

## THE ECONOMIC IMPACT OF PROHIBITING STATE AID FOR THE ROMANIAN STEEL INDUSTRY

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The adjustment of the Romanian steel industry restructuring programmes to the requirements of the EU and the implementation of such programmes has supported the development and growth of Romanian steel companies. The total amount of State aid allowed in Romania has been of € 1,2 billion and was mainly awarded for financial restructuring and to a smaller extent for exemption from VAT and corporation tax. The EC has constantly monitored the Romanian steel industry and the way in which State aid has been granted by the Romanian government. As a consequence of the restructuring process – when entry into force the EU Association Agreement was enforced – several obsolescent plants have been shut down because of physical and moral wear and tear, and the total number of steelworkers has decreased significantly.

*Key words:* steel industry restructuring, Romania, monitoring programme, European Commission

**Gospodarski učinak zabrane državne pomoći rumunjskoj čeličnoj industriji.** Prilagodba programa preustroja rumunjske čelične industrije zahtjevima Europske unije i provedba tih programa pripomogle su razvitku i rastu rumunjskih poduzeća djelatnih u čeličnoj industriji. Državna pomoć odobrena u Rumunjskoj ukupno je iznosila 1,2 milijarde US dolara i uglavnom se dodjeljivala za financijski preustroj, a u manjoj mjeri za izuzeće od PDV-a i poreza na dobit. EK je stalno pratila rumunjsku čeličnu industriju i način na koji je rumunjska vlada dodjeljivala državna pomoć. Kao posljedak procesa preustroja – stupanjem na snagu Sporazuma o pridruživanju EU – zatvoreno je nekoliko zastarjelih tvornica zbog istrošenosti te je broj radnika u čeličnoj industriji značajno smanjen.

*Gljučne riječi:* čelična industrija, preustroj, Rumunjska, program praćenja, Europska komisija

### INTRODUCTION

Romania has had a long history of steelmaking and now the industry plays an important part in the domestic economy [1]. For instance, throughout the period of macro-economic centrally planned economy, the theoretical output of this sector amounted to 17 million tons of liquid steel [2], and the country ranked among the top 15 steel industries worldwide.

With an approximate number of 225 000 steelworkers, the maximum output during that period amounted to 15 million tons of liquid steel, a low output as compared to the levels of this indicator on the international market. The domestic market assimilated about 9-10 million tons, while exports never exceeded 3 million tons.

In the period following 1990, the domestic consumption decreased to 1,0-1,5 million tons of steel, while exports maintained a relatively constant level. The steel output in 2009 amounted to just 2,7 million tons (ranking 37 worldwide), diminishing by about 46,6 % as opposed to the 5 million tons that were produced in 2008.

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### TRENDS IN THE DEVELOPMENT OF THE ROMANIAN STEEL INDUSTRY IN THE FRAMEWORK OF EU ACCESSION NEGOTIATIONS. STATE AID CONTROL/ MONITORING

The debts of steel plants had long exceeded their economic value before the beginning of the privatisation process in 2000. The privatisation of these economic units was made in exchange for very little profit for the state, since the priority goal was the investment made by the new owners in the development of the plants. After the write-off of all the debts that had accumulated in time (about \$ 1,4 billion), the intense restructuring programme agreed upon with the European Union was expected to only maintain the viable business units [2], while the production capacity of the country amounted to approximately 9 million tons of steel per year and the number of steelworkers was estimated at about 35 000 employees.

The accession negotiations for Romania's membership to the European Union were conditioned by several practical readjustment procedures to be implemented in certain industries/ sectors [3-5]. According to the negotiations, mention was made of certain transitory meas-

ures related to State aid that would enable the completion of the steel industry restructuring procedures.

The respective State aid consists in financial advantages conferred on a selective basis to undertakings by national public authorities with the aim of meeting certain public interest objectives such as environmental protection, SMEs development, development of underprivileged areas, rescuing or restructuring strategic economic agents [4].

State aid is regulated by competition policies and is mainly based on the premise that, even though the aid granted by public authorities to enterprises can be in the public interest, it disturbs the natural competitive environment. In this respect, the EU Commission has established certain rules and regulations to be observed by authorities when interfering on the market by granting state aid [5].

Thus, state aid is compatible if it observes clearly defined general economic interest objectives with general benefits on the economic development and without disturbing trade among EU member states [3-5]. The EU commission regulations provided that such financial support will be granted upon meeting certain criteria [6]:

- reinstate the viability of the recipient undertakings under normal market conditions by the end of the restructuring period;
- the amount and extent of the aid should be strictly confined to the essential measures to be taken in order to restore viability;
- the total net output reduction for finished products should amount to minimum 2 050 000 tons.

Romanian steel plants that have been subject to the above mentioned regulations accounted for over 90 % of the total Romanian gross steel output, as presented in Table 1.

Table 1 **State aid granted in the steel industry during 1993-2004 [8]**

Company	State aid / billion lei
ISPAT SIDEX - S.A. Galati	30 598
SIDERURGICA - S.A. Hunedoara	9 975
COST - S.A. Targoviste	2 399
Wire industry - S.A. Campia Turzii	2 234
Resita - S.A. Steel Plant	4 707
Siderca - S.A. Calarasi	72
TOTAL	49 985

## REFERENCE VALUES FOR THE SECTOR UNDER ANALYSIS FOLLOWING THE IMPLEMENTATION OF THE RESTRUCTURING PROGRAMME

In order to compensate for the competitive advantage that companies had gained following the receipt of State aid, several steel plants had to be wound up [7] and thus the finished goods output diminished during 1993-2008 by the above presented percentages.

The monitoring procedures conducted by the European Union [6] have revealed that Romania has complied with the provisions set by the Commission and has additionally voluntarily wound up a number of obsolescent plants, including roll mills, blooming mills, light structural mills and wire mills. We would like to stress the fact that if the EU resolution had not been favourable, the current owners of the six steel plants being monitored would have had to reimburse € 1,2 billion, which equals the amount of State aid granted by the government to the steel industry throughout the privatisation process.

This support granted for restructuring has increased the financial performance and the viability of the Romanian steel industry and, at the end of 2008, Romanian companies have recorded EBITDA (Earning before interest, tax, depreciation and amortization) scores ranging between 8,5 % and 21,6 %, while the target goal was of 10,0 %. The EBIT score (earnings before interest and taxes) ranged between 4,6 % and 19,5 %, while the target goal amounted to 1,5 % [8].

The ability of these companies to meet the viability criteria set by the European Union after the implementation of the restructuring programme is translated by the figures presented in Table 2.

Table 2 **Estimated viability criteria (post restructuring/ 2008) [8]**

Viability according to available EU criteria		Company					
EU standard/ value %		ISPAT SIDEX - S.A. Galati	SIDERURGICA - S.A. Hunedoara	COST - S.A. Targoviste	Wire industry - S.A. Campia Turzii	Resita - S.A. Steel plant	Donasid-S.A. Calarasi
Re-tained earnings	EU standard value	13,5	10,0	10,0	10,0	10,0	10,0
	Value/ %	15,2	10,7	12,7	10,1	10,7	30,17
Net profit	EU standard value	1,5	1,5	1,5	1,5	1,5	1,5
	Value/ %	3,1	2,1	4,1	1,5	2,1	26,48

When analysing the output and labour occupancy of the same year (2008), the number of restructured jobs in the Romanian steel industry was higher than what had been forecasted, while the annual workforce level amounted to 33 200 workers, as opposed to the estimated target of 43 308 workers. The restructuring mainly consisted in transfers, early retirement and voluntary leave schemes.

Nevertheless, the output coefficients at the end of the restructuring period (for certain beneficiaries) are well below the figures for the EU steel industry. As for cost reduction, this objective can only be reached on a long term by investing in development.

We argue that the development of viable production units during 2003-2008 (their size is presented in Table

3) has been rather constant and was specifically meant to align Romanian steel production with the international performance level.

The European Commission has concluded that all companies have reached their investment targets [6], as provided in the Individual Business Plan.

**Table 3 Total steel output at the end of the restructuring period, measured in thousand tons/year – in 2008 [8]**

Company	Output Steel / thousand tons	Rolling capacity
ISPAT SIDEX - S.A. Galati	6 000	6 800
SIDERURGICA - S.A. Hunedoara	950	3 440
COST - S.A. Targoviste	630	1 330
Wire industry - S.A. Campia Turzii	385	685
Resita - S.A. Steel Plant	450	1 050
DONASID - S.A. Calarasi	400	300
GAVAZZI STEEL - S.A. Otelu Rosu	300	1 520
Total	9 115	15 125

The above mentioned companies (Table 4) have invested between 150 % and 330 % of the estimated amounts, while the effects of the investment will become visible in time.

**Table 4 Total investments during the Romanian steel industry restructuring process [8], million USD**

Company	2002	2003	2004	2005	2006	2007	2008	Total
ISPAT	35,2	106,1	100,6	54,8	47,9	70,0	30,0	446,6
SIDERURGICA	-	-	1,0	1,7	2,1	2,9	3,4	11,1
COST - S.A.	-	-	2,8	6,9	7,6	3,3	0,4	21,1
Wire ind. - S.A.	-	-	9,5	7,6	4,7	2,2	1,2	25,2
Resita S.A.	-	-	0,5	11,5	8,6	2,6	3,1	26,3
GAVAZZI STEEL	-	-	-	-	-	-	-	-
Donasid	-	4,9	3,2	7,2	8,6	7,4	8,4	39,7
TOTAL	35,2	111,0	117,6	89,7	79,5	88,4	46,5	567,4

## CONCLUSIONS

With an output of about 9 million tons of liquid steel per year, Romania has completely aligned with the European steel community. There have been substantial efforts in recent years towards the development of steel production and steel rolling facilities.

The output reached by steel plants throughout the restructuring period has enabled them to face the distinctive challenges of the market demands for the fol-

lowing years. Most steel plants have acceptable steel manufacturing equipment, in agreement with the range of goods they produce. They have continuous steel casting furnaces – especially for continuous steel blooming. Moreover, the steelworks in question have rolling furnaces, except for COST - S.A. Targoviste and ISPAT SIDEX - S.A. Galati.

It is worthy of note that the completion of the restructuring process of the Romanian steel industry has coincided with the emergence of the international financial crisis (2007-2008). The visible decrease in the demand for steel manufactures has resulted in lower performance indicators than the estimated figures.

On the other hand, aside from the financial difficulties triggered by the world crisis, efforts must still be made for completely restoring the sustainable viability of the steel industry and to make sure it will be able to overcome any future market uncertainties. This specific objective can be reached on the long term through the constant implementation of the cost reduction strategies and through the development of sustainable and coherent strategies for the future.

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**Note:** The responsible for English language is the lecturer from Faculty of Economics, Suceava, Romania