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**REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND  
THE COUNCIL**

**Third Monitoring report on steel restructuring in Romania**

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## Third Monitoring report on steel restructuring in Romania

### 1. INTRODUCTION

This report covers the results obtained during the last year of restructuring of Romania's steel industry. It has been prepared in line with the monitoring requirements specified in Annex VII of the Treaty of Accession<sup>1</sup> of Romania to the EU.

The European Union agreed on transitional arrangements for restructuring aid to allow Romania to complete the restructuring of its steel industry. Romania was allowed to grant State aid for restructuring purposes, provided that:

- it would lead to improved viability of the recipient firms under normal market conditions at the end of the restructuring period,
- the amount and intensity of aid was strictly limited to what was absolutely necessary in order to achieve such viability,
- the total net capacity reduction would be at least 2.05 million tonnes (finished products).

The Commission has already adopted two monitoring reports referring to 2006<sup>2</sup> and 2007<sup>3</sup>. This third and final monitoring report assesses the results achieved in 2008, based on relevant information made available only after 2008.

### 2. RESULTS OF THE MONITORING OF RESTRUCTURING

The companies covered by the provisions of Annex VII were: Ispat Sidex Galati (now Arcelor Mittal Galati), Siderurgica Hunedoara (now Mittal Steel Hunedoara), COS Targoviste (now Mechel Targoviste), CS Resita (now TMK Resita), IS Campia Turzii (now Mechel Campia Turzii) and Donasid Siderca Calarasi (now Tenaris Donasid). In 2008 these companies accounted for more than 90 % of Romanian crude steel production.

#### 2.1. Monitoring of the key restructuring benchmarks

##### State aid

Annex VII to the Treaty of Accession sets a ceiling for the amount of State aid that can be granted to Romanian steel companies and forbids granting public support to any other company in the steel sector not listed in Appendix A to Annex VII. The maximum State aid amount allowed was 49 985 billion ROL (1.2 billion EUR).

This aid was focused primarily on financial restructuring (debt for equity swaps, debt write-off for utility suppliers) and a minor extension to tax exemptions (VAT and corporate income tax). The amount of aid granted was determined on the basis of the approved National Restructuring Programme (NRP) and those Individual Business Plans (IBPs) in which investment played a central role in reducing costs and improving the quality of finished products. Most of the amount was granted in 2003 and 2004.

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<sup>1</sup> OJ L 157, 21.06.2005, p. 3.

<sup>2</sup> COM/2008/511.

<sup>3</sup> COM/2009/146.

No further State aid was granted or paid after 2004, either to listed companies or to any other steel producer in Romania.

The Commission has concluded that, on the basis of the available information, Romania has complied with its obligations on State aid.

### Capacity reduction

To compensate for the competitive advantage gained by companies receiving restructuring aid, Appendix A of Annex VII to the Treaty of Accession required several production facilities to be closed. As a result, the net capacity reduction to be achieved by Romania for finished products during the period 1993-2008 was set at 2 050 000 tonnes.

Monitoring has shown that all closures were executed in conformity with the relevant Commission decision<sup>4</sup>. In addition, Romanian steel companies decided to voluntarily liquidate some inefficient capacities including blooming and rolling mills, light profile and wire rolling mills.

### Other key restructuring benchmarks

#### *2.1.1. Viability and financial performance*

At the end of the restructuring period in 2008 all beneficiary companies were obliged to pass the Commission's viability test as outlined in Annex VII<sup>5</sup>. They achieved EBITDA ranging from 8.5 % to 21.6 %, the target being 10.0 %, and EBIT between 4.6 % and 19.5 %, the target being 1.5 %. Only one company, Mechel Campia Turzi, showed an insufficient EBITDA score. This is in line with their new investment Development Programme which runs until 2011 (NDP) as acknowledged by the Commission. The deviation from target is not critical and the company demonstrated constant and strong improvement in both viability benchmarks throughout the restructuring period. The EBITDA score of Mechel Campia Turzi in 2008 was three times higher than that envisaged in NDP, despite the fact that the crisis severely affected the company during the last quarter of 2008.

#### *2.1.2. Productivity and employment*

In 2008 the number of jobs lost in Romania's steel sector was higher than forecast (average annual employment level of 33 200 compared with NRP target of 43 308) pointing to a workforce optimum of over 14 200 employees throughout the restructuring period 2004-2008. This result was mostly achieved by outsourcing, early retirement and a voluntary redundancy scheme.

Despite improvements in labour efficiency, productivity ratios at the end of the restructuring period are, in some of the companies receiving aid, below the IBP targets and well below EU steel industry levels indicated in Annex VII to the Accession Treaty. Lower production volumes in 2008 led to a drop of the country's actual total productivity ratio following continuous growth in the period 2004-2008. Individual company results differ substantially.

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<sup>4</sup> Decision 3010/91/ECSC, OJ L 286, 16.10.1991, p. 20.

<sup>5</sup> OJ C 244, 1.10.2004, p. 2.

The companies should achieve:

- a gross operating result of turnover: i.e. the % EBITDA (earnings before interest, tax, depreciation and amortisation) of turnover of at least 10% for non-integrated steel companies and 13.5% for integrated mills);

- a return of turnover on capital, i.e. the % EBIT (earnings before interest and taxes) of turnover of at least 1.5%.

Arcelor Mittal's subsidiaries — Galati and Hunedoara — show non-compliance with IBP and European benchmarks. However this can be explained by lower than planned production due to the crisis, which had a huge impact on their results. While the productivity levels in Galati and Hunedoara almost met the IBP target in the first half of 2008, they deteriorated heavily in the second half of 2008 due to the global lack of demand. With staff reductions completed in 2009, these subsidiaries almost managed to reach the IBP targets despite the impact of the market downturn.

In Tenaris Donasid and Mechel's subsidiaries, Targoviste and Campia Turzi, the productivity results are almost in line with IBP targets and show a positive upward trend throughout the restructuring process. In TMK Resita the productivity ratio is only about 50 % of the IBP target. But if only the workforce directly related to steel operations is taken into account, the company has exceeded its plan.

### *2.1.3. Cost reduction*

While the results obtained at individual company level differ considerably, they all show certain types of action taken to reduce operating costs. In some areas, the necessary cost reductions for all companies could only be achieved in the long term through new investments. In addition, all companies reached their investment targets (as approved in their respective IBPs). The companies invested between 150 % and 330 % of the amounts planned. However, the effects of the investments were not immediately visible in all companies.

In Arcelor Mittal Galati the general cost reduction strategy employed throughout the restructuring period has focused on the liquid phase and hot rolling area. This outcome was achieved by major investments. In spite of these measures, the cost reductions were insufficient. Nonetheless, the company has made a significant effort throughout the restructuring programme to cut costs.

In 2008 the company started to implement a strategy aimed at improving productivity and reducing the high specific consumption affecting operating costs. However, current market conditions have forced the company to temporarily suspend these plans until the market recovers. The correct implementation of this strategy will further enhance the performance levels achieved.

In 2008 Mittal Steel Hunedoara temporarily suspended the implementation of a New Development Programme, but it was re-started in early 2010. Its aim is to further reduce costs (by increasing productivity and reducing specific consumption) and to improve energy efficiency. The expected results would represent significant improvements, showing a positive progress towards further cost reduction.

In the remaining four companies, performance shows continuous progress in cost reduction, for the most part complying with IBP objectives and evolving towards international steel industry performance benchmarks. But there is still a need for improvement, especially regarding the specific consumption of raw materials, the proportion of downgrades, and energy efficiency.

## **2.2. Environmental protection**

The Treaty of Accession specified a transitional regime and gave a list of installations exempted from compliance with the IPPC directive<sup>6</sup> until December 2014. The integrated permits issued for steel-making facilities in the sector have included the environmental investment programmes to be undertaken. Mittal Steel Hunedoara and TMK Resita did not

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<sup>6</sup> Council Directive 96/61/EC, OJ L 257, 10.10.1996, p.26.

achieve their individual IBP targets for environmental investments, but the actual spending was adjusted to the integrated permits. In the case of Arcelor Mittal Galati, the investment programme agreed under the permit was not fully implemented in 2008 but the total amount of environmental investment for the period 2004-2008 exceeded the IBP target.

### 3. CONCLUSIONS

This is the last of the monitoring reports on the restructuring of the steel industry in Romania. In the light of the results achieved, the Commission is of the view that the requirements of Annex VII to the Treaty of Accession have been met:

- the total restructuring aid granted to the recipient companies was below the maximum permitted levels,
- the net capacity reduction was achieved,
- the restructuring benchmarks as set out in Appendix A to Annex VII (viability, productivity and cost reductions) were mostly achieved.

The Commission concludes that the restructuring carried out in the transitional period (2004-2008) was acceptable. Unfortunately during the last year of restructuring, the global crisis severely impacted on the operations of these companies. A major decline in demand for steel products resulted in lower than planned performance indicators. It has to be noted, however, that the results achieved by companies over the whole restructuring period (especially improvements in profitability) have allowed them to cope with particularly challenging market conditions in 2008.

Further efforts are still required for full achievement of sustainable viability, to enable these firms to cope with any future uncertainties on the markets. This can only be achieved in the long term by continuous implementation of the cost reduction strategies and the development of coherent strategies for the future.

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