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## THE JIU VALLEY'S EXTRACTIVE INDUSTRY TRANSITION TO THE MARKET ECONOMY

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### ABSTRACT:

1997 represented the beginning of the Jiu Valley's decline. Although it was clear that transition to the market economy would also imply, sooner or later, the re-structuring of the mining field, this process, done in a hurry and with no short or long term economic strategy, only determined the closing of a part of the mining units, unemployment, poverty, and despair. We consider that, according to the opinion of those times authorities, the mining field had to disappear as Romanian economy did no longer need coal. At present, opinions are different due to internal and international circumstances; solutions are looked for in order to improve this important field of the national economy.

### KEYWORDS:

transition, reform, re-structuring, improvement, mining field, coal

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The reform of the mining field is one of the most important components of Romania's transition process. Besides its positive effects upon the efficiency increase of the mining units and the losses decrease at the level of the national economy, the reform process has various negative consequences upon the miners and their families, upon the communities whose life is largely structured by mining activities, upon the persons who work within other fields (metallurgy or public services) depending or not on the mining industry, and, last but not least, upon local infrastructures. The most important obstacles and difficulties are the following ones:

- ✚ The increase of unemployment and the impossibility of finding an alternative job;
- ✚ The dramatic decline of life standards;
- ✚ The deterioration of local infrastructures and public services.

In 1990, with the changes that took place in the whole economy, the restructuring of the mining field started. Accordingly, the first legal act that determined changes of the mining units' organization was Law no. 15/07.08.1990, according to which State economic units were re-organized as autonomous administrations and companies. Autonomous administrations were founded in the strategic branches of the national economy: armament industry, energetic industry, mines and natural gas exploitation, post and railroad transports. At the same time, there were other fields that witnessed the foundation of autonomous administrations, decided by the government. Autonomous administrations have been settled through government decisions – in case of those having a national importance – and through decisions of district or local councils – in case of those having a local importance. Autonomous administrations are juridical persons and have their own economic administration and financial autonomy.

Besides these a series of strategic concepts have been formulated and implemented; they concern the basic restructuring of the mining industry and included:

1. Technical and production restructuring;
2. Organization and management restructuring;
3. Staff restructuring;
4. Restraining or stopping productive activity.

As an effect of the geological and mining characteristics of the exploited deposits and of ores' low content of metals, namely of coal's high content of ashes, as well as due to the poor efficiency of technological equipments in use, the costs of most mining products were, after 1989, and still are higher than the selling prices on external market; accordingly, the State had to support, through subsidies, the pit coal, lignite, and brown coal production extracted owing to underground methods as well as the production of ores containing non-ferrous and precious metals.

During the period 1990-2005 the Government support for the mining industry represented about 6,000 million U.S. dollars, representing production subsidies, budget allocations for capital expenditures, and social transfers (Table no.1). It is true that the subsidies decreased year by year so that in 2000 the whole subsidies for the Romanian mining system represented about 100 million dollars.

TABLE No. 1. Budget allocations for the mining industry during the period 1990-2000 (Million U.S. dollars)

Subsidies	3966.4
Social transfers	308.9
Capital allocations	1675.4
Total	5950.7

Source: The Ministry of Economy and Finance, *The strategy of the mining industry during the period 2007-2020*, p. 1

To this total amount, one should also add, during that period, an exploitation loss of 1547.3 million U.S. dollars. Accordingly, the State's effort for the mining field that also included budget expenditures determined by exploitation loss during the period 1990-2005 represented 6,519.7 U.S. dollars.

One should not overlook the fact that out of the total budget allocations social transfers represent 5.19%; in case one also calculates the amount of exploitation losses, a percent of only 4.73 is reached.

As regards the Jiu Valley, during the last 50 years, the importance of extracting and processing pit coal for the national economy determined a significant increase of production which, in 1988, attained 11.2 million tons; such a fact determined a rapid development of the region, but people dealt with a mono-factorial type of economy. The present mining development strategy estimates that in the future the Jiu Valley should attain an annual production of about 2.7 million tons of pit coal (Table no. 2).

TABLE No. 2. Estimation of the evolution of physical production of the units in the mining field (Thousand tons)

	2007	2008	2009	2010	Total
Total coal	34776.2	35667.1	37125.0	37964.4	145532.7
Pit coal field	2701.2	2709.1	2790.0	2879.4	11079.7
Lignite field	32075	32958	34335	35085	134453.0

Source: The Ministry of Economy and Finance, *The strategy of the mining industry during the period 2007-2020*, p. 71

TABLE No. 3. Evolution of coal production during the period 1989-2007 within CNH Petrosani (tons)

Years	Extracted coal	Processed coal
1989	10 919 534	8 586 644
1990	5 898 594	4 627 167
1991	5 275 716	4 018 282
1992	5 798 901	4 267 951
1993	5 939 287	4 405 722
1994	6 502 136	4 992 069
1995	6 546 121	5 087 295
1996	7 169 429	5 536 737
1997	5 759 511	4 403 159
1998	4 401 695	3 247 764
1999	3 821 070	2 805 343
2000	3 767 031	2 994 711
2001	4 098 549	3 210 089
2002	4 023 285	2 989 432
2003	3 346 613	2 626 490
2004	3 059 385	2 562 292
2005	3 002 434	2 613 676
2006	2 591 024	2 339 648
2007	2 637 484	2 452 959

Source: CNH Petrosani, *Production Department*

Due to the restructuring of Romanian metallurgy that has partly given up the use of the Jiu Valley coal in favor of imports, pit coal demand dropped from 10.9 million tons in 1989 to 5.7 million tons in 1997 (Table no. 3). At present, pit coal production is limited to 2.5 – 2.6 million tons and has two main beneficiaries, namely Paroseni and Mintia power-stations. On the other hand, the 2000 production of extracted pit coal represented one third of the 1989 production (10.9 million tons) and 52.5% of 1996 production, the year before effective restructuring. In 2007, due to the restructuring of extractive industry, to the diminishing of the number of employees, and also due to total or partial closing of several of the Jiu Valley mines, extracted production represented 2.63 million tons, that is 75.8% less than in 1989 and 63.2% less than in 1996.

The continual decrease of coal production had, until 1997, two main causes:

- ✚ The decrease of the demand on internal market;
- ✚ The lack of investments for opening mining fields, acquiring new technology and modernizing.

As in the case of the other components of the transition process, the restructuring of this important field represents a national priority. Although all autonomous administrations in the mining field have to face relatively similar difficulties, the condition of the administrations in the coal industry seems to be most alarming as they have accumulated huge debts of thousand of billion lei, heavily affecting the State’s budget. According to the calculations made by the experts of the former Ministry of Industries and Trade, “during the period 1991 – 1998, 4 billion dollars were lost by coal and ores extractive industry”, when “economic activity mixed with social protection”. Such a huge sum, out of which various small and medium size companies in the mining regions could have been financed, is the equivalent of about 47% of Romania’s external debt at the end of September 1998. The losses registered by the Autonomous Administration of Pit Coal (the present National Pit Coal Company) of Petrosani represented, during the period 1990 – 1998 1,842.5 million U.S. dollars (representing total losses and subsidies) out of which exploitation losses of 445.8 million dollars, namely exploitation losses besides subsidies of 67.6 million dollars (Table no. 4). The same Administration has never paid its debts to the social insurances fund; its debts to the social insurances budget represent about 1,990 billion lei at the level of 1998 which are equivalent with 535 million dollars.

TABLE No. 4. Yearly losses registered by the Autonomous Administration of Pit Coal (the present National Pit Coal Company) of Petrosani (million U.S. dollars)

Years	1990	1991	1992	1993	1994	1995	1996	1997	1998	Total
Total losses, out of which:	26.7	9.4	0	5.9	108.6	113.0	116.1	168.4	286.2	834.3
Exploitation losses	-	-	-	4.8	101.1	107.5	99.0	66.5	64.0	442.9
Subsidies	180.0	162.4	99.5	130.6	129.7	128.3	112.9	33.8	29.1	1007.2
Exploitation losses besides subsidies	-	-	-	-	-	-	-	32.7	34.9	67.6

Source: Larionescu Maria, Rughiniş Cosima, Rădulescu Sorin, *Cu ochii minerului. reforma mineritului în România*, Gnosis Publishing House, Bucharest, 1999, p. xxii

During the last years, the quality of extracted coal decreased while production costs significantly overpass coal’s real cost. Poor administration of the mining units, their use of excessive labor, and, especially, the lack of efficiency of the activity in the mining industry have characterized, almost continually, this field, determining huge losses at the level of the national economy.

Nevertheless, despite such losses, mining has continued to be one of the most subsidized fields in Romania; more than 50% of the total State subsidies are directed towards the autonomous administrations in the mining industry. Instead of using such subsidies to equip or technologically modernize the units, they have been spent in order to periodically increase salaries and other incomes or bonuses for miners or their leaders.

Under such circumstances mining restructuring, and especially that of coal mining, has become a national necessity. The increased number of employees in the mining field and the accumulated coal stock determined Ciorbea Government to resort to the “solution” of dismissals owing to two orders: 9/1997, addressing to the employees dismissed from State Autonomous Administrations and State Companies, irrespective of their type of activity, and 22/1997 that gave special benefits to the miners dismissed “on demand”. According to the stipulations of the last order, the fired miners were given “compensating payments” that represented between 12 and 20 average salaries of the branch.

Although the labor dismissal program in the mining field stipulated that, according to the implementation of Order no. 22/1997, only about 15% of the employees would leave the field, the number of those who voluntarily agreed to be dismissed over-passed all expectations due to the promised compensatory payments; accordingly, the employees of the

administrations decreased with about 40%. Such circumstances determined a series of immediate negative consequences upon the activity of certain mining units that had to face the lack of specialized employees and the prospect of future closing.

This whole massive restructuring process in the mining industry, conceived almost entirely from the point of view of decreasing the number of employees has had as a basic principle the improvement and increase of labor productivity in the field which has always been considered as non-profitable due to the high production costs, huge subsidies it has benefitted from, and massive debts it has accumulated during the years.

Accordingly, one would wonder whether restructuring has or has not as an effect the improvement of extractive activity. In order to answer this we have displayed the evolution of the average number of employees and of the coal production extracted during the period 1989-2007; we have paid attention only to those data belonging to the Jiu Valley's mining units excluding those from Tebea and Anina (that have also belonged to CNH Petrosani, although they do not belong to the coal basin of the Jiu Valley anymore) as well as the company's auxiliary units (Table no. 5).

One can notice that the number of employees decreased during the period 1997-2002 with 49.1%, production diminished with 19.3%, while labor's physical productivity of 266.9 tons/employee/year registered in 2002 was the biggest during the interval 1989-2007. Nevertheless, one cannot speak about a direct relation of cause between the decrease of the number of employees and the increase of productivity as long as in the mining field the plan figures depend on a lot of factors; among the most important factors one can cite technical equipments and the works of opening and preparing the mining fields. Yet, a visible increase of the productivity per employee can be noticed, a fact that is quite normal under the circumstances of severely diminishing the number of employees.

As compared with 1996, in 2007 the number of employees decreased with 69.29%, production with 55.83%, while labor's physical productivity increased with 43.88% tons/employee/year.

TABLE No. 5. Evolution of the average number of employees, of extracted production, and of labor's physical productivity during the period 1989-2007 in the Jiu Valley's mining units

Year	Extracted coal production (tons)	Average number of employees (persons)	Labor's physical productivity (tons/average number of employees)
1989	9,751,214	39894	244.4
1990	4,997,785	34614	144.4
1991	4,526,420	33751	134.1
1992	4,920,851	34281	143.5
1993	5,055,340	35365	142.9
1994	5,457,948	35822	152.4
1995	5,367,752	35505	151.2
1996	5,971,571	34796	171.6
1997	4,927,139	29306	168.1
1998	3,961,691	18179	217.9
1999	3,512,071	15843	221.7
2000	3,701,140	15402	240.3
2001	4,032,829	15281	263.9
2002	3,976,795	14902	266.9
2003	3,308,583	14382	230.1
2004	3,016,335	13228	228.0
2005	2,981,734	12011	248.3
2006	2,587,424	10909	237.2
2007	2,637,484	10683	246.9

Source: CNH Petrosani, Production Department and Human Resources Department

It is obvious that the Government which has started the restructuring process has not paid attention at all to the social costs of this approach nor to the economic ones. The Jiu Valley mining industry continued to benefit from massive State subsidies after 1997 too, while CNH's debts continued to grow. In 2007, the Company was, according to the data

provided by the National Agency of Fiscal Administration (ANAF), Romania’s biggest debtor; the debts to the general consolidated budget represented 2.83 billion RON. Accordingly, on December 31<sup>st</sup> 2007, CNH owed 1.1 billion RON to the State budget, 1.5 billion RON to the State social insurances budget, 178.39 million RON to unemployment insurances budget, and 56.9 million RON to the health budget.

TABLE No. 6. State support for CNH Petrosani during the period 2007-2010 (thousand RON)

Specification	2007	2008	2009	2010
State support out of which:	401.440	338.940	293.160	256.022
Subsidies	384,962	324,818	281,057	245,649
Transfers	16,847	14,122	12,103	10,373

Source: The Ministry of Economy and Finance, *The strategy of the mining industry during the period 2007-2020*, p. 61

Under such circumstances, the State’s support for CNH Petrosani during the period 2007-2010, given with the agreement of the European Board is going to increase to 1.28 billion RON (Table no. 6).

One can subsequently conclude that the restructuring process of the mining industry has taken place in a hurry with no concern for people’s interests or for those of the mining units and areas. The government’s program has been conceived and implemented over night and has not relied upon a fundamental and systematic conception capable of anticipating the medium and long term effects of restructuring. It has come out as a roller that swept away people without any alternative and without a concern for the future of the mining industry or of the strategic interests of Romania. Restructuring has not been a gradual process, developed according to certain stages, but more a rash political decision. In case the programs belonging to the restructuring process would have been implemented during several years, as the administrations initially conceived them, the former miners and the persons living in the mining areas had not have to face the extremely difficult conditions determined by unemployment.

As regards the economic and social decline of the Jiu Valley’s population, one can say that almost all approaches and researches accomplished during the period 1997-1999 confirmed the fact that the conditions are going to continually aggravate not only for those who look for a job but for those who are employed too; they are going to be affected by the area’s poverty and the increasing social tensions. Beginning with January 1999 when most of the “first wave” dismissed persons legally ceased to benefit from financial support (unemployment indemnifications and support allocations), central and local authorities had to face the numberless protests of those who demanded jobs.

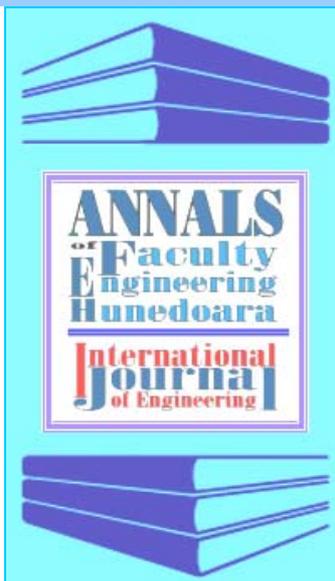
The solution of these problems has, from the beginning, been perceived as unattainable from the point of view of its economic alternatives; the State’s reaction has ultimately been determined by the serious forms the unemployed persons’ protests took (from strikes and moving to Bucharest to hunger strikes, self-firings and even suicides). The solution has also been taken in a hurry, namely the short term financial support of unemployed persons (especially emergency support approved according to Government decisions).

Today, when one talks no more about closing all the Jiu Valley’s mines and about renouncing for good to the pit coal extraction in the area (the European Union has reconsidered its position and they have ultimately returned to the old advice “give the country as much coal as you can”), the authorities try to find out solutions to really improve the field; among them the giving of investment subsidies with a view of acquiring new technology or the settling of an energetic complex that would include both the mining units and the power stations of Mintia and Paroseni.

Yet, a last specification should be made, namely that after more than 10 years from the first Jiu Valley dismissals, at the end of 2007, CNH Petrosani hired personnel. It means that beginning with January the 3<sup>rd</sup> 2008, a number of 60 unskilled workers began their activity; they were distributed to all 7 mining units which are nowadays active.

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