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PANEL 1. INDUSTRIAL RESTRUCTURING: CAUSES, CONTENTS AND MODALITIES

Topic 2. Stages and Modalities of Industrial Restructuring

THE STAGE AND MODALITIES OF INDUSTRIAL RESTRUCTURING IN ROMANIA*by Ms. **Aneta Stoica**, Counselor, Ministry of Industry and Resources
Romania**1. Short presentation of the industrial restructuring in Romania**

The going on of the restructuring process of the Romanian state owned companies had in view mainly the assurance of an efficient economic activity, including the closure and the liquidation of the non-viable companies.

In the first stage **the efforts focused on the definition of the restructuring and economic re-launching concepts.** The approach of this process had in view many action plans, as follows:

- **Assurance of the legal framework** for the achievement of the economic reform;
- **Resizing of the sectors and the companies** (adjustment of the production capacities to the market demand, increasing of the number of small and medium size enterprises);
- **Change of the ownership structure** (development of the private sector in the same time with the decreasing of the state sector share);
- **Increase of investments** and assurance of the legal framework of the foreign investments;

* This paper is presented as received from the author. Any remarks should be sent by e-mail to: aneta @minind.ro.

- **Development of goods and industrial services exports** in the same time with the increase of their competitiveness;
- **Promotion of efficient policies in the quality field**, through the extension of the implementation of quality management system (ISO 9000), and in the **field of compatibility with the environment** through the applying of the environment management (ISO 14000);
- **Management restructuring process**;
- **Improvement of labor force training** (specialization, re-qualification and new labor skills);
- **Introduction and extension of IT applications** for the industrial activities;
- **Stopping of the industrial production decline and taking back of the growth** through:
 - **Decreasing of raw materials and energy consumption**;
 - **Revamping of the potential competitive production capacities**;
 - **Competitiveness increasing**;
 - **Increasing of labor force productivity**
 - **Applying of the research and development results**;
 - **Correlation of the employees number to the current activity**, in the same time with social protection measures;
 - **Manufacturing of high added value goods**.

2. Restructuring of the industrial sectors

The structural adjustment process of the industrial sectors was coordinated by the Ministry of Industry and Resources and took into account the upgrading and development of competitive economic operators, as well as the increasing of activity efficiency through: redirecting the activities, resizing, partially closure or bankruptcy of non-competitive economic operators, the restructuring being a process by which economies adapt, develop and increase under competition pressure and market opportunities.

I. For the energy, mining-geology, oil and natural gas sectors a legislative framework has been drawn up in order to improve the activity in these sectors and to achieve a reliable market economy.

First step was made in 1990 when, through **the Law no.15/1990** the state owned companies became **commercial companies and Reggie Autonomous**. These last ones were organized and operated in the strategic sectors of the economy: defense, energy, mining, natural gas, mail services, railroad transports, communications etc. Then, there were made also little steps to **the corporate management**: the Reggie management was assured by Council comprising 7-15 directors, representing the Ministry of Finance and the corresponding ministry.

Next step was made by the **Government Ordinance no. 15/1993 concerning the restructuring of Reggie Autonomous aiming to a better functioning based on economic efficiency principles**. According to this regulation, an economic operator could become Reggie if complying one of these three criteria: to be a natural monopoly, to be of public interest and to produce goods and services which are essential to the national safety and defense. The companies not complying with the criteria were transformed totally or partially in commercial companies submitted to privatization.

Considering that more open road to efficient activity was needed, to breaking of monopolies and privatization, by the **Law no. 207/1997 Reggie Autonomous were organized in national companies..** Special programs were developed. The main organization methods used were the transformation or division. A further step accomplished by this law is that **the natural monopoly companies must function as commercial companies based on economic efficiency criteria**. This law contra balances the fact that market forces weren't too strong to make the state companies to restructure themselves.

a. Electricity and heating

In this sector the restructuring begun by establishing **the principles of the reform program**:

- **Splitting of basic activities** (output, transport, distribution and marketing);
- **Competition to output and marketing activities** by creating various companies, electricity transport remaining natural monopoly;
- **Granting of the right to the great consumers (eligible) to buy electricity directly** from the producers;
- **Guaranteeing the non-discriminatory access to the transport and distribution networks** for the production companies, distribution ones and eligible consumers;
- **Creation of the regulation activity, of a “wholesale” energy market and of the electricity stock exchange.**

1. **The legislative framework** has been represented by the above mentioned regulations and it has been improved by Law no. 78/2001-Energy law, which regulates the framework of drawing up and putting into practice of the national policy of energy efficient use.

2. The necessity for **institutional restructuring** determined setting up of **National Authority for Energy Regulation –ANRE**. The regulatory activity of ANRE is mainly the issuing and implementing of specific regulations, in order to apply the legal provisions on sector restructuring and viable commercial agreements between the companies of the sector, as well as to set up transparency of a credible and non-discriminatory rules system, regarding the running of the energy domestic market.

OPCOM – the energy market operator - was set up as a result of energy market liberalisation.

3. **The institutional restructuring** of the sector was made by the restructuring of former Electricity Regies Autonomous- RENEL- and encountered two phases:

- 1992- May 1998, when related activities were outsized from the main scope of activity;
- June 1998- till at the present, when the basic functional components of the National Energy System were separated.

During the first phase, 60 trading companies were set up, a national company and a Reggie Autonomous. Also in this phase, 6 thermal/heating stations were shifted under the control of local authority administrations or merged with their trading companies. The number of employees decreased in this period with 27.864 out of the total 113.672. In the second phase, the National Company for Electricity CONEL S.A., National Company “Nuclearelectrica” S.A. and Reggie Autonomous for Nuclear Activities were set up. Within the National Company for Electricity CONEL S.A. some branches thereof were set up – “Termoelectrica”S.A., “Hidroelectrica” S.A. and “Electrica” S.A.

Subsequently, by reorganisation of National Company for Electricity CONEL S.A., trading companies were set up: Transelectrica S.A. with its branch the energy market operator OPCOM SA, Termoelectrica SA, Hidroelectrica SA and Electrica SA.

The recent development related to the energy sector restructuring is as follows:

- SC ELECTRICA SA was reorganised in 8 distribution branches in view of privatisation;
- SC TERMOELECTRICA S.A. was reorganised in 3 branches: Electric Group Brach, Thermal

Group Branch and Trading Company for Electric and Heating Energy “Electrocentrale Deva”SA, as a branch of Termoelectrica SA.

4. An important mean of sector restructuring is representing by **dividing of activities in independent units, trading company type**, able to be privatised. Thus the activities of electric network maintenance have been divided and the trading company SMART SA was set up as branch of CN Transelectrica SA.

In the same way, 7 thermal plants belonging to SC TERMOELECTRICA SA have been transferred to the local administration.

5. **Selling of non-performing assets or their cassation**, was a method of losses reducing. Thus, 8 units belonging to SC Termoelectrica SA, have been withdrawn from exploitation and shall be sold or quashed.

6. An important achievement was also the starting of **running as cost centres** of sub-units belonging to SC Termoelectrica SA, SC Electrica SA, SC Hidroelectrica SA and CN Transelectrica SA.

7. With the view to **develop an economic environment, viable and open, based on market competition**, on a legal system and an institutional framework harmonised with the EU ones, the electricity market was opened with 15%, which lead to the increase of electricity quantity contracted by eligible consumers from the producers. As a result, the number of electricity eligible consumers increased. The further opening of the market is pursued, to attain 33%, from 1 July 2002. The **electric energy market** shall develop to an open market, Trans-national and integrated in EU energy market, mainly.

Heating market remains a local market that shall develop towards local demonopolisation. Setting up and strengthening of electric and heating markets can be sustained by the going on of the restructuring process and starting privatisation of producing and distribution companies.

Electricity independent producers, such as Termoelectrica, Hidroelectrica, Nuclearelectrica, CET Govora Valcea, showed up on a market initially dominated by the former CONEL S.A., vertically integrated company for producing, transport and distribution of electricity and heating.

Along with traditional **captive consumers**, with a small electric energy consumption showed up **eligible consumers** with great electricity consumption, having the right to choose their energy supplier and to negotiate the tariffs.

Electricity suppliers licensed by ANRE showed up, having the right to supply electricity (such as Electrica S.A., Hidroelectrica S.A., Group Trading SRL, Alro Slatina, Grivco Bucuresti, CET Govora Valcea, Eximprod Group Buzau, Romenergo Bucuresti, Petrom Enron Gas Bucuresti, Gas and Electricity General Company Bucuresti).

8. **Administration and management improvement of energy sector operators** is an important part of restructuring. Privatisation and performance management, mainly in commercial and financial field achieves this. While the state will continue to be the owner, temporary in the case of state private property and for a long term in the case of public property, improvement of administration and management is an important goal in the case of state-own companies and that is why the executive management independence has been consolidated.

9. Great financial needs in the energy sector and the achievement of competition capacities ask for **speeding up of the privatisation in distribution and production of energy**.

The privatisation in **electricity distribution sector** started in 2000 within a PHARE project with a French partner, BNP Paribas. **The final goal** of this project is the **privatisation of distribution branches Banat and Dobrogea**.

The first stage of the project was concluded in October 2001. During this stage it was estimated the legal and regulating framework and also the estimation of assets, labour, tariffs, equipment technical stage and the necessary for investments in the two zones.

The second stage will evaluate the value of the two distribution units and a market study for possible investors. During this stage the privatisation form and method shall be decided. During 2002 year **the privatisation shall be accomplished for the distribution branches Banat and Dobrogea.**

In the **field of hydropower plants** – 8 hydropower stations will be sold. They are belonging to SC Hidroelectrica SA. Eight investment projects will be finalised in B.O.T. system (Built Operate Transfer) and other 5 investment projects represented by hydropower stations will be finalised in B.O.O. system (Built Own Operate).

For all the 21 investment projects proposed for privatisation, tender's documents have been issued and sold. The selection of offers shall be concluded till June 2002.

THE MAIN GOAL of the on-going structural reform in the energy sector is the setting up of an efficient energy market, of which development to be achieved under conditions of high quality and security of energy supply, efficiency and environment protection.

The expected **results of the restructuring** are as follows:

- **Increase of electric energy capacities in hydropower stations, that is increase of available power;**
- **Increase of power equipment efficiency and decrease of specific consumption;**
- **New jobs along with present labour stability;**
- **Interconnection of National Energy System with UCTE System;**
- **Decrease of energy losses and increase of security;**
- **Connection of new consumers, improvement of electric energy supply conditions;**
- **Environment protection by reducing noxious emissions and efficient storage of burnt nuclear fuel;**
- **Protection against floods, industrial and drinking water reserves and for irrigation ones;**
- **Nuclear security by doubling of the access route and emergency exit in case of nuclear accident.**

Restructuring of energy sector shall be completed on short – medium term, the further development of operating companies shall be a mere result of economic mechanisms, of privatisation, acquisitions and mergers.

The restructuring process shall go on after defining and implementation of market mechanisms and its commercial arrangements, in a lasting and clear legal background, on a desired competition level, without further pressures on tariffs, on governmental guarantees or on the state budget.

b. Mining and geology sector

The mining industry represents an important component of Romanian economy, providing 30% of the coal demand meant to produce electric energy in thermal power stations and 30% of raw material necessary to non-ferrous metallurgical industry (copper, lead, zinc). Till 1990 all the deposits of underground useful substances existent were exploited, without taking into account the processing costs, supported by the state. After 1990, the restructuring programmes in the mining sector aimed at diminishing the state financial burden and provisions for a future running in economic efficiency conditions.

Restructuring has been achieved by dividing some mining activities and services (especially in the field of extraction and preparation of non-metallic substances) and by closure of nonviable capacities with great exploitation costs as well, which decreased the employees' number with 100.000 persons.

THE MAIN GOAL of the mining industry restructuring consists of **the competitiveness increase and meeting the demand on the energy sector market and on the other economic branches under market competition conditions.**

1. The restructuring process has been accomplished within the legal background specific to restructuring and has been deepened by the Law on mine no. 61/1998, Law that shall be amended with the view to comply with the international legislation. With the view to stimulate the investments in the mining areas affected from the restructuring measures and actions, the **Law on disadvantaged areas no. 20/1999** was issued, in order to stimulate the development of new job opportunities by granting facilities to those who perform new businesses in the area.

2. Institutional framework has been improved by setting up, based on Government Emergency Ordinance no. 64/97, of the **National Agency For the Development and Implementing the Reconstruction Programmes for Mining Areas**, that implements monitoring programmes for rehabilitation and reconstructing of areas involved in restructuring, using budget funds and foreign credits. The Agency promotes active measures in order to enhance the employment in the area, development of new business opportunities, encouraging SME's, using the existing buildings and equipment. This Agency benefits from an IBRD programme of 44.5 millions US\$.

To the purpose of ensuring active measures for social protection, the **National Agency for Employment and Professional Training** has been set up. The National Agency performs the regulating activity in the field **for Mineral Resources-ANRM** – competent authority for implementing the Law on mines.

3. Within the **institutional restructuring** in the field, the process of turning the Reggie autonomous into national companies was accomplished. At present, within the mining industry there are 10 companies (5 national companies, 3 national partnerships, and 2 trading companies), the social assets belong wholly to the Romanian State.

The activity of institutional structuring went on, thus:

- out of CN MINVEST SA Deva detached MOLDOMIN SA Moldova Noua which turned into an independent trading company, and the branches have adjusted and downsized in smaller units;
 - out of SNC Ploiesti some service activities have detached which turned out into trading companies.
4. The action of dividing of some mining activities or services had as result setting up of trading companies in order to be privatised.
5. An important aspect of restructuring in this sector was the **shutting down of nonviable mines or those with exhausted reserves**. This activity was sustained by the restructuring programme of the mining sector, financed by a World Bank loan comprising the following components:
- a. **Mines closing component** is aimed at closure of 29 mines;
 - b. **Institutional component** with regard mainly to strengthening the ANRM capacity in implementing the Law on mines as well as in amending thereof to comply with the international legislation;
 - c. **The component on subsidies decreasing in mining sector and issuing the 5-year business plan in**

- National Companies and the Mining National Companies.** To this purpose a consultant company was hired, on tender base, that issued a study on coal sector and submitted it to the Ministry of Industry and Resources at the end of 2001;
- d. **The component on social impact decrease, as a consequence of mining restructuring,** developed through ANDIPRZM.
 6. **Restructuring programmes** have been issued for every company including measures for losses diminishing.
 7. **Upgrading** of viable mines is an important concern in view to increase the labour productivity and the economic efficiency. Thus in Oltenia basin the excavation and transport equipment have been revamped in the lignite quarries.
 8. Strengthening the role of **management**, especially the commercial and the financial ones, as well as in the environment protection of the active mining areas, ecological restoration according to the international standards is another restructuring component to be applied at each national company level.
 9. **Privatisation** of trading companies set up by dividing of some mining activities and services was an important objective largely accomplished. Thus:
 - **in the non-metallic mining sector** 8 companies were set up, out of which 3 are privatised;
 - **in the geological research sector**, out of 10 companies 7 are privatised;
 - in the services sector, the 94 companies have been privatised
 - out of **9 research and development institutes** specialised in mining sector, 6 are privatised.
 10. The mining industry offers **real investment opportunities** for foreign investors because through upgrading and up dating, the business operating system can be more efficient.
The law on mines provides facilities for foreign investors (custom duty exemptions) so that some joint ventures with foreign partners are already operating with good results:
 - **precious metals recovery** from sterile used in prior - preparation for ores (SC Aurul Baia Mare-Romanian- Australian joint venture);
 - **geological research of precious metals deposits**- a future exploitation investment in Rosia Montana area (Eurogold).
 - Interest from foreign investors exists for the **copper ores** from Moldova Noua and Rosia Poieni, where through capital increase for revamping, major performances could be obtained.
 11. A **joint restructuring component (fuel producer-energy producer)** is under development in the mining area Valea Jiului at CNH SA Petrosani by upgrading, with external financial sustain, the extraction and processing activity for hard coal.

Restructuring results in the sector are:

- **Increase of the working efficiency** to coal, as well as to non-ferrous metals activities;
- **Ensuring of necessary coal** for good functioning of the heat power stations during the cold season;
- **Decreasing subsidies.** The state is still supporting, but with much decreased subsidies compared with past years, the output activity of 7 companies which are extracting from the underground hard coal, brown coal and lignite, as well as non-ferrous metals. They do not receive state aid the coal extraction in the great quarries, salt and mineral waters production;
- **Ensuring the maintenance of production capacity by investments** correlated with mining products market requirements;

- **Increasing efficiency** of the national mining companies.

c. Oil and natural gas sector

The development of the sector will be influenced by the deposits characteristics and the reduced volume of those discovered by geological research, by the existence of obsolete technologies, existence of scanty transport and distribution systems, especially for natural gas, financial crisis amplified by the blockages and, not least, the market demand for these products.

THE MAIN OBJECTIVE of the hydrocarbons extraction and processing restructuring **is the short and medium term demand fulfilling for the energy producers, in safety conditions, quality and decreasing of environmental impact.**

On short term it is important *to maintain crude oil and natural gas output at least to the present levels.*

In the oil and natural gas extraction sector *it is not envisaged to make a production or profile restructuring*, selling of products being entirely ensured on the domestic market, crude oil and natural gas resources being smaller than the national economy demand.

In this context the restructuring necessity of the sector is determined by:

- **advanced stage of deposits exploiting**, thing which is limiting the extraction possibilities following the deposit pressure decrease;
- **low volume of the reserves**, which led to a small output of the new current extracting capacities;
- **technical base under the necessary level**, which determines the non-execution of main works, maintenance and interventions to the extraction capacities;
- **low level of crude oil recovering from the deposits**, thus the introduction of the complementary reserves in the circuit being limited.

These factors are determining **the main restructuring directions** of the sector:

1. **The legislative framework** for the sector is represented by the Petroleum Law and the Natural Gas Law;
2. **The institutional restructuring** of the sector has determined the setting up of regulatory bodies:
 - Aiming to improve the regulation activity in the field of natural gas, **National Authority for Natural Gas Regulation-ANRGN has been set up**, which acts according to the Government Decision no. 784/2000 for the drawing out and promoting of secondary legislation, market liberalization and granting of licenses and authorizations.
 - **National Agency for Mineral Resources** together with ANRGN elaborated proposals regarding prices and regulated tariffs in the natural gas sector, approved by Order no. 438/148/2001 of the presidents of these authorities.
 - Following the starting of natural gas liberalization in 2001 it has been set up the **Market Operator from the National Natural Gas Dispatch**.
4. **Organizational restructuring** acted in order to increase the competition on the market.

In the oil field the main operator is, at present, the National **Oil Company PETROM SA Bucuresti**, state owned company, having as object of activity the exploring of the hydrocarbon resources on the land and on the mainland plateau of the Black Sea, oil refining, the transport of the oil products, their marketing

through the own distribution networks, the import and the export of oil, oil products, equipment and installations, and another activities according to the company statute.

SNP PETROM SA consists of two refineries (PETROBRAZI and ARPECHIM), a chemical company (DOLJCHIM), distribution branches for petroleum products, two branches for the petroleum products transport (Transpeco and Petrotrans), as well as research-design and IT branches. SNP PETROM ensures around 60-65% of the domestic requirements for the oil products and around one third of the natural gas requirements. In the oil field are acting also 8 refineries from which 7 are fully or mostly privatized: Lukoil, Onesti, Darmanesti, Petrobrazi, Astra, as well as SC OIL TERMINAL SA Constanta and SC CONPET SA Ploiesti.

In the **sub-sector of natural gas** the domestic producers are operating on SNP PETROM SA structures, as well as on SN ROMGAZ SA structures.

In 2000 the former National Company for Natural Gas ROMGAZ SA Medias has been re-organized, resulting the setting up of the following companies:

- National Company for Natural Gas Transport-TRANSGAZ SA Medias;
- National Company for Underground Storage of Natural Gas- DEPOGAZ SA Ploiesti;
- Commercial Company for Exploiting and Production of Natural Gas-EXPROGAZ SA Medias;
- Commercial Company for Natural Gas Distribution DISTRIGAZ NORD SA Targu-Mures;
- Commercial Company for Natural Gas Distribution DISTRIGAZ SUD Bucharest.

In 2001 EXPROGAZ and DEPOGAZ have merged and resulted the National Company for Natural Gas ROMGAZ SA Medias, having three branches (Medias, Targu-Mures and Ploiesti).

4. In order to develop **a viable and open economic environment**, based on free competition and a legislative and institutional framework, harmonized with EU regulations, **the natural gas market opened to 10%**. In this context, ANRGN continued to elaborate regulations for the functioning of the natural gas market, as well as secondary legislation in the field. Most important regulations in the last period are the Order NO. 538/2001 regarding the approval of the data reporting procedure for the natural gas consumers, according to Directive 90/377/EC and Decision 533/2001 regarding the approval of the natural gas distribution framework-Contract. **Eligible consumers in natural gas field became a reality**, their number reaching 17. In these conditions, SC TERMoeLECTRICA SA, benefiting from the eligible consumer statute, reduced the natural gas imports from 70% from total consume to only 10-15%, which determined a lower pressure on the electricity and heating tariffs.

5. In order to ensure the primary resources needs, **geological research activity** developed, aiming to an economic and efficient exploitation of the resources by:

- developing of geological works programs in order to discover new crude oil deposits;
- continuing of the recovery process to the 80 oil deposits with high efficiency;
- using of new methods, technologies and performing techniques for the geophysical research of the oil sedimentary basins;
- going on of the research works, exploring and exploiting of some crude oil deposits in Kazakhstan.

6. Actions **for improvement of the transport and distribution infrastructure for natural gas** have taken place by rehabilitation and upgrading of pipelines, compression stations, and measurement stations.

- extension on the Romanian territory of the transit capacities from Russian Federation to countries in

- the Balkan area and development of the national transport system in order to overtake supplementary quantities from import and develop the natural gas transit from Western Europe to Bulgaria and Yugoslavia;
- building of new pipelines systems with a total length of 100 km and rehabilitation of main pipelines for natural gas;
 - some of the main investments are: transit pipeline Isaccea-Negru Voda, second stage of 65 km, Dej-Taga pipeline of 65 km (finalized), Taga-Sarmasel pipeline;
 - natural gas underground stored volume increased and it is on development the investment for the upgrading of the compression station Butimanu and Bilciuresti store, aiming at a double storage capacity;
 - upgrading of the oil distribution and transport networks and building of new distribution stations;
 - building of new distribution stations in Hungary, Kazakhstan, and Republic of Moldova.
7. In order to implement EU requirements regarding fuels quality, the activity **to get new products** has begun. Thus, *in the oil field* SNP PETROM SA develops the National Program for the production of fuels complying with the quality level required by the EU market. In the distribution stations PETROM has already introduced on the market gasoline EURO Premium and EURO Diesel type.
8. **Equipment and technologies upgrading** was taken into account in order to increase working and economic efficiency.
9. **A diversity of the natural gas purchase sources** will be accomplished through the interconnection of the national transport system with the Western European one.
10. With the **implementation of the purchase-control data system and telecommunications** (SCADA), modern techniques will be on place and will become practicable on the whole country territory.
11. **Privatization of the state sector** in the field of oil and natural gas started by listing SNP PETROM at the Stock Exchange Bucharest. In the same time SNP PETROM SA continued to receive consultancy from ABN AMRO BANK in order to identify the best privatization methods and to establish the best moment for the effective privatization. The distribution sector for petroleum products is 95% privatized: Shell, OMV, Lukoil, Mol, Omega. Opportunity and efficiency of privatization process for the companies in the natural gas field have been analyzed. It is envisaged a *gradual privatization of the natural gas distribution sector* (until 25% in a first stage).

Actions shall be taken to privatise the crude oil and gas fields, first of all those non-exploited areas or those which need funding for their reintroducing in exploitation, to encourage the foreign investments and other related measures.

The economic results of restructuring are as follows:

- **reducing of costs per ton on crude oil exploited**, to the limit of 40 \$/ton;
- **provision for an annual percentage of reserves consumption** of maximum 5% and a replacement percentage reserves of 60-110%;
- **costs for reserves discovery** of maximum 15 \$/ton for crude oil discovered and 25 \$/ton for development;
- **reducing of impurities percentage** with 5 %;
- **keeping the crude oil production** around the level of 6 mill. tons/year till 2005 by investments that will cover the natural decline of deposits;
- **gaining new external concession deposits** for exploitation-production in view to get a reserve level of 25 mil. Tons and an external production of 2 mil. Tons/year till 2010.

- **ecological recovery** to comply with the environment European norms

II. The industrial restructuring for the processing industry was approached differently.

The state must only *ensure the legal background of restructuring* and every company shall decide its own way of restructuring. However, for at least the first stage, the state is the main owner of these companies, the restructuring thereof has been closely surveyed and some governmental programmes were in place for restructuring supporting, especially for the companies in difficulties.

The companies, which benefited from these programmes, have been selected on the suggestion of Ministry of Industry and Resources, based on a very clear methodology. Accomplishment and implementing of these programmes, after Ministry of Industry and Resources approval, have been initially in the charge of the Restructuring Agency, subsequently turned into a Restructuring Division with State Ownership Fund (FPS). These programmes were financed with funds from privatisation (from SOF) or banking credits guaranteed by the state, based on feasibility studies.

With the Government Decision no. 44/1994 funds were allocated from the R&D Special Fund and from REPRED- PHARE program. This is a proof that the companies restructuring programme was considered a means to support the potential viable companies. The annual strategies for sectors development have been designed, the sectors shortcomings and problems being analysed, the opportunities and evolution directions identified.

SWOT analysis of the sector; was introduced as compulsory, divided on the main activities from the CAEN nomenclature. This analysis, together with the world tendencies is considered as working material for every company, in view to achieve its own restructuring programme.

Within the process of companies restructuring, Romania benefits from non-reimbursable financial assistance of European Union within the Programme for companies restructuring and professional redeployment (RICOP).

RICOP restructuring plan, approved by the Romanian Government in December 1999, comprises 69 state owned companies. Out of these, 55 shall be privatised and 14, according to RICOP plan, shall be restructured/closed.

Up to now, as a consequence of the restructuring plan measures, 17 companies have been privatised and 28 apply restructuring programmes along with measures of correlation the number of employees with the production volume. As result, over 32000 employees have been unemployed, out of which 31000 got compensatory payments.

The components of RICOP programme are as follows:

- Ante-dismissal services and compensatory payments for collective dismissal, with a PHARE Budget of 28 mill. EURO;
- Creation of 4600 work places for short term and development of the local economy through the sustaining of public works in the places affected by the industrial restructuring, with a budget of 14 mill EURO;
- Active measures for employment of labor force through the creation of professional education opportunities, the target being the creation of 8000 work places and the assurance of a 6000 places for professional education, with a budget of 9 mill EURO;
- Enhancing the creation and the development of small and medium enterprises and micro-business in

the areas where there are taking place dismissal as a result of closure/restructuring of the companies included in the Restructuring Plan through the financing of their investments, with a budget of 30 mill EURO; there are foreseen 10000 new work places;

- Decreasing of social impact of the industrial restructuring through the creation of social assistance services for reducing the difficulties of the unemployed people and their families from the RICOP areas and development the possibilities for employment , for the most affected by industrial restructuring areas, with a budget of 10 mill EURO;
- Technical assistance for the program implementation, with a budget of 9 mill EURO;

The restructuring methods were for the processing industry the same with the energy sector ones.

1. The legal framework of restructuring consists of the following main laws:

- **Law no. 15/1990** - the reorganisation of the state owned companies in commercial companies;
- **Law no. 31/1990 (modified by Law no. 99/1999)** - was a new step for the changing of the central economy structures with the market economy ones, based on efficiency and competition;
- **Competition Law no. 21/1996** which establish a modern and legal framework having as target the development of the market economy in Romania, in order to increase the economic efficiency, a better allocation of the resources and the consumer's welfare. The Law is according to the EU regulations. It consists of the necessary regulations of a competitive market environment, as a main way to increase the Romanian industry competitiveness.

2. Based on the restructuring strategies of the industrial sectors, on the financial analysis, on the motivations regarding the decrease/elimination of the demand, decrease of raw materials base, non-efficient production, high pollution, the low quality of the products, it was taken the decision of **totally/ partially closure of some production capacities**.

In the chemical and petrochemical industry: installations for the production of bio-growth promoter and synthetic proteins from Calafat and Curtea de Arges, artificial fibbers platform from Suceava, installations from Copsa Mica, fertilisers production platform from Arad.

In the metallurgical industry: part of the aluminium electrolysis capacities from Slatina, Siemens-Martin ovens, rolling capacities from Sidex Galati, Sidermet Calan, COS Targoviste, Laminorul Braila.

In the construction machinery field: capacities from the equipment production sub-sector, tools, and goods wagons, very low cylinder capacity (Lastun).

In the electronic and electrical engineering field: capacities for the electrical apparatus, electrical panels, and batteries.

In the leather and textile industry: capacities from the primary sectors (spinning, weaving, and tanning).

In the wood and building materials industry: pulp-processing units, lime, prefabs, asbestos-cement pipes.

3. By the Ordinance 49/1994 it has been allowed the restructuring of the companies by **dividing** great companies in various legal units, **merger of companies or acquisitions**.

This method wasn't sometimes too good. In some cases prices of the final products increased, caused by the fact that sections which were producing parts of a products were organized as distinct commercial firms

selling to each other a product as a final one. In other cases this kind of restructuring had good results by increasing of the economic efficiency after eliminating units from the former companies which didn't have an inner utility. Examples are Electroputere Craiova, Tractorul Brasov, APACA Bucharest.

4. Another method of restructuring was **the selling or renting of those assets** that were not absolutely necessary. So, many companies reduced their costs and allowed the setting up by investors of SMEs by acquisition at a lower price of dismantled sections and equipment that were not useful to the old company.

5. **Technological upgrading** was also taken into account in the industry restructuring process. Upgrading projects were funded through proper funds and loans, external especially, some of them being state guaranteed.

Thus, lignite quarries were revamped, the number of continues foundry works capacities increased and there have been upgraded plate sheets and profiles rolling mills in metallurgy, train carriages at Astra Arad, bearings output at Barlad and Alexandria, single use syringes output at Arad, electrolysis equipment at Oltchim Ramnicu Valcea and Chimcomplex Borzesti, ammoniac equipment at Piatra Neamt, Bacau, Turnu Magurele, paper plant at Letea.

6. Closing of some capacities determined **personnel reductions** and social protection measures became necessary. Thus, by Emergency Government Ordinance no. 417/1997 it has been defined the concept of collective dismissals and social protection measures have been taken (6-12 salaries advanced paid). The Ministry of Labor set up professional redeployment services, the so named active measures for social protection.

By personnel reduction and a better management, together with new technologies, in many companies the working efficiency increased, influencing the efficiency increase of the whole industry.

7. **Direct foreign investments** represent a modality by which it is possible to ensure restructuring at the company level by new technologies, know-how, equipment and financial resources for activity development and marketing, as well as, at sector level, setting up of new companies, which, by competitiveness, will determine development in the field.

Romania benefited in the period 1990-2000 of about 5 billion USD investments and about 2 billion USD investments as contractual engagements in the privatization process. Major privatization begun only in 1998 by privatizing Romtelecom, Romanian Development Bank, Agriculture Bank, Dacia Pitesti, Sidex Galati.

Foreign investments had an important impact in revitalization of existing industries. Main fields of activity in which direct foreign investments were made are (by the end of 2000): mining, processing industry, equipment 25.9% and consumer goods industry 10.8% from total amount of investments.

The main investors in this period were:

- Automotive industry-Daewoo and Renault;
- Tires industry-Continental AG;
- Electronics and telecommunications-Solectron, Siemens, Alcatel, Telrad, GSM networks;
- Machine building-ABB, Kvaerner, Bilstein Compa, Koyo, Timken;
- Shipbuilding-Daewoo;
- Detergents-Unilever, Procter&Gamble, Henkel;
- Wood processing: IKEA;
- Metallurgical industry: ISPAT;

- Cement: Lafarge.

From the point of view of the foreign capital invested in Romania, at the end of 2000 year the situation was the following: Europe 79, 4%, Asia 10, 2%, North America 8, 3%. The present Government has as a priority the increase of the foreign capital invested in Romania. In this view the Law no. 332/2001 concerning the promotion of the foreign investments with a high impact on the economy, offers incentives to the investors: exception from the custom duties for the technology imported, VAT payment postponed for the new purchased investment goods till the finishing of the investment project, 20% credit of the investment value, high depreciation possibility without the authorization of the fiscal authority.

At the beginning of 2001 year was set up the Department of Relations with Foreign Investors, under the direct sub-ordination of the Romanian Government. It works as one-stop-shop office for the investments higher than 1 mil USD. The Romanian Government has also in view the setting up of a National Agency for monitoring the investment activity in Romania, which main tasks are also to find methods for attracting the foreign investors through a better knowing of the Romanian opportunities.

7. **The privatization process** was approached through the revamping of the industry in the same time with the capitalized of the efficient companies, investments, and high quality management, all of them having positive effects on the activity. The speeding-up of the privatization process is a priority and important is the qualitative aspect of this process. The privatization is not a target by itself. The privatization is a process ensuring the ownership transfer through re-capitalization, revamping, investments, and high quality management. The Romanian Government considers that the **privatization has to be a fair and transparent process**, using various methods, with a special stress for the privation on the stock exchange. In this view, the authorities with competencies in this field monitoring the signing of the privatization agreements with clear clauses for the revamping of the companies and their transforming in efficient ones. For the most important companies are taken into account the increase of the capital and thus the share of the state ownership is decreased continuously.

Authority for Privatization and Administration of the State Capital was set up in December 2000, through the re-organization of the State Ownership Fund, under the Government subordination, being responsible for the implementation of the privatization and restructuring strategy and for the administration of the state owned companies from its portfolio. A competency in the industrial companies' privatization has received also the Ministry of Industry and Resources through the setting up of the Office of State Participation in Industry.

Since December 1992 up to the end 2001, in the industrial field 1889 companies were privatised out of which: 1795 companies from processing industry, 59 companies from extractive industry and 35 companies from the energy, gas and water sector.

At present the authority for privatisation have in their portfolio 552 companies out of which: 508 companies from the processing industry, 29 companies from the energy, gas and water sector and 15 companies from the processing industry. (There are included the companies in voluntary liquidation procedure, liquidation or bankruptcy procedure).

In the above mentioned figures are included the 62 companies from the PSAL I program negotiated with World Bank. It is foreseen the going on of the privatisation/reorganisation process for the companies included in PSAL I program and fulfilling till the end of the 2002 year of the following actions:

- The privatization for SC ALRO and SC ALPROM through an open and transparent process;
- Offering for sale and completion of the privatization for 3 of the 5 companies for the PSAL component "Case-by-case privatization" (SC Electroputere, SC Romvag, and SC Antibiotice);

- For Tractorul SA Brasov – offering for sale of the three main companies from the group Tractorul (Tractorul UTB, Motor and Turfor - units which participate directly to the completion of the final products) resulted from the split of the company or the offering for sale of the company resulted from the merging of these three companies and sale/reorganization/liquidation of the other companies resulted from the 1999 splitting. It was signed the agreement with the consultant for the privatization of the 9 companies resulted from the Tractorul splitting;
- Offering for sale of at least 30 companies from the 50 state owned companies offered in pools of 10 companies each and completion of the sale process for this.

The privatization process of the companies will going on through the attraction of Romanian and foreign investors for the privatization with own effort, without consultancy from the international companies, till the end of 2002 year of at least 10 large state owned companies, 300 medium and small companies and 100 companies where the state as residual shares. For the PSAL II Program it is stipulate a new group of companies, divided into 2 components, privatization and respectively restructuring, with investments bank and international consultancy companies assistance.

The privatisation activity was a successful one; some industrial sectors being entirely privatised:

- **Other non-metallic products industry** – (glass, ceramics, building materials –over than 97% of the companies are privatised and around 90% of the sector capital is privatised);
- **Wood processing industry** - 93% is privatised;
- **Electrical engineering industry** – 95% is privatised;
- **Textile clothing industry** - - over than 90% is privatised;
- **Oil processing industry** –in this sector there are 23 companies out of which 11 existent before 1990 and 12 companies are new set up. Out of the 11 companies with state ownership (existent before 1990) at the present 9 are privatised. The state owned companies are at the present Rafo Onesti and SNP Petrom.
- **Chemical and artificial and synthetic fibres industry** – at the present there are 1364 companies, out of which 79 set up before 1990 and 1285 new established... Out of the 79 state owned companies, established before 1990, 52 are at the present privatised, 13 are still state owned and out of the rest of 14: 9 were liquidated, 3 operational closed and 2 are in administrative and financial re-organisation.
- **Plastic products industry** – there are at the present 1996 companies, out of which 32 set up before 1990 and 1964 new established. Out of the 32 state owned companies before 1990, 30 are the present with private ownership and 2 are still with state ownership.

The most important recent privatisation was achieved for SIDEX SA Gallatin, the foreign investors being LNM HOLDINGS ISPAT. The privatisation agreement was signed on November 8-th, 2001.

III. Romania's industrial policy paper

The Romania's economy transformation and its orientation to a sustainable development, according to the national priorities, having as main objective the integration into the European Union, required the necessity of **elaboration of a global and distinct industrial policy document and an action plan with deadlines and responsibilities** (approved by the Romanian Government through the Government Decision no.965/27.09.2001).

THE MAIN OBJECTIVE OF THE ROMANIAN INDUSTRIAL POLICY aims to the strengthening of the industry competitiveness being based on the following measures:

- building up and consolidation of a viable and opened business environment;
- development of the free and competitive market;

- speeding up and in dept development of the structural adjustments (restructuring and privatisation);
- promoting the intangible investments (human resources, research-development and innovation, ensuring the quality and conformity assessment of the products);
- ensuring the compatibility of technologies and industrial products with environment protection requirements;
- sustaining of industrial co-operation development;
- supporting the SMEs development;
- promoting the social cohesion;
- modernisation of the public authority role in the industry field.

In the same time a special accent will be put **on the productivity increase, on the promotion of “clean” products and technologies, energy conservation, increase of the domestic resources use, development of market mechanisms of resources allowances and development of an efficient regional infrastructure.**

IV. The economic results of the restructuring – privatisation activity

The restructuring activity has had as first result **a better allocation of the resources**, through the closure or the revamping of the companies with a high consumption and producing low processed degree goods. Another important aspect is the increase of the labour productivity due to the revamping, the restructuring and new production capacities, flexible and performant, possible actions due to the foreign and domestic capital and a change of the managerial behaviour.

It is on going a switch *from the high consumption and pollution sectors to the low raw materials and energy consumption ones (pharmaceutical and fine chemistry industry, telecommunication components industries, medicaments and control apparatus)*. An important result, due to the increase of the Romanian goods competitiveness is the **extension of sub-contracting system utilisation**, both for the production directed to the domestic market and the one for the foreign market. Thus the SME's become sub-suppliers for the big industrial companies. This activity will be stimulated through the set up of a web site with the demands/offers of the companies producing simple parts (it will be achieved this year through a twinning project together with DTI/UK for the implementation of the Romania's industrial policy). This sub-contracting activity is successfully in place, an example being the company Renault-Dacia. Another example is the organisation of a meeting of 45 Romanian companies, able and interested in producing equipment for Unit 2 Cernavoda Nuclear Powerplant, the result being orders and supply agreements, that meaning production assured for the Romanian companies and new jobs.

The industrial restructuring plays an important role for **the setting up of a viable and functional market economy**, able to face the market forces of the EU market, one of the criteria adopted by the European Council at the Copenhagen Summit, for the candidate countries.

An important impact on the industrial restructuring has the international agreements, especially the Europe Agreement. A result of the last one, the custom duties for the industrial products are zero, starting with the 1-st of January 2002.

On medium and long term the effects of these agreements will be favourable for the Romanian companies, leading to the increase of their performances. Related to this is the **implementation of the Acquis Communautaire**, especially in the field of free movement of goods and products quality. The statistics of Romanian exports show that the industrial restructuring starting to have good results.

The export volume for 11 months of 2001 year *increased* comparative with the same period of the precedent year with 11.1% (due to the industrial restructuring also).

Another positive sign is *the increase of the foreign trade share to the EU countries* (67.9% of the exports and 57.6% of the imports for the first 11 months of 2001 year), showing a high competitiveness of the Romanian goods.

The industrial restructuring is going on in Romania, leading to *an increase of industrial output* for the first 11 months of 2001 year with 8.4% and an increase of GDP for the first 9 months of 2001 with 5.1%, comparative with the same period of 2000 year.

