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RESTRUCTURING OF THE COAL INDUSTRY IN ECONOMIES IN TRANSITION

(Submitted by the Government of Romania)¹

RESTRUCTURING OF THE ROMANIAN COAL INDUSTRY

Legal and regulatory framework

1. Romania has initiated a profound restructuring of its coal, gas, oil and electric power sectors in recent years. The energy legal framework has been improved by the adoption of the Mining Law in March 1998, Government Decision nr. 31/1997 on Foreign Investments in Romania, and Government Emergency Decisions No. 22/1997 and No. 30/1997 on the restructuring of the industry sector. The legislation should be completed by the adoption of new Energy and Electricity Laws, at present under consideration, and various supporting legal documents, which would regulate and improve the conditions for selected energy downstream activities. The Concession Law was also drafted and submitted to Parliament. The adoption of the new legislation is a high priority for the Government this year whose policy aims at diminishing the involvement of the State in economic affairs.

¹ Prepared by the Romanian Ministry of Industry and Resources, General Directorate for Mining and Geology.

Coal and power generation

2. The total electricity generation in Romania is around 50.9 TWh, of which 19.9 TWh (39%) is based on coal, 10.9 TWh (21.5%) on hydrocarbons, 14.6 TWh (28.7%) on hydropower and 5.5 TWh (10.8%) on nuclear power. Evidently, coal remains the major energy source and provides 40% of the electricity generation in Romania. Almost all national coal production (96%) is supplied to the Romanian Electricity Authority “Termoelectrica” (former RENEL/CONEL)). Coal deposits are spread out over the country but those of the most significant economic importance are located in the Petrosani region (hard coal) and Gorj region (lignite), near the city of Targu Jiu. The national coal reserves are estimated at three billion tonnes of lignite with a calorific value of 1,600 – 2,000 Kcal/kg and one billion tonnes of hard coal with a calorific value of between 3,600 and 5,200 kcal/kg. It is expected that the available domestic coal reserves will meet the needs of electricity generation in the country over the next 70 – 80 years.

3. The coal-fired power thermal sector in Romania needs improvements of the traditional pulverized coal-fired systems which are characterized by low energy efficiency and are not equipped with de-NO_x and desulphurization units. Since the installed capacity of most of the power generating units is greater than 250 MW, it apparently does not offer many options for the introduction of various clean coal technologies. The forthcoming privatization of the electricity sector is expected to attract considerable foreign direct investments needed for the modernization and installation of environmental impact control equipment. Privatization also applies to the large number of the existing co-generation plants for district heating.

Restructuring programme for the thermal power sector

4. The Romanian Government has drafted a programme for a fundamental restructuring and privatization of the electricity sector. Its objectives are defined in Decision No. 63/1998 on Electric and Thermal Energy. The Romanian electricity sector is supposed to be transformed to a new structure. The power generation business will be performed by several separate companies based on thermo, hydro and nuclear installations respectively. While some of the power generation capacity will be privatized, the remaining power plants within the former RENEL will be organized as a separate company with internal financial transparency and inter – intra fuel competition. The electricity regulatory framework is in the hands of the relevant Regulatory Authority, established in 2000.

Coal restructuring programme

5. To improve the efficiency of the national coal industry, the Romanian Government decided in 1997 to implement a programme and measures for adapting the sector to market conditions. The goal was to keep open the production capacities in the most productive mines and to close all inefficient production units. If achieved in the medium term, it would mean the production of 30 Mt of lignite and 3 Mt of hard coal nation-wide. For this purpose, the Government decided to restructure the coal mining sector (at that time 137 mines of which 100 underground and 37 open cast) by concentrating the coal production capacities in the three major companies: National Lignite Company of Oltenia (CNLO), National Mining Company of Ploiesti (SNCP) and National Hard Coal Mining Company of Petrosani (CNH).

6. The National Lignite Company of Oltenia (CNLO) produces lignite for electricity generation and heat generation in open cast operations using only the highly productive continual excavating technology. It produced 23,5 Mt in 2000 which represented 80.7% of the national coal output and 90% of the total lignite output. The company owns 19 big open cast mines which deliver lignite mainly to the thermal power plants of Rovinari, Turcenii and Isalnita Craiova. Furthermore, since April 1997 the entire lignite output of CNLO is no longer subsidized. The National Mining Company of Ploiesti (SNCP) produces lignite/brown coal with the coal mines located mainly in the south-east, central and north-west of the country. The production, which reached 2,5 Mt in 2000, takes place mostly in underground mines and in selected small open pits. The National Hard Coal Mining Company of Petrosani (CNH) produces hard coal in the South Carpatian Mountains. The output in 2000 was 3,1 Mt. This coal is supplied to the electric power sector (87%), a cooling plant (7%) and the remaining 6% to the domestic sector.

7. All three coal enterprises are State-owned companies. They are authorized to issue shares which will hopefully facilitate their forthcoming privatization. To further improve their financial health and their attractiveness for private investors, the Government mandated the companies to prepare and implement the Financial Recovery Plan (FRP) with the following most important elements:

- (a) separation of auxiliary activities from the core ones and their subsequent privatisation
- (b) closure of uneconomic capacities
- (c) cutting of administration and overheads through organizational restructuring
- (d) commercialisation of small-scale clean coal units for diversification of activities and job creation.

8. The Financial Recovery Plans and related measures for each company have been set by a Tripartite Commission with the participation of the Government, Trade Unions and Association of Employers.

9. The restructuring of the coal sector is also supported by the World Bank, the European Bank for Reconstruction and Development (EBRD), the European Union and the American Investment Program in Romania. According to the Loan Agreement concluded between the Romanian Government and the World Bank for the support of the Project of Restructuring of the Mining Sector, the following two main objectives should be achieved:

- gradual elimination of the dependence of the mining sector on state budget subsidies;
- sustainable development of the mining sector based on economic efficiency and environment protection.

10. To facilitate the achievement of these objectives, the Government of Romania has taken certain measures, such as:

- Closure of loss-making mines with mitigating measures for redundant personnel and environment ;
- Change of the Government role in the sector from owner and operator to regulator and

- legislative power in compliance with the Mining Law and other related legislation;
- Reduction of the financial state involvement (subsidies) in the exploration and mining companies;
- Creation of a legal, institutional and regulatory framework that promotes private investments in the mining sector and related environment protection.

The new legislation has enabled the beginning of the closure of mines and related environment rehabilitation works. The Central Group of the Mine Closure Programme (CGPMC) has been set up within the Ministry of Industry and Resources to coordinate and monitor financing of the closure and environment rehabilitation works.

11. The World Bank will finance the closure of 29 mines, the contractors being selected by international bidding procedures. In the preparation of the bidding documents, the selection of contractors and the follow-up work carried out at these mines, CGPMC will be assisted by a technical and financial adviser. In addition, to mitigate the negative social impact of the employment reduction in the coal sector, the European Union recently provided 5.2 mil. Euros to the Jiu Valey and Gorj counties for the reconstruction of these regions. The funds are provided in the framework of the MARR Programme (Mining Affected Regions Rehabilitation).

12. To facilitate the process of the rehabilitation of the affected mining regions, in 1997 the Government created the National Agency for the Development and Implementation of the Restructuring Programme in the Mining Regions (Government Decision 64/1997). The main objectives of the Agency in the short term are to (a) identify and evaluate the regions' economic potential for replacing coal mining with other economic activities; (b) develop a remedial social programme for the redundant employees; (c) identify and promote project proposals that will attract private investors; and (d) set up a legal framework and economic incentives for the promotion of new economic activities.

13. Finally, it could be said that while the restructuring programme in the Romanian coal industry over the last one to two years has been very ambitious and potentially dynamic, its implementation and efficiency are somewhat less impressive.

14. The dynamics of the main restructuring indicators of the Romanian coal sector in the period 1990-2000 are given in the table.

15. The main conclusions are:

- (a) The coal sector of Romania will remain in the medium- and long-term an important producer of primary energy.
- (b) The restructuring process of the coal sector, with the aim of creating an efficient industry, will continue.
- (c) State aid to the coal sector will be maintained according to the rules given in the European Union: Commission Decision No. 3632/ECSC.
- (d) The state and the coal sector will continue the implementation of the programmes for environmental rehabilitation and for the social protection of redundant workers. For the latter, the creation of the alternative economic activities in the affected regions might be of particular importance.

Table: Key restructuring indicators for the Romanian coal sector, 1990-2000

Main indicators	1990	1993	1995	1997	1998	1999	2000
Coal production, Mt	37,6	39,7	41,1	33,4	26,2	22,9	29,1
Number of mines / open pits in operation	100/37	100/37	100/37	100/37	59/35	40/32	33/32
Number of employees (thousands)	134	121	97	82	52,7	47,3	46,6
Subsidies (1990 - 100%)	100	55,1	61,0	13,3	12,1	9,7	9,5
Productivity growth, % (1998-100%)	100	107	140	113	175	172,5	222,5
Investments in mil. USD	231,35	46,64	47,99	17,7	38,5 *	28,3 *	30,6 *

* budget and own sources of the companies