RESTRUCTURING OF THE COAL INDUSTRY

Presentation to the UNECE Ad Hoc Group of Experts on Coal and Thermal Power
Geneva, 18-19 November 2002
October 2002

RESTRUCTURING OF THE COAL INDUSTRY IN ROMANIA

ECONOMIC AND SOCIAL ASPECTS

1. ECONOMIC ASPECTS

1. Background

Coal industry in Romania have passed an ample restructuring process, which has amplified in 1997. This process has continued also in 2002 and will extend in the next years.

The main objectives are:
- Consolidation of viable and prospective capacities
- Reduction of the coal costs in order to be competitive on the primary energy market

Energetical coal production in the future is adapted to the provisions of the energetic country strategy, whose main directions for the period 2002-2015 were approved by the Government in May this year.

In November 2001, Romanian delegation in the Ad-hoc Group of Experts on Coal has presented a rapport focused on the main problems of the restructuring process in Romanian coal industry, especially in the period 1997-2001.

Now we intend to present the actual situation of this sector in the present and his prospective on the medium term.

2. Coal producers in Romania.

In Romania we have four coal producers for lignite, brown coal and hard coal:

National Company for Hard Coal – Petrosani (NCH)
National Company for Lignite "Oltenia" Tg.Jiu (NCL)
National Society for Coal Ploiesti (NSC)
Commercial Society for Hard Coal “Banat” (CSH)

In Table 1 are presented some general data for these companies:

<table>
<thead>
<tr>
<th>Geological industrial reserves</th>
<th>Total M tons</th>
<th>NCH</th>
<th>NCL</th>
<th>NSC</th>
<th>CSH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4005000</td>
<td>1000000</td>
<td>2500000</td>
<td>500000</td>
<td>5000</td>
</tr>
<tr>
<td>Nr. of mines</td>
<td>31</td>
<td>11</td>
<td>4</td>
<td>13</td>
<td>3</td>
</tr>
<tr>
<td>Nr. of open pits</td>
<td>21</td>
<td>-</td>
<td>6</td>
<td>13</td>
<td>2</td>
</tr>
<tr>
<td>Production in 2002 (estim)</td>
<td>30490</td>
<td>3260</td>
<td>24650</td>
<td>2430</td>
<td>150</td>
</tr>
</tbody>
</table>

According to the provisions of the energetic strategy for the period 2002-2015, market demand coal resources are presented in the table 2.

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Mil. t.</td>
<td>%</td>
<td>Mil. t.</td>
<td>%</td>
<td>Mil. t.</td>
<td>%</td>
<td>Mil. t.</td>
<td>%</td>
</tr>
<tr>
<td>Total resources</td>
<td>30,89</td>
<td>100</td>
<td>30,32</td>
<td>100</td>
<td>29,97</td>
<td>100</td>
<td>31,59</td>
</tr>
<tr>
<td>from which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- domestic production</td>
<td>30,49</td>
<td>98,7</td>
<td>29,92</td>
<td>98,7</td>
<td>29,57</td>
<td>98,6</td>
<td>31,19</td>
</tr>
<tr>
<td>- lignite</td>
<td>27,08</td>
<td>87,6</td>
<td>26,72</td>
<td>88,1</td>
<td>27,03</td>
<td>90,8</td>
<td>27,39</td>
</tr>
<tr>
<td>- hard coal</td>
<td>3,41</td>
<td>11,0</td>
<td>3,20</td>
<td>10,5</td>
<td>2,54</td>
<td>8,4</td>
<td>3,80</td>
</tr>
<tr>
<td>- imported hard coal</td>
<td>0,40</td>
<td>1,3</td>
<td>0,40</td>
<td>1,3</td>
<td>0,40</td>
<td>1,3</td>
<td>0,40</td>
</tr>
</tbody>
</table>

In the Table 3 are presented others indicators in the coal sector on medium term 2002-2005.

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. productivity</td>
<td>Tons/pers/year</td>
<td>697</td>
<td>713</td>
<td>742</td>
</tr>
<tr>
<td>2. incomes - total, from which:</td>
<td>Mil.$</td>
<td>541</td>
<td>580</td>
<td>590</td>
</tr>
<tr>
<td>- subsidies</td>
<td>Mil.$</td>
<td>26,5</td>
<td>25,5</td>
<td>24</td>
</tr>
<tr>
<td>3. expenses - total</td>
<td>Mil.$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. personnel</td>
<td>Nr.</td>
<td>43760</td>
<td>42760</td>
<td>40400</td>
</tr>
</tbody>
</table>

3. Main objectives of restructuration in coal sector.

Energy Development in Romania according to the directions of the sectorial strategy on the long term (till 2015) has as the main objectives:
- To satisfy internal market demand of electrical energy at a competitive price, and in the best conditions of quality
- To assure a high security in supplying and using a efficiency of the energetical own resources
To improve the protection and rehabilitation of the environment.
To joint an appropriate manner for using of internal primare resources with those from import.

In the structure of the energy power produced in Romania the main place will be represent the energy produced in the coal power plants, as we see in Table 4.

**The structure of energy production in the period 2002 - 2015**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Twh</td>
<td>%</td>
<td>Twh</td>
<td>%</td>
</tr>
<tr>
<td>Total production</td>
<td>55.5</td>
<td>100</td>
<td>55.5</td>
<td>100</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in termopower plants on coal - total</td>
<td>21.7</td>
<td>39.1</td>
<td>21.7</td>
<td>39.1</td>
</tr>
<tr>
<td>in termopower plants on lignite</td>
<td>16.2</td>
<td>29.2</td>
<td>16.2</td>
<td>29.2</td>
</tr>
<tr>
<td>in termopower plants on hard coal</td>
<td>5.5</td>
<td>9.9</td>
<td>5.5</td>
<td>9.9</td>
</tr>
<tr>
<td>of which on imported hard coal</td>
<td>0.7</td>
<td>1.3</td>
<td>0.7</td>
<td>1.3</td>
</tr>
</tbody>
</table>

As we see, the energy power produced in coal power plant will represent about 39% from the total until 2005 and will recede to about 31% in the period 2010-2015.

In order to respect these objectives the restructure process will be continued the following main aims:

- Focusing the mining activity upon the prospective and viable capacities.
- The coal producers will increase the performances in order to reduce the costs, by focusing the exploitation most favourable coal deposits and also by implementation the new and modern technologies.
- The first activities in this sense are already carried on at National Company for Lignite Oltenia by modernizing the bucket-wheel excavators, in value of 6,5 mil.Euro and also at National Company for Hard Coal where will be modernized 2 pits including a preparation plant, by an external credit with state guarantee in value of 24,1 mil.USD
- Closing those capacities with high production costs
- Mitigation the social impact in closed of mining areas
- Implementation of an environment management both for the active capacities and for the mining waste and environmental rehabilitation in the zones with closed mining activities.

In August this year it was elaborated –by the help of a Consultancy Corporation-a Manual for management of environment in the mining sector and also an Environmental Codes of Practice.
This will help mining companies to solve better their activities in this field, using the essential principles regarding:

- commitment at top level, with a clearly stated policy
- planning, including definition of legal requirements
- implementation of adequate measures, including definition of responsibility
- checking and corrective action, including monitoring

- Increasing the coal production and energy power by setting up of some energetical complexes that will integrate both activities.

CONCLUSIONS

1. The coal sector in Romania will follow-up a restructuring process in the next period, according the strategy and requirement of the energy sector.

2. In this context in the same time taking into consideration the action of our country in the process for accession to the European Union, Romania will and implement and apply all the legal requirements regarding the state aids for the coal sector, according to the provisions of the new Reglement (EC) nr.1407/2002 for the State Aids for the coal sector.

3. Ministry of Industry and Resources 's Strategy for the coal sector is focused on the adequate measures concerning the level of the coal production, costs and social and environmental aspects.

   It is important to underline that
   - starting with year 2007 the state will not give any subsidies for coal production except the hard coal sector.
   - hard coal will be subsidized till year 2011
   - the new restructuring process in the coal sector will not determine a big social impact in the mining zones.

II. SOCIAL ASPECTS

In the next presentation we will show the purpose, the institutional organization and some actions regarding the social protection in the coal sector.

The most involved institution in this direction in mining zones affected by a strong restructuring process, is National Agency for Implementation of the Reconstruction Programs in Mining Zones.
NATIONAL AGENCY FOR IMPLEMENTATION OF THE RECONSTRUCTION PROGRAMS IN MINING ZONES (NAD)

• NAD was established in 1997 by Emergency Ordinance of Government nr.43

• NAD is organized and works according to provisions of the Government Decision nr.69/1998 like an central institution which have to apply the Government’s strategy and politics for reconstruction of the mining zones submitted to the reconstruction process.

ASIGNEMENTS

• ESTABLISHING THE MAIN DIRECTIONS TO FOLLOW FOR REDEVELOPMENT OF MINING ZONES, BY CREATING THE NEW JOBS

• IMPLEMENTATION OF THE RECONSTRUCTION PROGRAMMES IN MINING ZONES (CONTINUED)
• MONITORIZING OF THE PROGRAMMES, ACCORDING TO:
  - SPECIFIC CONDITIONS OF MINING ZONES
  - NUMBER OF THE AFFECTED PEOPLE
  - AMOUNT OF THE FUNDS ALLOTED FOR THE MINING ZONES

• ATTRACT OF THE INTERNAL AND EXTERNAL FINANCIAL SOURCES

• ADMINISTRATION OF THESE FINANCIAL SOURCES

• ORGANIZATION OF THE SOCIAL DIALOG

• ESTABLISHING A COLLABORATION BETWEEN NGO, LOCAL PUBLIC INSTITUTIONS AND DIFFERENT COMPANIES WHICH INTENT TO DEVELOP THEIR ACTIVITY.
PROGRAMME FOR
MITIGATION OF SOCIAL IMPACT IN
MINING ZONES

OBJECTIVES ONGOING:

• STRENGTHEN OF NAD EFFICIENCY IN IMPLEMENTATION OF THIS PROGRAMME. BY
THE GRANT OFFERED BY THE GREAT BRITAIN GOVERNMENT, IN AMOUNT OF 3,6 MIL.
USD, WILL BE CREATED 2000 NEW JOBS BY ALLOTTING THE 2000 MICRO-CREDITS TO
THE BUILDING CONTRACTORS.

• TRANSFORME SOME OF BUILDINGS OWNED BY CLOSED MINES INTO BUSSINESS
CENTERS WITH ADEQUATE FURNITURE AND BIROTICS SPECIAL DESTINATED TO SUCH
PURPOSE.

• SUPPORT THE ENTERPRIZINGS FOR IMPLEMENTATION OF MICRO-CREDITS
PROGRAMME AND FOR THE CREATION OF THE BUSSINESS CENTERS

(CONTINUED)
• LOCAL TRAINING AND FINANCIAL SUPPORT FOR THE COMPANIES THAT WILL ENGAGE UNEMPLOYMENT PEOPLE, IN AMOUNT OF 500 USD/PERSON
  - FINANCING BY THE WORLDBANK FOR 3000 NEW JOBS
  - FINANCING BY THE ROMANIAN GOVERNMENT FOR 2000 NEW JOBS

• SOCIAL DIALOG AND SUPPORT FOR PROVIDING PUBLIC CONSULTANCE AND SERVICES FOR THE REDUNDAND PEOPLE IN THE MINING ZONES

• ORGANIZING OF SOME PUBLIC INFORMATION AND CONSULTING UNITS TO FACILITATE THE COMMUNICATIONS BETWEEN LOCAL COMPANIES AND OTHER INTERESEED PARTIES

MAIN COMPONENTS OF THE IMPLEMENTATION PROGRAMME
BY NAD

- MICRO-CREDITS FUNDS FOR MINING ZONES
- BUSSINESS CENTERS AND SUPPORT FOR THE BUILDING CONTRACTORS.
- FINANCIAL STIMULUS AND TRAINING FOR THE EMPLOYEES
- PUBLIC RELATIONS AND SOCIAL DIALOG
- CREATING A MANAGEMENT SYSTEM FOR THE INFORMATION AND MONITORIZING OF THE SOCIAL IMPACT.
MARR PROGRAMME - "MINING AFFECTED REGIONS REHABILITATION"

DESTINATION TO
- JIU VALLEY REGION
- GORJ COUNTY

OBJECTIVES:
- INFRASTRUCTURE PROJECTS FOR ECONOMICAL DEVELOPMENT OF THESE MINING REGIONS
- ACTIVE MEASURES FOR THE MARKET OF THE LABOUR FORCE
- REHABILITATION OF SOME SOCIAL CENTERS, SCHOOLS, HOSPITALS

DONORS:
- EUROPEAN UNION
- LOCAL COMMUNITIES

TOTAL VALUE OF THE PROGRAMME: 6 MIL. EUROS
TOTAL PROJECTS: 66 OF WHICH:
- 34 IN JIU VALLEY
- 32 IN GORJ COUNTY

RESULTS (REF. LABOUR FORCE)
- 854 PERMANENT NEW JOBS
- 574 TEMPORARY JOBS