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COMMISSION STAFF WORKING DOCUMENT

Programme for Restructuring of the Romanian Steel Industry

FINAL ASSESSMENT

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Programme for Restructuring of the Romanian Steel Industry

1. BACKGROUND

According to Article 9(4) of Protocol 2 of the Europe Agreement with the Romanian Government, during the first five years after entry into force of the Agreement, and by derogation from paragraph 1(iii) of the same Article, Romania may exceptionally, as regards ECSC steel products, grant public aid for restructuring purposes, provided that:

- it leads to the viability of the benefiting firms under normal market conditions at the end of the restructuring period,
- the amount and intensity of such aid are strictly limited to what is absolutely necessary in order to restore such viability and are progressively reduced,
- the restructuring programme is linked to a global rationalisation and reduction of overall production capacity in Romania.

The initial period of 5 years expired on 31 December 1997. The Romanian government submitted a request to the Association Council for an extension of the initial period. The Community and Romania signed on 23 October 2002 an additional protocol to the Europe Agreement which extended for a further eight years, from 1 January 1998, the period during which Romania might grant public aid for restructuring purposes under the conditions listed in Article 9(4) of Protocol 2. Under the terms of the additional protocol the extension is subject to fulfilment of certain conditions, namely that Romania submits to the Commission a restructuring programme and business plans, that the Commission provides a final assessment of whether that programme and the business plans meet the requirements listed in Article 9(4) of Protocol 2, and that the Council decides that the programme and plans are in compliance with that Article.

Following approval by the Romanian Government, Romania submitted to the Commission on 15 December 2004 its National Restructuring Programme including individual business plans for the six companies concerned. These plans were also assessed and agreed by the Romanian Competition Council. Written endorsements of the individual business plans by each of the six companies concerned were submitted to the Commission in January 2005.

The Commission has now assessed the documents submitted by the Romanian Government. The documents have been submitted to the Commission on the strict understanding that they will remain confidential, in view of the market sensitive data which they contain. The conclusions drawn by the Commission from these documents form the basis of the present Assessment.

2. ROMANIAN STEEL INDUSTRY- PAST AND CURRENT SITUATION

2.1 General

Steelmaking in Romania has been initially based on locally available iron ore and coal deposits and relied on the integrated steel route. For this reason most of the initial plants (CS Resita, Siderurgica Hunedoara, Otelo Rosu, and IS Campia Turzii) were land-locked. Only the more recently erected steel companies founded in the last 40 years (Ispat Sidex (Galati), Donasid (Siderca) Calarasi and COS Targoviste), have either opted for electric arc furnaces and/or benefit from waterway access to sea harbours. In the last decade, CS Resita and Siderurgica Hunedoara have definitively stopped their obsolete open-hearth (Siemens-Martin) steelmaking stream and replaced them by electric arc furnaces. The technological changes, reflected by the closure of Siemens Martin equipment by 2000, are a crucial aspect of the development of the steelmaking industry in Romania. The production of crude steel in Romania is now entirely based on oxygen blown converters (80-90%) and electric arc furnaces (10-20%).

Steel companies are spread all over the country. The most important steel regions are: Hunedoara, Galati, Caras-Severin and Targoviste.

The Romanian steel sector was strongly affected by the changes in the economic and political environment after 1989 and had to undergo a significant restructuring process, both in terms of capacity reduction and in terms of technological restructuring. The industry had to cope with an unprecedented decline in market demand which led to a significant production decline. The apparent consumption of finished and semi-finished steel products dropped from about 9.2 million tonnes in 1990 to below 3 million tonnes in the past years, hitting an all-time minimum of 2.5 million tonnes in 2000. Crude steel output decreased from 13.4 million tonnes in 1989 to 5.4 million tonnes in 2002. In this process Siderurgica Hunedoara was the most affected, while CS Resita, Donasid (Siderca) Calarasi and Otelu Rosu interrupted their activity. At Ispat Sidex (Galati), COS Targoviste and IS Campia Turzii the production levels were roughly cut to half of their historic levels.

2.2 Industry structure and Ownership

The Romanian steel industry consists of thirty one companies. The sector is dominated by 7 integrated steel plants (1 converter steel and 6 electrical producers) which contribute to 98% of the country total production, 5 rolled pipe producers, 3 welded pipe producers, 2 producers of casts parts, 1 ferro-alloy producer and 13 re-rollers. Seamless tubes of various sizes are produced at four tube mills – Silcotub, Ispat Petrotub, Republica and Artrom, while Tepro, Inftor, Zimtub and Helitube manufacture welded tubes. The most important independent re-rollers are Ductil Steel, Laminorul Braila, Laminate Bucuresti, Landro and Otelinox. The latter is the sole manufacturer of long and flat stainless steel products.

The ownership structure of the Romanian steel industry has changed dramatically in the last few years. In 1999, Otelu Rosu (Gavazzi Steel) was the only steel mill in private hands while the other six steel mills were awaiting privatisation. Today, the whole sector is in private hands. Moreover, both LNM Holdings and Mechel group, the two most important international steel industry players present in Romania have consolidated their market position by also acquiring companies from further downstream.

TABLE 1: OWNERSHIP STRUCTURE OF BENEFICIARY COMPANIES

Company	Status	Majority owner	Since
Ispat Sidex (Galati)	Privatised	LNМ Holdings	November 2001
Siderurgica Hunedoara	Privatised	LNМ Holdings	April 2004
COS Targoviste	Privatised	Mechel	August 2002
IS Campia Turzii	Privatised	Mechel	March 2003
CS Resita	Privatised	Sinara Handel TMK	February 2004
Donasid (Siderca) Calarasi	Privatised	Joint-venture (Sipro Beltrame – 68%)	January 2003

2.3 Products

The range of products manufactured by the six beneficiary companies is as follows:

- **Ispat Sidex (Galati)** is the country’s largest steel manufacturer. It is the sole manufacturer of flat steel rolled products (heavy plates, hot-rolled coils, cold rolled sheets and galvanized coils)
- **Siderurgica Hunedoara** is the largest manufacturer of long steel products mainly medium and light sections and billets for pipes
- **COS Targoviste** manufactures alloyed steel and forged steel products and also a range of long steel products
- **IS Campia Turzii** is the market leader in drawn wires.
- **CS Resita** is a manufacturer of semi-finished steel products (mainly billet for pipes) and heavy sections.
- **Donasid (Siderca) Calarasi** is a manufacturer of long products (blooms, heavy sections, billets for tubes, metallic slippers and merchant bars).

2.4 Production capacity

Between 1993 and 2003 the Romanian steel industry underwent an in-depth restructuring process. In this context, steel making capacities were almost halved and sizable semi-finished and finished hot-rolling capacities were closed. In 1993 the total crude steel production of the Romanian steel industry amounted to 17.395 million tonnes and that of hot-rolled products from steel mills was 11.250 million tonnes. As a result of the closure of inefficient capacities steel production had, by 2003, declined by 46 % and hot-rolled finished products by 11%. Additionally, the finished hot rolling capacities of the independent re-rollers dropped during the period 1993-2003 by about 45%.

TABLE 2: TOTAL SECTOR PRODUCTION CAPACITIES IN ROMANIA 1993 – 2003

million tonnes

Production capacities	Annual capacities 1993	Annual capacities 2003	Change (2003 versus 1993)
Crude steel	17.395	9.365	- 46%
Semi-finished products	15.125	5.925	- 61%
Finished steel hot rolling products (integrated steel mills)	11.250	10.020	- 11%
Finished steel hot rolling products (independent re-rollers)	3.590	1.950	- 45%

Source: NRP December 2004

2.5 Markets

The domestic steel **consumption** is currently mainly driven by the construction, machine building and shipbuilding industries. The automotive industry will also become a major driving consumer in the coming years. Due to their large weight in total steel consumption, the cycles of these industries determine the cycle in steel demand, while the other major steel consuming industries in the country (i.e. electric engineering/appliances, oil and gas, chemical) have a lower impact.

The apparent steel consumption of finished products shows an upwards trend in the past four years reaching an estimated figure of 3.1 million in 2004. In 2004, the Romanian total production of steel products reached 5.7 million in 2004 maintaining a similar level than in 2003.

TABLE 3: CONSUMPTION 2001-2004

million tonnes

Apparent Consumption	2001	2002	2003	2004
Crude Steel	3.3	3.4	3.7	3.8
Finished Products	2.7	2.8	3.0	3.1
- Flat Products	1.1	1.3	1.4	1.4
- Long Products	0.3	1.4	0.4	1.4
- Tubes	0.3	0.2	0.2	0.3

Source: Commission- elaboration from information of IISI and Romanian NRP

TABLE 4: PRODUCTION 2001-2004

million tonnes

Production	2001	2002	2003	2004
Crude Steel	4.9	5.5	5.7	5.7
Hot Rolled	4.2	4.7	4.8	4.8
- HR Flat Products	3.2	3.6	3.6	3.7
- HR Long Products	0.9	1.0	1.1	1.1

Source: Commission; Elaboration from information of IISI and Romanian Administration

The penetration of **imports** in relation to consumption shows a downwards trend from 46% in 2002 and 43% in 2003 to 35% in 2004. Most of the increase in imports in recent years has been from CIS countries. The EU25 Member States account for 40% and Ukraine accounts for 21% of the imports.

Imports consist mainly of semi-finished products. Almost two thirds of billet consumption was addressed by imports. In the case of flat and long products imports account for approximately one-quarter of overall consumption. Imports focused mainly on: heavy rail infrastructure, certain special steels for machine building, cold rolled sheets for household appliances, galvanized sheets for constructions, heavy plates for shipbuilding and construction, seamless tubes for the petrochemical industry and welded tubes for construction.

TABLE 5: IMPORTS 2001-2004

million tonnes

Imports	2001	2002	2003	2004
Total steel products	1.0	1.3	1.3	1.1
Semi- finished products	0.5	0.7	0.5	0.3
Flat products	0.2	0.3	0.4	0.4
Long products	0.2	0.2	0.3	0.2
Tubes	0.1	0.1	0.1	0.1

Source: Commission- Elaboration from information of IISI and Romania Administration

Romania is relatively dependent on **export** markets of steel, the latter representing about 66% of the industry's total production in 2004. After a period of steady growth to around 2.7 million tonnes in 2001, export levels of steel products marked an increase of 25% in 2002 compared to 2001, mainly due to booming exports towards China. The main export markets for Romania are the EU25 (20%) and Asia (40%).

Following the takeover of Ispat Sidex (Galati) by LNM Holdings, the exports of flat products (mainly rolled plates and coils) almost doubled in 2002 and now represent 66% of total exports. The main categories of long products exported were drawn wire, medium and light sections as well as reinforcing bars.

TABLE 6: EXPORTS 2001-2004

million tonnes

Exports	2001	2002	2003	2004
Total steel products	2.7	3.4	3.6	3.2
Semi- finished products	0.4	0.2	0.1	0.1
Flat products	1.7	2.6	2.9	2.4
Long products	0.2	0.3	0.3	0.4
Tubes	0.3	0.4	0.4	0.2

2.6 Employment Levels

Total employment in the steel sector decreased considerably due to the restructuring process since the late 1990s. While in 1993 143,615 persons were working in the sector, by the end of 2003 this figure had been reduced to 60,000.

Employment at the seven integrated companies has also dropped sharply, by around 55%, as a result of the important capacity adjustments during the period. The workforce decreased from almost 87,514 in 1993 to just below 40,000 in 2003.

TABLE 7: EMPLOYMENT 1993 – 2003

Company	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Ispat Sidex (Galati)	37,783	37,498	36,993	36,738	36,575	35,990	31,352	27,772	27,718	25,175	18,832
Siderurgica Hunedoara	16,856	16,573	16,180	15,862	15,362	14,437	10,453	8,612	8,431	7,528	5,875
COS Targoviste	96,56	9,479	9,220	8,340	7,350	6,760	6,160	5,667	5,707	5,427	5,300
IS Campia Turzii	89,92	8,487	8,257	8,264	8,023	6,897	6,121	5,760	5,951	5,724	5,610
CS Resita	5,177	5,081	4,966	4,868	4,595	4,578	4,446	3,865	3,042	2,400	2,170
Otelu Rosu	4,140	4,135	4,078	4,118	3,871	3,517	3,099	3,003	2,350	2,000	2,000
Donasid (Siderca) Calarasi	4,910	4,020	3,060	2,994	2,618	958	133	103	169	169	123
TOTAL 7 – INTEGRATED COMPANIES	87,514	85,273	8,2754	81,184	78,394	73,137	6,1764	54,782	53,368	48,423	39,910
TOTAL STEEL INDUSTRY	143,615	134,000	124,686	115,172	105,802	96,272	86,692	77,172	75,000	69,000	60,000

Source: NRP December 2004

3. ROMANIAN NATIONAL RESTRUCTURING PROGRAMME

The **objective** of the NRP is to contribute to the achievement of the commercial viability of the Romanian steel industry on a sustainable basis and in conformity with European and international requirements. The key elements of the strategy will be:

- modernisation of installations
- improvements in operating efficiency
- improvements in quality and products range
- increased ability to produce high value-added products

- closure and dismantling of inefficient capacities

All this will take place in the framework of a completed privatisation process and of economic growth leading to an increased domestic consumption and therefore a positive trend of the crude steel production.

The companies mentioned in the national restructuring programme as **beneficiaries of State aid** are: Ispat Sidex (Galati), Siderurgica Hunedoara, COS Targoviste, IS Campia Turzii, CS Resita and Donasid (Siderca) Calarasi. The Individual Business Plans of these companies have been presented to the Commission. Otelo Rosu has been excluded from the list of beneficiary companies as this company entered into a bankruptcy procedure on 25 October 2004 and previously planned State aid is now no longer foreseen

The **duration** of the restructuring of the Romanian steel industry - that is to say the implementation of the objectives of the national programme, as described in the company's individual business plans - is from 2002 until 2008.

3.1 Future capacity

The National Restructuring Programme identifies the reduction of capacities to be achieved for the period 1993-2008. The total net capacity of the six companies included in the NRP in finished product will be reduced by 2,050,000 tonnes over the period 1993-2008. This change in capacity relates to hot-rolled products. All capacity reductions relate to permanent closure of the facilities concerned by physical destruction so these facilities cannot be returned to operation. Most of the reduction in capacity has already been achieved as part of past rationalisation efforts in the Romanian steel industry.

As a result, the existing steel making capacities, taking into account still outstanding reductions to be achieved during the restructuring period, will be sufficient to meet the anticipated domestic demand and to attain the planned export sales levels in 2008.

TABLE 8: PRODUCTION CAPACITIES IN ROMANIA 2004 – 2008

million tonnes

Production capacities	Annual capacities 2004	Annual capacities 2008	Change (2008 versus 2004)
Crude steel	9.365	9.115	-3%
Semi-finished steel hot rolling	5.925	5.925	No change
Finished steel hot rolling (steel mills)	10.020	9.200	-8%
Finished steel hot rolling (independent re-rollers)	1.950	1.950	No change

As most capacity reductions have already been achieved in Romania, steelmaking capacity will remain largely unchanged in the period 2004-2008. According to the business plans submitted, the only changes foreseen as regards crude steel capacities are at Siderurgica Hunedoara (dismantling of one Electric Arc Furnace from Steelshop no. 1 with a capacity of 35,000 tonnes) and Otelo Rosu (closure of two EAFs with a total capacity of 250,000 tonnes).

In terms of finished steel hot rolling, important changes are foreseen at Siderurgica Hunedoara (closure of the medium and light sections rolling mill with a capacity of 480,000 tonnes), and at CS Resita (closure of two rolling mills with a total capacity of 340,000 tonnes).

The independent re-rollers will maintain their current capacity levels by 2008.

The detailed changes in finished production capacities are as follows:

TABLE 9: NET CHANGES OF PRODUCTION CAPACITIES OF HOT ROLLED PRODUCTS 1993 -2008

Company	Facility	Capacity changes (tonnes)	Date of cessation of production	Date of permanent closure
Siderurgica Hunedoara	Wire rod No. 1	- 400,000	1995	1997
	Wire rod No. 3	- 280,000	1998	2000
	Medium sections	- 480,000	1 st quarter 2008	2nd quarter 2008
IS Campia Turzii	Wire rod No. 1	- 80,000	1995	1996
CS Resita	Light sections	- 80,000	2000	2001
	Rail wheels	- 40,000	1999	2000
	Heavy sections	- 220,000	4 th quarter 2007	2nd quarter 2008
	Medium and special sections.	- 120,000	4th quarter 2006	4th quarter 2007
Siderca (Donasid) Calarasi	Medium sections	- 350,000	1997	1999
Net capacity change		- 2,050,000		

3.2 Market

According to the National Restructuring Plan **production** at the end of the restructuring period in 2008 is estimated to be around 8.6 million tonnes of crude steel, which implies an increase of 36% compared to 2004. During this period, **consumption** will show a similar rate of increase to reach 4.3 million tonnes in 2008. This will allow companies to maximise their production level with increased utilisation rates. The utilisation rate of crude steel facilities will go up from 58% in 2003 to 94% in 2008.

The strategy of the main Romanian steel companies will lead to a considerable decrease in the level of **imports** of semi-finished and long products during the restructuring period through a substitution of imports by local supply. While the import of flat products will continue its upwards trend in absolute figures, the overall rate of imports penetration in relation to consumption will decrease from 37% in 2004 to 24% at the end of the restructuring period in 2008.

TABLE 10: IMPORTS FORECAST* 2005 – 2008

million tonnes

Products	2005	2006	2007	2008
Long products	58	4	3	57
Flat products	737	797	896	980
Total	795	801	899	1.038

Note: * long products include semi-finished steel

Source: Independent consultant report December 2004

In general, the **exports** ambitions of the main Romanian steel mills are supported by their integration in the international sales network of the international groups they belong to after privatisation. Ispat-Sidex (Galati), as the only domestic flat carbon steel producer, will account for over 80% of total Romanian export shipments. Flat products and long products will show an increasing trend during the restructuring period. Due to the higher overall levels of production by 2008, however, the share of production going to export will decrease from 70% in 2004 to 60% in 2008.

TABLE 11: EXPORTS FORECAST* 2005 – 2008

million tonnes

Products	2005	2006	2007	2008
Long products	587	699	710	776
Flat products	3.622	3.808	3.785	3.785
Total	4.209	4.507	4.495	4.561

Note: * data relate to seven integrated steel companies/ long products include semi-finished steel

Source: Independent consultant report December 2004

3.3 Companies business strategy

The key axes of the strategy of the benefiting companies for the restructuring period as contained in the submitted IBPs are:

- (1) For Ispat Sidex (Galati):

- (i) the implementation of the investment programme for the modernisation of the works, improvement of yields, reduction of costs (especially energy consumption), and improvement of quality
 - (ii) the move into higher-value added steel flat product market segments. The company plans to increase the output of cold rolled and galvanized products, add tinplate to the portfolio, and reduce billets. Sales are expected to increase considerably along the restructuring period through better quality, improved commercial strategy and integration into the owner's group sales network. The company plans to increase domestic shipments, although company will remain oriented towards exports markets.
 - (iii) the improvement of operational efficiency through an on –going cost reduction strategy and improved organisational management by introducing the company in the owner group standard organisation structure
 - (iv) the completion of the financial restructuring of the company
 - (v) the implementation of the investments necessary to comply with environmental legislation
- (2) For Siderurgica Hunedoara:
- (i) the modernisation of the facilities in order to achieve the envisaged sales plan
 - (ii) the improvement of operational efficiency through an on –going cost reduction strategy and improved organisational management by introducing the company in the owner group standard organisation structure
 - (iii) the implementation of the investments necessary to comply with environmental legislation
 - (iv) The sales strategy of the company is to focus on sections and rounds for tubes to be the main supplier of the local tube maker Petrotub, part of the same group. The sales are forecast to increase considerably in the restructuring period through better quality, improved commercial strategy and integration into the owner's group sales network.
- (3) For IS Campia Turzii:
- (i) the increase of the output of higher value – added and transformed products drawn wires, cables and galvanised wire.
 - (ii) the company's forecast product mix and sales strategy aims to tap the potential of the construction industry. A steady evolution of sales is forecast as the company will benefit from the strong international sales network of the owner.
 - (ii) the implementation of the investment programme in order to improve production quality
 - (iii) the improvement of operational efficiency and organisational management

- (iv) the implementation of the investments necessary to comply with environmental legislation
- (4) For CS Resita:
- (i) the specialisation on semi-finished products to supply the local pipe sector The company is to become the billet supplier to pipe manufactures within its mother group. It envisages to cover part of the domestic demand currently covered by imports
 - (ii) the closure of inefficient capacities
 - (iii) the implementation of the investments necessary to comply with environmental legislation
- (5) For COS Targoviste:
- (i) the increase of the share of higher value-added products The company plans to reassert its position in the field of special steels. The company plans to maximise production focusing on the domestic market. The company will increase sales considerably in the first years of the restructuring period thank to the access to the strong international sales network of the mother group
 - (ii) the implementation of the investment programme in order to achieve cost reductions, higher efficiency, and quality improvement
 - (iii) the implementation of the investments necessary to comply with environmental legislation
- (6) For Donasid (Siderca) Calarasi:
- (i) the implementation of the investment programme for the modernisation of the works
 - (ii) the increase of the share of finished products
 - (iii) the implementation of the investments necessary to comply with environmental legislation

3.4 Investments

In the past 10 years, substantial efforts were made to modernize the steelmaking and rolling facilities. Most plants today have acceptable steelmaking facilities aimed at the target product mix. All plants except CS Resita and IS Campia Turzii have continuous casting facilities. With the exception of Ispat Sidex (Galati) and COS Targoviste, the rolling equipment of all plants needs considerable upgrading.

The investment plans included in the business plans are key for the companies to achieve viability. The total amount of investments planned will be around EUR 456 million (USD 568.3 million) of which around EUR 345 million (USD 430.1 million) in production technology and around EUR 111 million (USD 138.2 million) in environmental protection.

TABLE 12: INVESTMENTS FORESEEN 2002 – 2008

million

Company	Investments					
	Technology		Environment		Total	
	USD	Euro*	USD	Euro	USD	Euro
Ispat Sidex (Galati)	333.4	268	111.2	89	444.6	357
Siderurgica Hunedoara	7.0	6	4.1	3	11.1	9
COS Targoviste	14.1	11	7.1	6	21.2	17
IS Campia Turzii	20.9	17	4.5	4	25.4	20
CS Resita	16.6	13	9.7	8	26.3	21
Donasid (Siderca) Calarasi	38.1	31	1.6	1	39.7	32
TOTAL	430.1	346	138.2	111	568.3	457

Source: IBPs

*Exchange-rate Euro/USD (2004): 1.2439

The companies' Business Plans envisage the following main investments in the restructuring period:

- **Ispat Sidex (Galati):** modernisation of coke oven plant, slab casting and cold rolling mill.
- **Siderurgica Hunedoara:** small scale modernisation of the rolling mills.
- **COS Targoviste:** modernisation of the existing continuous caster.
- **Campia Turzii:** the modernisation of the wire-rolling mill
- **CS Resita:** installation of a continuous casting delivered on site but not yet installed.
- **Donasid (Siderca) Calarasi:** revamping of old bloom caster

The investments aim mainly to modernisation of facilities, increased efficiency, cost reduction, improved quality and diversification of product portfolio in some cases.

3.5 Employment

Workforce employed in the steel sector dropped considerably (by around 50%) in Romania between 1993 and 2003. In the period 2004-2008 the downward trend is expected to continue at a lower pace with employment being reduced in the integrated steel companies by around 24% as compared to the employment level in 2003. The largest reductions will be experienced by Ispat Sidex (Galati) and COS Targoviste. Most of the companies have undertaken commitments to maintain employment for 5 years after privatisation. There should therefore

be no forced redundancies and to a large extent the future reductions will be the result of workers entering retirement.

TABLE 13: ESTIMATED EMPLOYMENT EVOLUTION 2004-2008

Company	2004	2005	2006	2007	2008
Ispat Sidex (Galati)	18,500	18,000	17,500	17,000	16,500
Siderurgica Hunedoara	2,280	2,250	2,250	2,250	2,250
COS Targoviste	5,000	4,700	4,400	4,200	3,700
IS Campia Turzii	5,300	4,800	4,800	4,800	4,700
CS Resita	1,520	1,520	1,520	1,450	1,350
Otelu Rosu	350	1,350	1,350	1,350	1,350
Donasid (Siderca) Calarasi	388	402	402	402	402
TOTAL 7 Integrated Companies	33,338	33,022	32,222	31,452	30,252
TOTAL STEEL INDUSTRY	52,000	51,000	48,000	45,000	43,500

Source: NRP

3.6 State aid

The overall gross State aid granted to the Romanian steel industry between 1993 and 2004 amounts to ROL 49,985 billion (approximately EUR 1,269 million). Most of this State aid relates to the amounts granted to Ispat – Sidex (Galati) in 2001 as part of the privatization contract, as well as the amounts granted between 2002 and 2004 to this company. It also includes State aid that resulted from the privatization agreements of the other companies. From 31 December 2004, no further State aid will be granted to any steel mill. The largest part of the State aid consists of write-off of debts and related penalties.

The maximum aid to be received by each company will be:

TABLE 14: STATE AID

Ispat Sidex (Galati)	ROL	30,598 billion
Siderurgica Hunedoara	ROL	9,975 billion
CS Resita	ROL	4,707 billion
IS Campia Turzii	ROL	2,234 billion
COS Targoviste	ROL	2,399 billion
Donasid (Siderca) Calarasi	ROL	72 billion

The State aid shall lead to the viability of the benefiting firms under normal market conditions at the end of the restructuring period. The amount and intensity of such aid are to be strictly limited to what is absolutely necessary in order to restore such viability. No further State aid will be granted by Romania for restructuring purposes to the Romanian steel industry.

Romania has put in place the necessary legislation to ensure that no more aid is granted to the steel sector after 2004 (GEO 134/2004 and modifications of Act 571/2003 on the Fiscal Code).

3.7 Viability

The companies included in the NRP were in a difficult financial situation, with enormous accumulated debts and penalties before privatisation. The financial situation of most of the beneficiary company has improved considerably since privatisation.

On one hand the privatisation agreements envisaged a debt restructuring that considerably improved the companies' balance sheets.

On the other hand, the new IBPs, reflecting the strategy of the new investors, envisage a series of measures related, inter alia, to the increase of production, improved sales policy, reduction of costs (especially energy costs), improved raw material purchasing policy and increased efficiency.

This is reflected in the financial forecast of the companies which all show improved liquidity, solvency and profitability ratios at the end of the restructuring period, which allow them to pass the EC viability test.

3.8 Environment

The companies Ispat Sidex (Galati), Siderurgica Hunedoara, and IS Campi Turzii will benefit from a transitional period until the end of 2014 for compliance with the IPPC Directive 96/61 EC. The other companies are not included in the list of companies to benefit from such a transitional period and will therefore have to comply with this legislation by accession.

The planned environmental investments amount to around EUR 111 million (USD 138.2 million).

4. ASSESSMENT OF THE COMMISSION

Under Article 9(4) of Protocol 2 of the Europe Agreement, Romania could exceptionally, as regards steel products, grant public aid for restructuring purposes, provided that:

- it leads to the viability of the benefiting firms under normal market conditions at the end of the restructuring period,
- the amount and intensity of such aid are strictly limited to what is absolutely necessary in order to restore such viability and are progressively reduced,
- the restructuring programme is linked to a global rationalizing and reduction of overall production capacity in Romania.

The Commission's assessment indicates that the three requirements set out in Protocol 2 are met by the restructuring programme, as submitted by the Romanian Government.

4.1 Viability

The national restructuring strategy should lead to the viability of the benefiting firms under normal market conditions at the end of the restructuring period.

The issue of future viability of the companies benefiting from State aid as stipulated in the NRP is central to the Commission's assessment of the Romanian plans, which draws in particular on the independent evaluation carried out by an independent consultant. The aim of the restructuring programme is that the companies concerned are to be able to achieve viability by the end of the restructuring period. The Commission's viability assessment confirms that this is credible and achievable.

The viability assessment is based on a comprehensive forecast of the financial performance of the company concerned, carried out by the external consultant and based on realistic assumptions concerning markets, costs, prices etc. This financial forecast constitutes the basis for the application of the Commission's viability test, as imposed in similar cases in the past.

The EC criteria are:

- gross operating profit (EBITDA) of at least 13,5% of steel sales revenue,
- a minimum return (EBIT) of at least 1,5% of steel sales revenue.

However, before carrying out the viability test it has to be checked that the depreciation and financial charges as a percentage of steel sales revenue in each Plan year satisfy the minimum accounting conditions.

These "special accounting conditions" are:

- depreciation is not less than 7% of turnover,
- financial charges are not less than 3,5% of turnover
- a 2,5% price-cost squeeze has been applied.

The new investors are putting in place different measures that will considerably improve the financial performance of the companies that are already starting to show improved liquidity,

solvency and profitability indicators. The result of the viability test shows that the beneficiary companies will fulfil the viability criteria at the end of the restructuring period.

4.2 Proportionality of State Aid

The amount and intensity of any State aid granted should be strictly limited to what is absolutely necessary in order to restore viability and the aid should be progressively reduced.

The high level of indebtedness and related penalties of the beneficiary companies and their risk of bankruptcy implied the need of State aid in order to allow for the privatisation and restructuring of the companies in order to eventually secure their viability. Most of the aid granted to Romanian beneficiary companies consists of debts and penalties restructuring. Other types of aid that were planned for Ispat Sidex (Galati) after 2004 will no longer be granted.

Taking these elements into account, the European Commission has assessed the proportionality of the State aid envisaged by the Romanian restructuring programme, in accordance with the requirements of Protocol 2 of the Europe Agreement. The aim of the assessment is to ensure that no more aid is granted than is necessary to return the companies to sustainable viability. The Commission concludes that the aid granted can be assessed as limited to what was necessary to achieve the viability of the companies. It is also assessed as a positive factor that not more aid will be granted after the end of 2004.

4.3 Capacity Reduction

The restructuring programme should be linked to a global rationalisation and reduction of overall production capacity.

Romania has undertaken considerable efforts aimed at rationalisation of capacity in the past, the completion of which should be achieved during the restructuring period. From 1993-2008 Romania will reduce the inefficient hot rolling capacities of beneficiary companies by around 20%. The Commission assessment is that the rationalisation of production capacities as required by Protocol 2 will be fully completed.

5. COMMITMENTS MADE IN THE FRAMEWORK NEGOTIATIONS AND MONITORING

The restructuring of the steel sector is an important element in the establishment of a satisfactory State aid enforcement record in Romania, which is itself a crucial aspect of the accession negotiations on Chapter 6: Competition Policy. The EU negotiating position under chapter 6 therefore set out several conditions, which must be met by Romania in the framework of the negotiations. Several of these are basic principles taken from the Protocol 2 framework, and incorporated into the EU negotiating position.

These conditions provide a valuable additional safeguard for ensuring that not only the requirements of Protocol 2 of the Europe Agreement are met, but also that subsequent implementation of the Romanian restructuring programme is carried out as planned and can be easily monitored.

The conditions include:

- Restructuring shall be completed by the end of 2008
- The total restructuring aid to be granted to the beneficiary companies for the period 1993-2004 shall not exceed ROL 49,985 billion (around EUR 1,269 million)
- The restructuring aid will be a one-off operation respecting the “one time last time” principle
- Companies not listed as “benefiting companies” will not benefit from State aid for restructuring
- No restructuring aid will be granted to the Romanian steel sector after the end of 2004
- The net capacity reduction to be achieved by Romania for hot rolled products during the period 1993-2008 shall be - 2,050,000 tonnes

The National Restructuring Plan shall be implemented in the period prior to and after accession. Procedures and criteria for monitoring before and after accession will be included in the Treaty of Accession. The Commission will, by exercising all its powers, ensure that benefiting companies meet the conditions imposed, including as regards achieving the necessary progress in reaching viability and the requirement for further capacity reductions. In order to carry out the necessary monitoring effectively, the Commission will require the full and close collaboration of Romania. Clear and strict reporting obligations have been agreed in the context of the negotiations. In particular the following elements will require close attention:

- State aid granted under the restructuring programme ,
- reduction of capacity,
- financial performance.

Should the monitoring of the implementation of the restructuring programme show that any of the agreed conditions have not been fulfilled or that Romania in the course of the restructuring period has granted additional incompatible State aid in favour of the steel industry, the Commission would be compelled to take appropriate steps requiring any aid granted in breach of the relevant conditions to be reimbursed.

6 CONCLUSION

The Commission has assessed the Romanian National Restructuring Programme for the steel industry, as well as the individual business plans of the six beneficiary companies, with a view to establishing whether the three criteria set out in Protocol 2 of the Europe Agreement are satisfied.

As regards **viability at the end of the restructuring period**, the Commission is satisfied that this can be achieved by the beneficiary companies, if the period during which restructuring aid may be granted is extended as foreseen by Article 1 of the Additional Protocol. The Commission furthermore considers that the necessary safeguards are in place to ensure that viability is in fact achieved within the restructuring period, by means of the monitoring instruments set out above, and the benchmarking commitments made in the framework of the accession negotiations.

As regards the **amount and intensity of State aid**, the Commission is satisfied that no more aid will be granted than the minimum necessary to restore viability. State aid to the steel sector was progressively reduced, as required by Protocol 2, and entirely stopped at the end of 2004.

As regards **global rationalisation and reduction of capacity**, one of the key objectives of the Romanian National Restructuring Programme is global rationalisation and removal of excess capacity by the end of the restructuring period. The planned closures, assessed by the Commission and independently by an external consultant, are outlined in Table 9 above. The process of rationalisation and capacity reduction has already been underway for some years and will be concluded during the restructuring period. Moreover, monitoring by the EU of planned closures will be enhanced by the obligations undertaken by Romania in the framework of the accession negotiations.

The requirements set out in Protocol 2 of the Europe Agreement are met by Romania. The period during which Romania may exceptionally, as regards steel products, grant State aid for restructuring purposes, in accordance with the provisions of Article 9(4) of Protocol 2 of the Europe Agreement, should accordingly be extended by an additional period of 8 years.

Annex: List of Documents formally received by Commission

1. “Strategy of Restructuring of the Romanian Steel Industry for the period 2003-2008”
- Romanian Ministry of Economy and Trade, December 2004
2. Individual Business Plans, of Ispat Sidex (Galati), Siderurgica Hunedoara, COS Targoviste, IS Campia Turzii, CS Resita and Siderca Calarasi (Donasid), December 2004
3. Beneficiary companies endorsement of IBPs, January 2005