ROMANIA

By a Special Contributor

The extractive industries have traditionally held an important role in the Romanian economy. During the post-war period of socialist industrialisation, mining was a core economic activity reflected in the correspondingly high proportion of the national workforce it employed and the relatively high social and economic status of miners. The state-owned mining sector of the period was characterised by a primary focus on production targets, with little concern for economic performance or environmental protection.

Shortly after the regime change of 1989, at the beginning of the 1990s, over 250,000 people were directly employed in the Romanian extractive industry sector, and double that number are estimated to have depended indirectly on the industry. In the period 1990 – 2002, successive administrations endeavoured to introduce restructuring of the sector but progress was slow and politically sensitive. There were a number of violent demonstrations, subsidised state-industries continued to incur huge losses, the closure of operations generated acute social hardship and huge environmental liabilities remained unresolved at closed operations. By 2002, the total number of employees in the extractive industry sector had fallen by almost half, to some 140,000, and of these the mining industry represented around 69,000.

Future prospects for the mining sector are closely linked to the political commitments of successive governments to achieve membership of the EU. Since its application for membership of the EU in 1995, Romania has moved progressively to privatise state-owned industry, to reduce government subsidies to loss-making state-owned industries and to introduce environmental legislation in line with the European model. The economic stabilisation achieved in the late 1990s led to a return to economic growth in 2000 and the subsequent pattern of growth of GDP has been maintained during 2003, with an estimated annual increase of 4.6%.

Notwithstanding these efforts, progress in the transition to a market economy has been significantly slower in Romania than in the majority of Central and East European economies. The most recent EU report on progress to meet criteria to join the community was encouraging to Romania, to continue its reforms and complete accession negotiations in 2004, with the objective of joining the EU in 2007. However, it was also identified that although Romania is close to achieving the status of a functioning market economy, this has not yet been achieved and membership of the EU in 2007 is by no means certain. Although there is a momentum for continuing reform, international commentary recognises the need for effective implementation of new legislation. The prospects for the immediate future are to a large extent tempered by forthcoming parliamentary and presidential elections in November 2004.

Reform of the mining sector has been seen as of core importance for alignment with policy and practice in the EU. This relates not only to the elimination of subsidies to state-owned industries, but also to the environmental management standards and the potential for trans-boundary environmental impacts from current and previous mining and also to the social hardship caused by drastic downsizing of the industry. Modernisation of the institutional framework of the mining sector has been addressed by promulgation of a new Mining Law in 2003 (Law No. 85/2003) and development of a new Mining Industry Strategy for the Period 2004 – 2010, approved by the government in April 2004.

The new Mining Law sets out to provide maximum transparency on the granting and administration of mining licences under a regime of fair competition, without any discrimination between types of ownership, the origin of capital and the nationality of the operators. Investments in the mining field are to be encouraged by means of fiscal and administrative incentives, with no restrictions in terms of the recovery of the investment and the use of derived profits. The spirit of the law is to encourage new investment in the mining sector, and has been welcomed as a statement that mining is recognised as a valuable contributor to the national economy, at a time when tighter environmental constraints and trans-boundary opposition may combine to present considerable hurdles to new investment in the mining sector.

The new Mining Industry Strategy endeavours to put in place a coherent strategic plan that builds on the mining industry reform process through four key components:

- placing the mining industry on a commercial basis – modernising and rehabilitating those mines that are commercially viable, and closing those units that are unproductive;
- elimination of government subsidies – gradual withdrawal of state support, elimination of subventions for social protection, privatisation of viable mines and encouragement of private sector investment in modernisation of mining and process technology;
- environmental protection – allocation of financial resources for clean-up and environmental rehabilitation of areas affected by mining, and ensuring environmental protection to EU standards; and
- mitigation of the social impact of job losses in the mining sector – implementation of social protection measures for workers affected by the restructuring process.

The strategy envisages that the number of employees in the mining sector will drop from its current level of around 68,000 to nearer 20,000 by 2010. At the end of 2003 there were some 61,500 employees in state-owned mining companies, comprising approximately 38,800 in the coal and lignite sector, 18,000 in the metalliferous mining sector, 2,000 at uranium mining operations and 2,700 in the salt production sector.

The future of the coal and lignite sector is essentially dependent on thermal power generating strategies. The state-owned thermal power generation company Termo-electrica incurs heavy losses, and struggles with an obsolete asset base. A considerable amount of its coal- and lignite-fired co-generation plant capacity has been sold off to local authorities and industrial consumers, and the government plans to split the company further as a prelude to privatisation. In 2003, Termoelectrica consumed some 23.1 Mt of lignite and 3.5 Mt of hard coal; coal represented 22% of all consumed energy in Romania.

In the mining sector, the beginning of 2004 was marked by a number of strikes as the government unveiled plans to split the largest production company, National Lignite Co Oltenia (CNLO), into five companies. This reflects a strategy to include some of the split-off lignite companies in integrated power-generation complexes to be privatised as soon as possible, in particular with linkages to the Turceni, Rovinari, Isalnita and Craiova II power plants, which, nationally, are among the most competitive units.

In 2003, there were 23 underground lignite mines and 38 surface lignite mines, together producing some 29.7 Mt/y. There were 12 hard-coal mines, all underground and principally in the Jiu Valley. They had a combined labour force of over 16,000 and produced a total of 3.9 Mt. Of the hard-coal mines, only three or four are likely to justify modernisation.

The state-owned metalliferous mining sector comprises two national companies each with a number of mines and processing plants, Minvest Deva in the west and Remin Baia Mare in the north, plus four stand-alone mining and processing companies. In all, in 2003 these operations comprised 36 underground mines, three open pits and 14 mineral processing plants. Of these, the two major open-pit copper mines, Rosia Poieni of SC Cuprumin and Moldova Noua of SC Moldomin, have been offered for privatisation as part of the action plan of the new ‘Mining Industry Strategy’, and seven polymetallic mines are also to be offered for privatisation. The uranium mines feed the nuclear fuel plant at Pitesti and supply all fuel to the one operating unit at the Cernavoda power station; completion of a second unit has now been financed and the future market for Pitesti fuel appears assured.

The salt mining industry, comprising six underground mines, two surface mines and seven preparation plants is also expected to be offered for privatisation.

The new mining strategy focuses on more effective use of financial resources. These will be directed to:

- supporting profitable mines while support is withdrawn from unprofitable operations;
- continuing reform to improve the available technology and performance of profitable operations;
- assuring adequate coal supplies to meet national power generation requirements; and

- the offer for sale of a number of mining units which offer the prospect of viable performance in the private sector.

In parallel with these actions is the recognition that the mine-closure process must continue in order to eliminate subsidies to non-profitable operations before 2007, in line with EU policy objectives.

The social impacts of mine closure have been particularly difficult in the traditional mining areas, and the support of a programme financed by the World Bank has allowed the opening, since 2002, of enterprise support offices in Deva, Baia Mare, Tirgu Jiu and Petrosani. This programme provides a fund totalling US$3.7 million to support new enterprises in the mining areas, and at the end of 2003 this could boast that 900 new businesses had been set up with the creation of 5,100 new jobs.

An important element of the new mining strategy is the continuing role of the private mining sector. The highest profile new investment activities are in precious metals particularly focussed on gold prospects. The website of the National Agency for Mineral Resources (NAMR) quotes 28 current exploration licences for gold, silver and polymetallic ore exploration, grouped primarily in three areas of the country: in the north around Baia Mare, in the Eastern Carpathians and in the west of the country in the Apuseni Mountains and Western Carpathians.

Transgold SA, successor to Aurul SA, is a 50:50 joint venture between Eurogold Ltd of Australia and its state-owned partner Remin SA, and operates a modern CIL facility at Baia Mare, constructed in the first place for a major tailings retreatment project. Transgold now has a purchasing programme for concentrates, which sources material throughout Romania; the concentrates acquired include calcines and pyrite resources with moderate to high gold and silver contents for treatment in conjunction with the treatment of Remin ore toll feed. During the latter six months of 2002, the plant is reported to have produced 16,404 oz of gold and 56,891 oz of silver from a throughput of 165,000 t (dry). The company is now progressing to develop a number of mining sites to supply ore from its own sources, and is involved with a number of exploration campaigns, primarily in the north of the country.

Much attention, nationally and internationally, has focused on the progress of the Rosia Montana gold project in the Apuseni Mountains, where a joint venture between Canadian junior Gabriel Resources (80%), the state-owned company Minvest (19.31%) and smaller shareholders, is endeavouring to develop a major resource around the site of an existing small, Minvest operation. The proposed project target is estimated to contain proven and probable reserves totalling approximately 218 Mt averaging 1.52 g/t Au and 7.47 g/t Ag, containing 10.6 Moz of gold and 52.3 Moz of silver. The project is apparently progressing slowly through the regulatory permitting process, and the successful implementation, or otherwise, of this project will be a powerful message to other potential investors. Among issues facing the permitting process for this project development, has been the frequently changing environmental legislation. This is now aimed to fall in line with EU policy and models, and in its present form presents a number of challenges to the mining sector, both in the legislation and its effective implementation.

While precious metals have stimulated most high-profile interest by international investors, it is noteworthy that the majority of investment prospects now on offer through the NAMR tender process are for industrial and construction minerals. Although less advertised, significant international investment has entered this sector, of which relevant examples are BPB Industries' gypsum mine near Turda in Cluj County, and the major Holcim cement factory, also at Turda.

Mineral Production (t unless stated otherwise)

	2001	2002	2003
Metals			
Bismuth (Bi content in mine production)	40 e	40 e	n/a
Copper (Cu in concentrates	19,100	21,400	21,900
Copper (refined)	22,522	13,453	n/a
Gold (kg)	3,500	3,000	2,400
Iron Ore	292,000	296,000	250,000 e
Lead (Pb in concentrates)	17,100	18,300	15,900
Manganese Ore	70,000	60,000 e	50,000 e
Silver (Ag content in concentrates)	18 e	15 e	15e
Uranium Ore	n/a	n/a	n/a
Zinc (Zn content in concentrates)	28,600	28,900	26,300
Industrial minerals			
Barite (processed)	2,851	100	50 e
Bentonite	24,779	15,402	n/a
Kaolin	21,867	22,514	n/a
Diatomite	9,743	20,128	n/a
Feldspar	43,037	50,864	n/a
Fluorspar	15,000 e	15,000 e	15,000 e
Graphite	1,176	1,001	0
Gypsum	275,000	278,000	n/a
Talc	7,200	7,200	7,200 e
Salt ('000 t)	2,200	2,500	2,300
Fuel minerals			
Hard coal ('000 t)	3,200	3,600	3,900
Lignite and brown coal ('000 t)	29,800	28,600	29,700

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