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RESTRUCTURING OF THE COAL INDUSTRY IN ECONOMIES IN TRANSITION

(Submitted by the Government of Poland) ¹

**RESTRUCTURING PROCESS OF THE POLISH HARD
COAL INDUSTRY IN 1998-2000**

INTRODUCTION

1. The transition processes of the Polish hard coal industry to the conditions of a market economy started in 1990. The coal production potential at that time was about 180 million tons and employment had reached 391,000. The coordinated transformation process of the industry, which was accelerated in 1998 resulted in the improvement of the economic viability of the coal industry and the increase in its competitiveness.
2. The regulatory framework adopted by the Polish Government and Parliament formed the base for the realisation of the restructuring programme over the 1998-2000 period. The main documents of the framework are:

¹ Prepared by the State Hard Coal Restructuring Agency, Katowice, Poland, March 2001.

- Programme of the reform of the hard coal industry for the 1998-2002 period, dated June 1998;
- The Act on the adjustment of the hard coal industry to operation within a market economy and the special powers and tasks of mining authorities, dated November 1998
- Correction of the government programme of the reform of the hard coal mining industry in Poland for the 1998-2002 period, dated December 1999, and
- The Act on criteria for and supervision of public aid for entrepreneurs, dated June 2000.

The regulatory framework is compatible with the existing European Union legislation, objectives and principles related to the utilisation of State aid to the coal industry set up to increase the industry's competitiveness through the process of restructuring and rationalisation.

3. The reform programme of the Polish hard coal industry aims at the creation of an efficient coal industry in the near future and the establishment of productive working conditions. The general goals of the programme to reform the Polish coal mining industry in the years 1998–2002 are:

- Successful market transition of the coal mining sector and maintenance of the competitiveness of Polish coal in the domestic energy market, and
- By 2010 the achievement of a production level equal to the domestic demand for coal and economically justified exports while at the same time maintaining standards for environmental protection and principles of competitiveness as defined by the European Union

The implementation of the programme, that was based on 1998 market conditions and prevailing prices, has two main challenges: to reduce surplus production to the level of market demand and to reach an equilibrium employment level conducive to profitable operations.

4. The Government had to modify the restructuring programme in December 1999 because of the changing situation both in the world and the Polish coal markets. In particular, relatively significant reduction in revenues from coal sales in 1998 and 1999 occurred, caused both by the declining prices in the home and export markets and sharp reduction in sales. As a consequence, the financial results of the Polish coal industry deteriorated. The modified programme assumes that the Polish coal companies will cease generating losses already in 2001 while in 2002 the coal industry is expected to achieve positive net financial results. In addition, it is expected that the industry will further reduce its output by another 36 million tons annually while in the sector there should not be more than 128,000 employees.

5. As of the first quarter 2001, significant progress has already been made in the implementation of the programme:

- Production capacity has been reduced
- Employment has declined
- Productivity and concentration of production have increased, and
- The industry has delivered improved financial results.

Production, sales, technical restructuring.

6. Coal sales declined in 2000 to 100.9 million tons compared with 109.8 million tons in 1999 and 114 million tons in 1998. Exports also declined: from 27.7 and 25.5 million tons in 1998 and 199 respectively to 23 million tons in 2000. At the same time coal stocks were kept at a minimum. The declining production and exports were accompanied by further reductions of employment and ineffective production potential.

7. The process of the technical restructuring of the mines has been characterised by the exploitation of coal seams under the most advantageous geological and mining conditions as well as by the introduction of modern heavy-duty machinery and equipment capable of reaching high output, further concentration of production and increased productivity. The number of active longwall installations in the mines was reduced from 293 in December 1997 to 181 in December 2000, while the average daily production from one longwall installation increased from 1942 tons to 2573 tons respectively. In addition, the restructuring process made possible further reductions of excessive technical infrastructure both underground and on the surface of the mines.

Employment trends

8. Significant positive results were achieved in the process of downsizing employment. To mitigate the negative social consequences of complete or partial closure of mines and to create incentives for voluntary employment reduction, the Government restructuring programme also includes a so-called Mining Social Package (MSP). The Package offers to the miners such incentives as:

- Five-year miner's leave which makes it possible for any underground miner to bridge up to five years to meet retirement conditions while receiving during that time a social allowance equal to 75% of the monthly wages
- A lump sum compensation equal to 65% of the sum of monthly wages for employees who accept to leave the coal sector and who will undergo training for another profession over a period of up to 2 years
- A lump sum redundancy payment equal to 24 monthly wages for employees who terminate the labour contract on their own and decline the right to receive related employees' benefits, and
- Preferential bank loans to start a different economic activity for the employees with whom the labour contracts were terminated by a mining company.

9. Employment in the coal mining industry was reduced by 35,369 workers in 1998. This figure includes 24,866 people who used the facilities provided by the MSP. Employment was further reduced in 1999 by 34,304 workers, including 24,413 persons who used the facilities of the MSP. In 2000 employment was again reduced by 18,599 workers of which 11,915 used the MSP facilities. Total reduction of employment in the 1998-2000 period was 88,300 workers, thus above the initially targeted reduction of 81,900 employees. For comparison, while at the end of 1997 the coal mining industry employed 243,304 workers, at the end of 2000 only 155,032 people worked in the industry. As a consequence, the Mining Social Package became an effective instrument in restructuring the coal industry in Poland.

Reduction of production capacity

10. Good progress has also been made with regard to reduction of hard coal production capacity: in 1998, 1999 and 2000 the production capacity was reduced by 3.7, 12.1 and 10.38 million tons respectively. Thus, the total reduction of the production capacity amounted to 26.18 million tons, exceeding the programmed capacity reduction by 1.63 million tons.

Financing of the restructuring process

11. Since the Polish coal companies cannot cover the costs of restructuring, Polish state aid injected 4,359 million zł in the process of restructuring of the hard coal industry over the years 1998-2000 with the following structure:

- | | |
|---|--------------|
| • employment purposes | 2,953 mln zł |
| • closure of mines | 1,010 mln zł |
| • removal of mining damages, concessionary coal, pensions, monitoring process and financing of activity of the Mining Labour Agency | 396 mln zł. |

Financial results

12. In general, the financial results of the Polish coal industry in the 1998-2000 period improved as the generated losses were reduced. As a sign of the increased efficiency, the average cost of sold coal decreased from 144,6 zł/ton in 1998 to 130,90 zł/ton in 1999 and 129,54 zł/ton in 2000, while the gross operating loss in 1998 and 1999 amounting to 2,604 million zł and 1,425 million zł was in 2000 transformed to a gross operating profit of 239 million zł. The net financial results over the same years, however, were negative beginning with the loss of 4,276 million zł in 1998 to losses of 3,447 million zł in 1999 and 1,615 million zł in 2000.

Privatisation

13. The programme assumes that privatisation of mines is one of the basic tools for the accomplishment of the reform's objectives. Thus, selected mining companies will be privatised. They are considered to be attractive to potential investors since, once privatised, they are supposed to generate profits. The most advanced privatisation case is the "Bogdanka" coal mine where the tender was issued in November 2000. Several presented offers are currently being evaluated. The second mine to be privatised is the "Budryk" mine, whose tender will be issued in the first half of 2001.

Dynamics of the major indicators of restructuring in the Polish hard coal industry
1990-2000

	Indicators	1990	1993	1995	1997	1998	1999	2000
1.	Coal production /mln t	147	130	135	137	121	109,1	102,2
2.	Number of active mines	70	68	65	56	53	53	41
3.	Number of employees, 000	388	319.6	274.5	243.3	207.9	173.6	155
4.	State subsidies	State subsidies to coal production withdrawn as of beginning of 1993						
5	Total productivity growth kg/ms	1866	2035	2479	2858	2607	3 256	3700
6	Investments/ Thos. zł	240,680	673,230	887,608	975,513	936,496	925,690	930,692

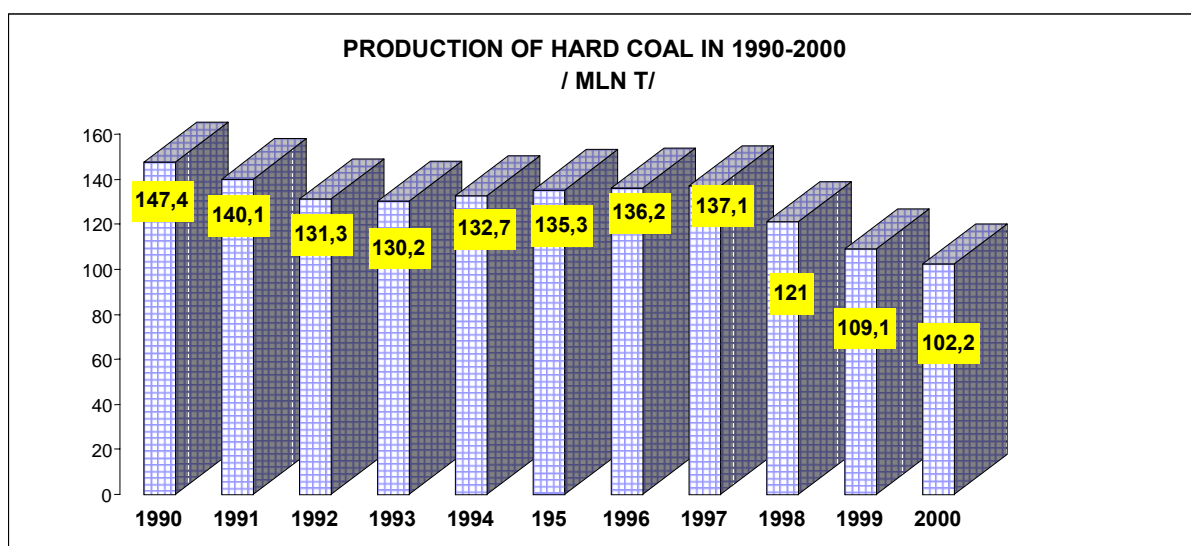


Figure 1

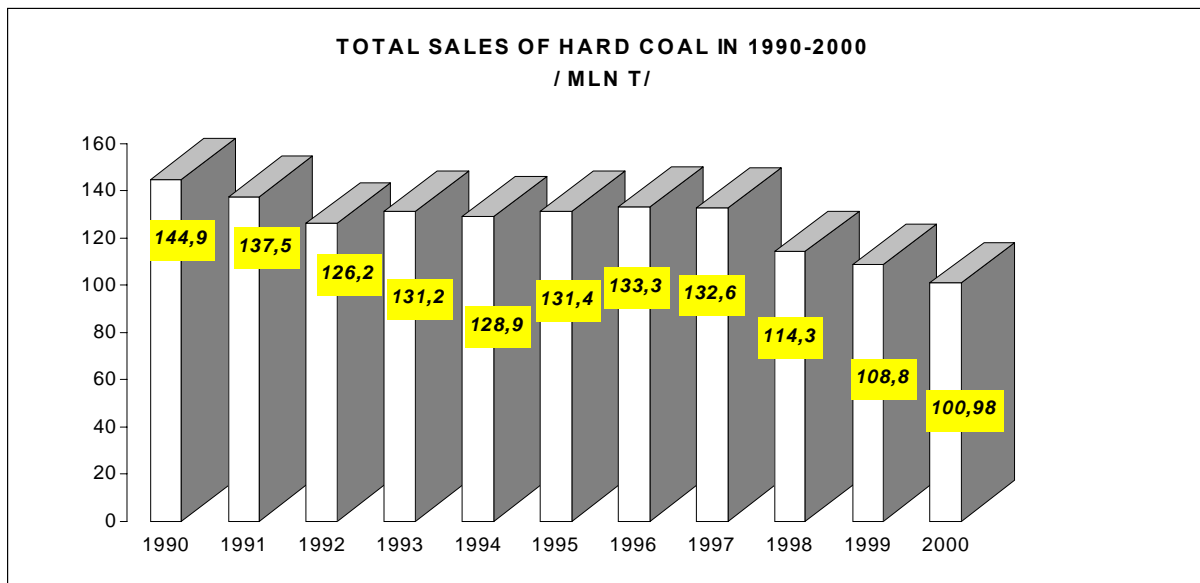


Figure 2

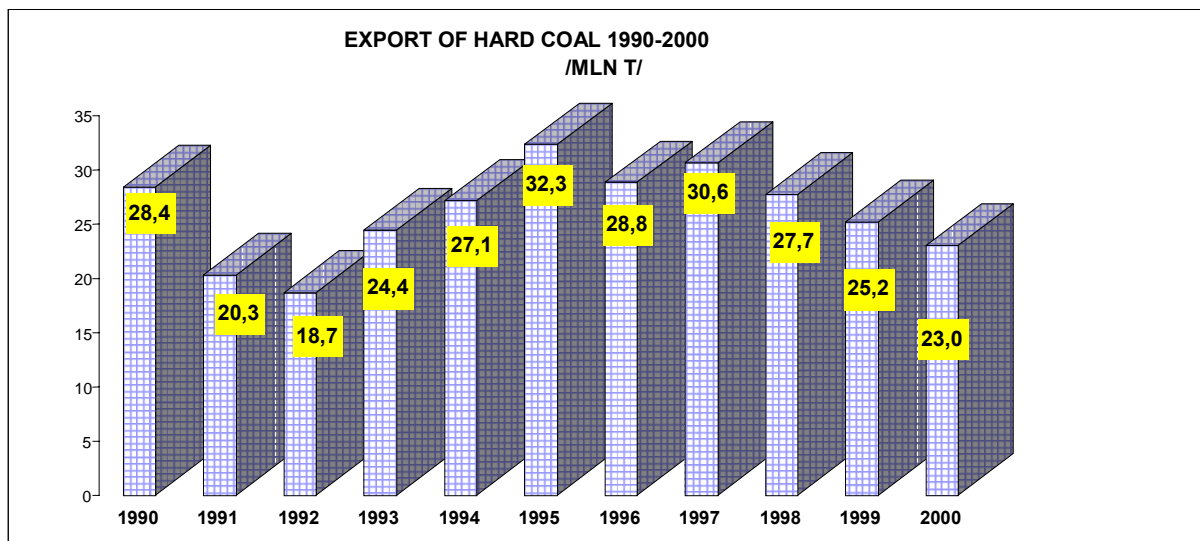


Figure 3

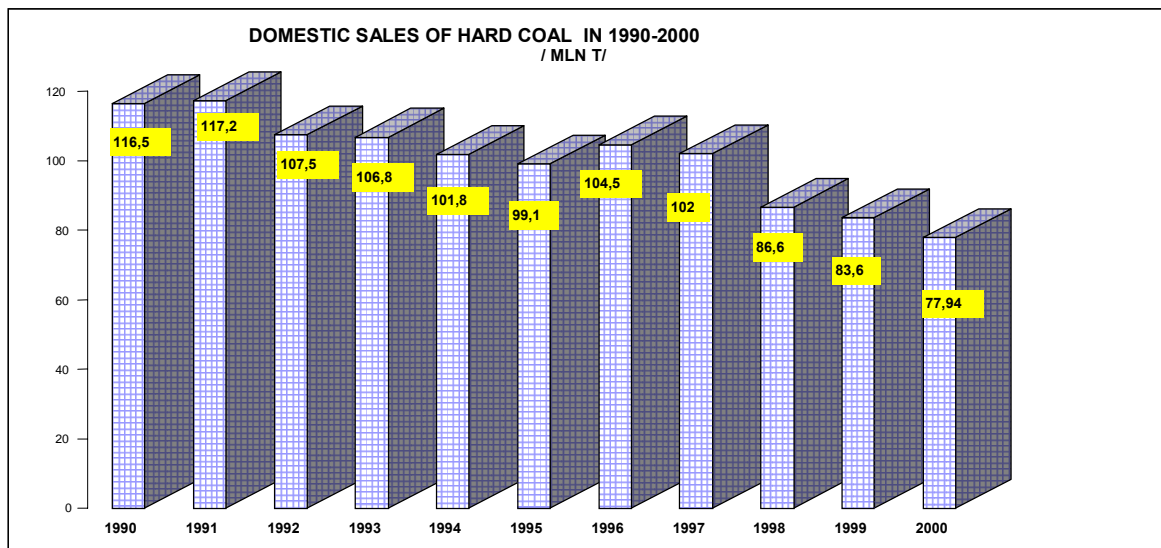


Figure 4

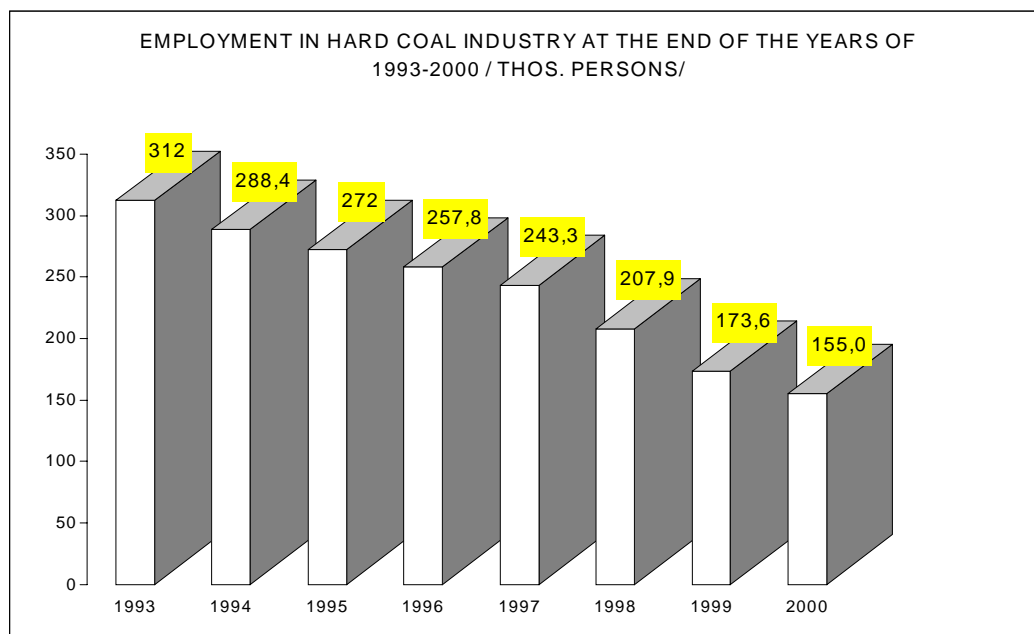


Figure 5

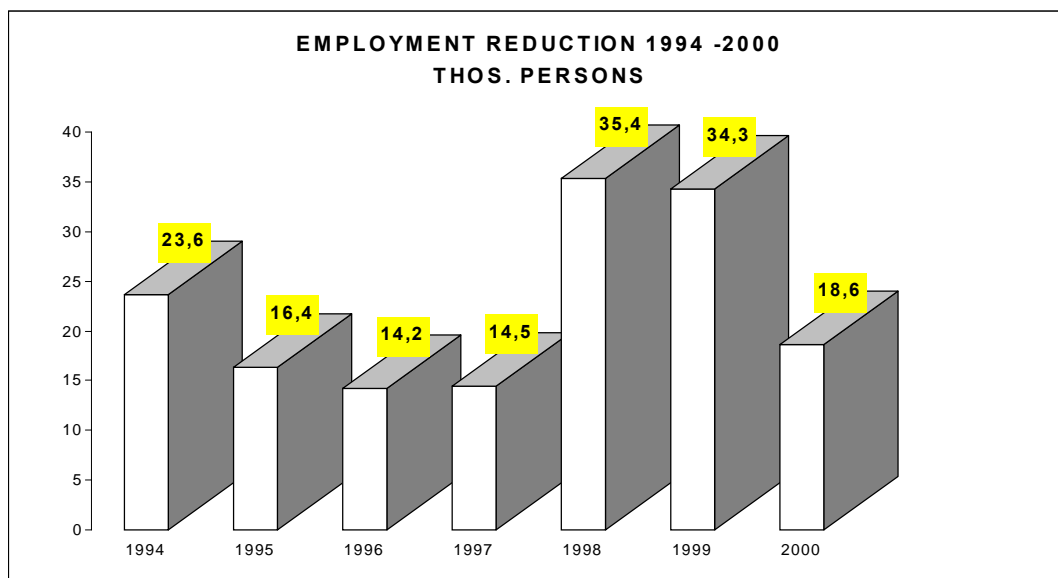


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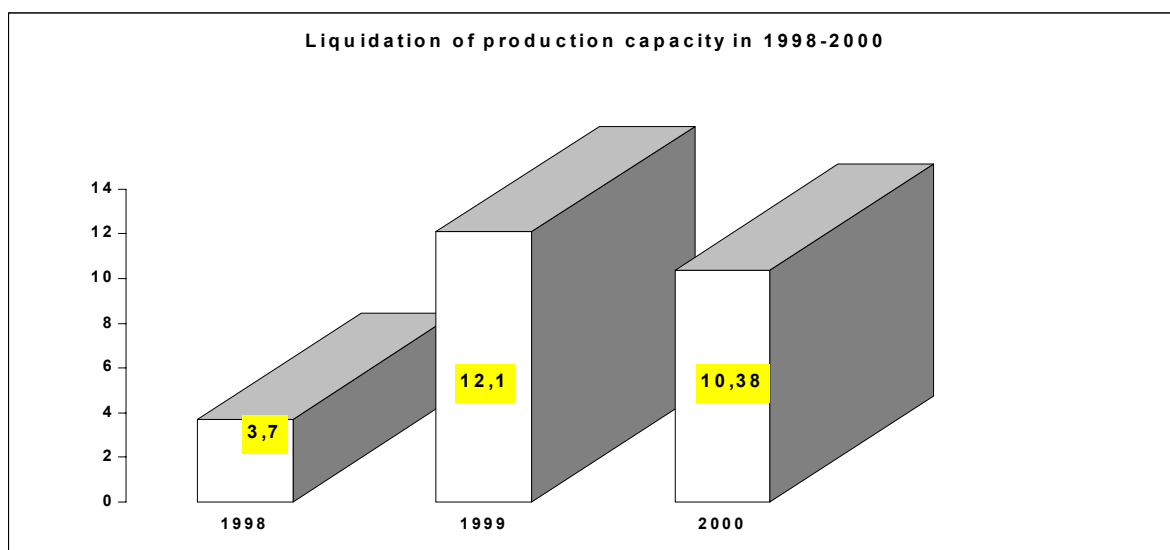


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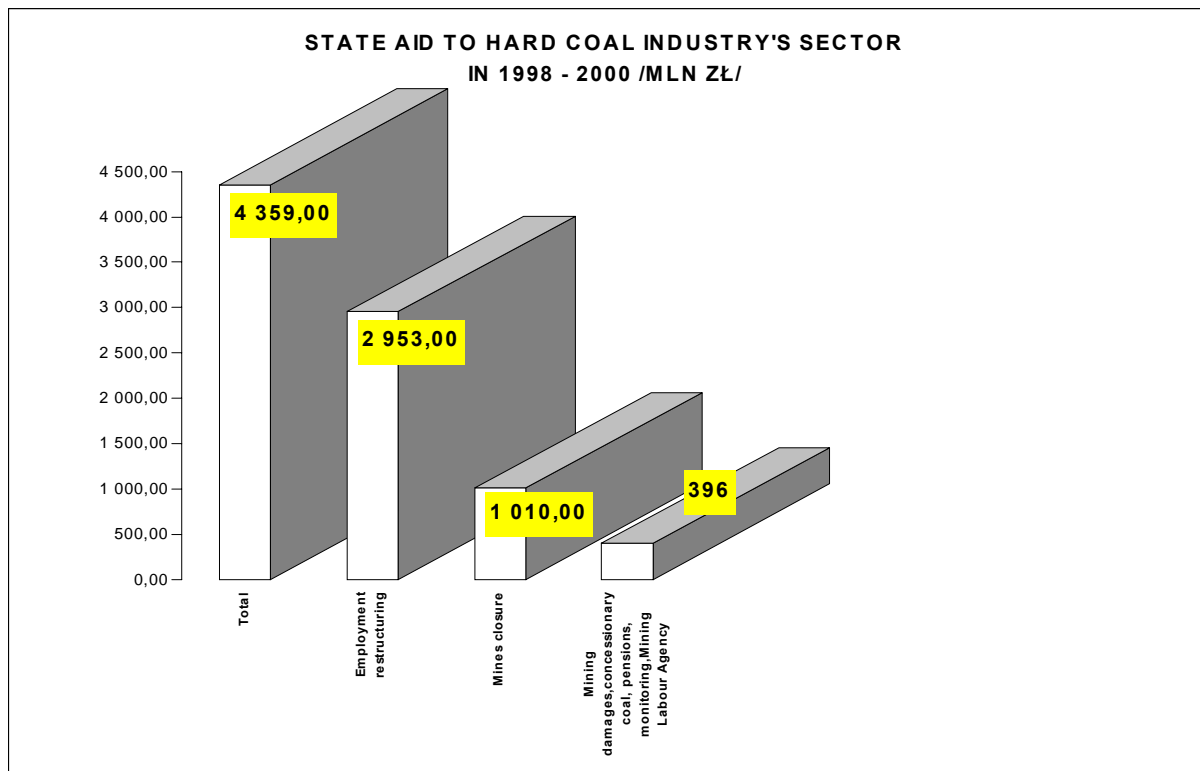


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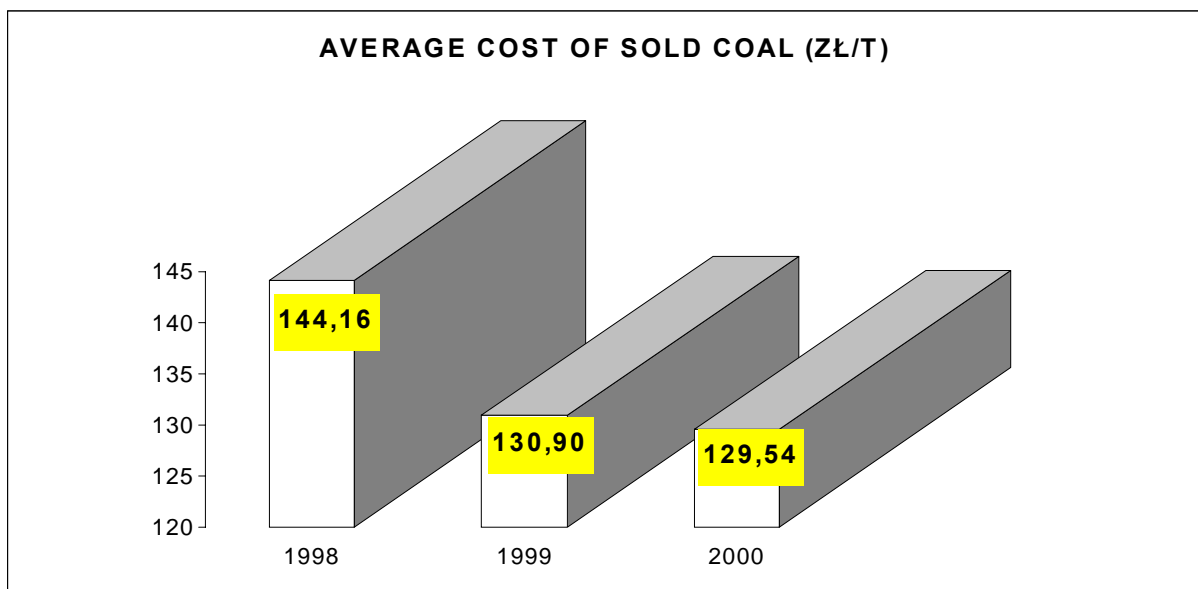


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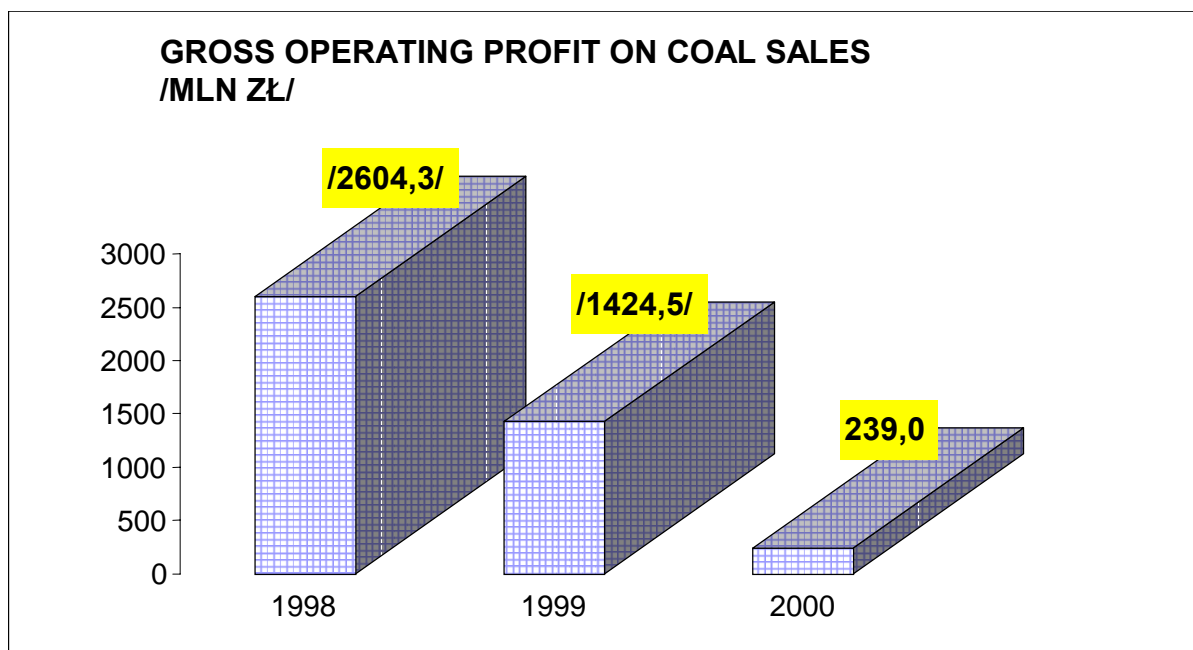


Figure 10

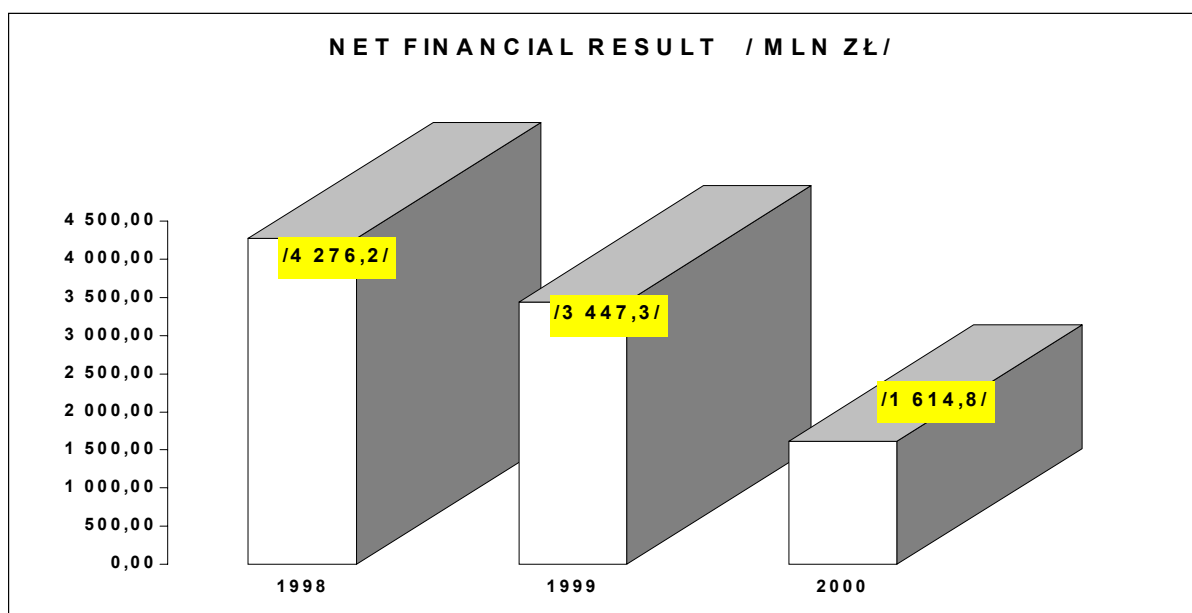


Figure 11