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RESTRUCTURING OF THE COAL INDUSTRY IN COUNTRIES IN TRANSITION

Transmitted by the Government of the Russian Federation

The Russian coal industry

1. The Russian coal industry is a multifaceted giant with a wide range of activities including, in addition to the extraction and processing of coal, the building of new mines and other structures, the manufacture of mining equipment and geological exploration. Coal currently accounts for 11.8% of Russia's fuel production and for about 18% of the country's fuel consumption. Coal firing accounts for 29% of Russia's electricity output (corresponding figure for the United States of America and Germany, 56-58%; world average, 44%). The fuel market in Russia is distinguished by the relatively low price of gas. Elsewhere in the world, the ratio of gas prices to coal prices fluctuates at around 1.35:1; on the Russian domestic market, it was 1.43:1 in December 1991, 0.745:1 in December 1998 and 0.625:1 in 2000. Coal is expected to account for a rising share of fuel consumption in the twenty-first century: the principal objectives of the country's Energy Strategy up to the Year 2020 include raising coal's shares of energy-resource and electricity production to 20% and 44% respectively. Achievement of those objectives will be facilitated by: the structural changes now nearing completion in the coal industry; acceleration of the expanded reproduction of coal-mining and coal-processing capacity; improvement of coal companies' efficiency.

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2. Russia's balance reserves of coal total approximately 200 billion tons (t), 90% of which lie in the Asian part of the country. The raw materials base comprises reserves ready for exploitation amounting to 106 billion t, including some 75 billion t suitable for opencast working (70% of the raw materials base) and approximately 18 billion t of coking coal. Of the reserves in the raw materials base, some 86 billion t are relatively well situated in terms of ease of extraction. The total reserves of existing mining enterprises are of the order of 26 billion t. Overall, explored reserves are adequate for a long time to come. The raw materials base comprises primarily low-grade brown coals, the large explored deposits lie a long way from the main transport routes and coal-quality criteria are becoming more stringent. For these reasons, all schemes for the construction of new mines will have to be assessed or reassessed from the viewpoint of their economic viability in a competitive market.

3. At the beginning of 2001, Russia's coal-mining enterprises had an output potential of 275 million t and coal demand was estimated at 270-275 million t (assuming import of 25 million t from Kazakhstan and exports of the order of 45 million t). Coal output fell heavily after 1988 (1988: 425.4 million t; 1990: 395.4 million t; 1995: 262.8 million t; 1998: 232.3 million t) as a result of declines in activity in sectors that are major fuel consumers, it has risen again in the past few years (2000: 257.9 million t, or 111% of the total for 1998). The main reasons for the upturn are:

Growth in the output of the country's coal-consuming sectors;

Positive effects of coal-industry restructuring;

Stabilization of the social and economic situation in coal-mining regions.

Coal output is provisionally forecast to reach 270 million t in 2004. Most of the increase is expected to come from opencast mines (output growth 2004/2000: opencast mines, 108%; underground mines, 103%). Output is expected to increase further, to 300 million t, in 2005.

4. According to figures from the Ministry of Energy, the restructuring of the coal industry since 1994 has yielded the following results:

A more than tenfold decrease (from 1.4% to 0.13% of GDP) in the load on the federal budget in the form of State support for the coal industry;

A rise in the contribution of opencast winning, the most efficient form of coal mining, to total coal output (1994, 57%; 1998 and 1999, 64%; 2000, 65%);

Greater concentration of output and of workings in underground mines.

Between 1994 and 2000:

The number of active mines was cut from 229 to 106, while the average output per mine was increased from 510,000 t to 715,000 t and the average daily output per face was more than doubled (1994, 513 t; 1998, 807 t; 1999, 919 t; 2000, 1,052 t). During the same period, the

number of active faces was more than halved, from 601 to 232, and the length of supported working per 1,000 t of marketable coal was reduced from 104 m to 70 m. The proportion of coal output coming from fully mechanized faces rose to 95%;

Capacity utilization at existing underground and opencast mines rose to 94%;

Coal mining became considerably less labour intensive. The restructuring reduced the mining industry's productive workforce by more than 50% and raised productivity per productive worker to its highest-ever level (110 t per month);

The number of fatal injuries per 1 million t of coal mined was reduced by a third.

The success of the restructuring efforts has been largely attributable to the closure of particularly unprofitable or unviable underground and opencast mines. By 2001, extraction had ceased and closure operations had commenced at 170 mines, including 153 where closure had been completed. Over the period 1994-2000, capacity loss attributable to the retirement of inefficient coal-mining facilities totalled 57 million t, or 51% of total capacity loss, and loss of coal output attributable to the closure of the retired facilities totalled 20 million t, or 37% of total output loss. The reduction in coal output as a result of mine closures had no significant effect on the security of supply or on the meeting of market demand, and the shutting-down of unviable mines boosted the mining sector's overall economic performance to the point where the sector was profitable in 2000 even though some 50% of companies still operated at a loss. There was a rise in the proportion of coal output paid for in money (from 24% in 1998 to 56.4% in 2000) and a drop in the level of mining-industry wage arrears.

5. The situation, however, is not entirely positive. Because of inadequate investment in developing the sector, the levels of replacement and expansion of production capacity have been far below what was needed. For the period 1993-2000, the total amount of mining capacity retired was 161 million t; the total amount of new capacity put into service was only 35 million t. Because only negligible sums have been allocated to the modernizing of mines, capital plant is obsolete and 75 % of mining equipment has reached the end of its service life. Regional problems have been severely exacerbated in the past few years by the speed of the waves of mine closures and by the sharp drop in the rate of new mine construction. No solutions have been found to the problems of resettling and re-employing the people in the Kizel and Pechora coal basins who have lost their jobs. A difficult situation obtains in Rostov oblast, where 33 mines have been closed, leading to a whole series of social problems.

6. At the beginning of 2001, coal companies' aggregate indebtedness stood at 83 billion roubles. That is more than half as much again as the value of the entire coal industry's marketable output in 2000 and almost three times what the companies themselves are owed. Moreover, the totals of both "accounts payable" and "accounts receivable" are rising from year to year, necessitating substantial State aid. In May 2001, the Government of the Russian Federation adopted a decision that will enable some coal companies to restructure their debts to the federal budget. The Ministry of Energy and Ministry of Finance have drawn up measures for the provision of targeted financial support to the coal sector. Coal production costs are rising faster than the rate of inflation. In 2000, the cost of producing 1 t of coal was 36% higher than the previous year.

7. The restructuring of the coal industry has to a significant degree and the closure of unviable mines has basically been effected using State funds. In the first stage of restructuring (1994-1998), the amount provided from the national budget was only half what would have been needed for the normal conduct of the process; this was the main cause of numerous problems. In 1999-2000, State support was appreciably higher: by comparison with 1998, it was almost twice as high in 1999 and 1.5 times as high in 2000. The effects of this change were soon apparent. In particular, coal output rose (in 1999, it exceeded its pre-restructuring level for the first time since restructuring began, and it rose again in 2000). In addition, it was, *inter alia*, possible to complete the engineering work for the closure of 60 mines, to pay off monies owed to dismissed miners and make compensation payments to employees of closed mine-construction and ancillary enterprises, and to increase several times over the amount spent on the creation of safe working conditions.

8. In late 1991, conversion began of State coal-mining associations and enterprises into various forms of joint-stock company. By 1994, this process was virtually complete. As of the beginning of 2001, there were 60 joint-stock mining companies in operation (not counting subsidiaries); the State has a holding or special management rights (a "golden share") in 24 of them. There are also five State unitary enterprises. Privatization, particularly of opencast mining companies, the most efficient, continues. Among the companies privatized in 2000 were Chitaugol, Mezhdurechenskugol, Krasnoyarskugol and Vostsibugol. Privatization of companies in which the Russian Federation holds part of the authorized capital is expected to be completed by 2002; once that has been done, private companies will account for 92% of coal output. The Ministry of Energy considers that on the whole privatization has a positive impact on coal companies' activity. It remains to develop efficient machinery for State regulation of the activity of private coal companies, particularly as regards subsoil use, reliability of coal supply and the improvement of laws and regulations.

9. The question of the arrangements needed for management of the coal sector is gaining in importance as Russia's transformation to a market economy proceeds. At present, elaboration of the strategy for the development of the coal industry is the responsibility of the Ministry of Energy, which coordinates the activities of the power-generation, gas, oil and coal subsectors. The problems associated with restructuring the country's mine stock and with the social and economic development of coal-mining regions are directly handled by the relevant institutions (GURSh [State Agency for the Reorganization and Closure of Unprofitable Mines] and Sotsugol [State Agency for the Coordination of Local Development Programmes and the Solution of Social Problems Caused by the Restructuring of Enterprises in the Coal Industry]). Current needs include the creation of intersectoral groupings (coal and power, coal and metals, coal and chemicals, etc).

10. The principal aim of social policy in coal-mining regions remains what it has been in recent years, namely the social protection of redundant coal-industry workers. This includes: job placement for miners; payment of social benefits and compensation; elimination of wage arrears, and conclusion of tariff agreements. Mine closures have sharply increased unemployment in mining areas and the resettlement of workers and their families, especially from northern parts of the country, is urgent. Much work is needed to improve and maintain the social infrastructure in affected areas: demolition of outdated housing and assistance with the

finding of new accommodation; elimination of the adverse environmental effects of mining; creation of new employment opportunities through diversification of the local economy. These problems are being addressed through special Local Development and Employment Programmes. In the period 1998-2000, almost 24,000 jobs were created and 3,600 families were resettled. In addition, appropriate medical services have been provided, wheelchairs and cars with hand controls have been procured for disabled persons and medical equipment has been bought for sanatoriums and hospitals. In the longer term, social policy in the mining industry will be oriented towards encouraging efficient working in market conditions and further developing social partnerships between central and local authorities, trade unions and business on the basis of Local Development and Employment Programmes.

Indicator and unit of measurement	Year						
	1990	1993	1995	1997	1998	1999	2000
Total coal production, million t	395.4	305.9	262.8	244.4	232.3	249.1	257.9
Numbers of mines/engineering units	238/63	232/65	214/67	174/67	124/105	119/112	106/119
Average number of miners, thousands	559.1	431.2	360.5	315.7	278.8	252.4	242.2
State subsidies, ¹ US\$/t	No data	6.33	5.54	4.48	4.19	1.67	1.12
Increase in miners' productivity, %	100.0	70.9	73.7	86.8	94.1	110.2	118.1
Investment, million US\$	4 941	840	1 313	1 323	829	284	319

¹ Include funds for closure of mines
