prerequisite for the participation in the financial restructuring foreseen by the Law. The programmes which meet the requirements will be successively presented to the Commission. The Ministry expects that all major steel mills will submit such programmes. Those steel mills which do not wish to benefit from the financial restructuring schemes are not obliged by the Law to submit such programmes. As a consequence they will not be eligible for public aid as well.

In January 1999 an agreement was concluded to provide social protection measures for the restructuring process in Polish steel industry. According to the agreement, the co-called Steel Industry Social Package (SISP), and subsequent executory decrees, SISP covers 24 steel mills and does not cover new companies formed as a result of organisational changes in those 24 mills. Changes in employment level in the 24 steel mills in the period 1998 and first half 2001 are as follows.

- about 78 400 by the end of 1998.
- about 55 000 by the end of 1999.
- about 38 700 by the end of 2000.
- about 31 600 by the end of 2001.

In the period between the end of 1998 and the end of 2001 the process of restructuring of employment has progressed significantly causing that the employment in Polish steel industry decreased by some 46 600 persons. Greatest reductions occurred in 1999-2000 after the Steel Industry Social Package was implemented, by 23 000 and 16 000 persons, respectively.

The main factor in reduction of employment was separation of spin-off companies, which took over more than 22 500 persons and to dismissals of some 13 200 persons with retirement benefits. Besides, a significant proportion of dismissals concerned employees which were not eligible for SISP protection (they were covered by internal protection systems in the mill), disciplinary dismissals, discharges with mutual consent and other case (some 9 000 persons).

Total costs of employment restructuring amounted to approximately 400 million PLN in the period of 1999 - 2001.

Those sums do not include pre-retirement benefit costs covered by the Labour Fund, which are estimated to be 28 million PLN in 1999, 90 million PLN in 2000 and 120 million PLN in 2001.

The grant of the Ministry of Economy for social protection measures related to restructuring of employment amounted to approximately 102 million PLN:

The grant covers the following forms of social protection measures for employees dismissed under:

- pre-retirement benefits and allowances – 47%,

- unconditional severance payments – 50 %,
- financing of re-training contracts – 3,0 %.

Apart from the above sums, the restructuring process of Polish steel sector was financed with an 11 million PLN PHARE grant to support active forms of aid provided for employees being directly or indirectly dismissed from steel industry.

