

ECONOMIC INFLUENCE OF POSSIBLE RESTRUCTURING PLAN WITHIN OLTENIA ENERGY COMPLEX IN GORJ COUNTY

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Abstract:

The effects of the economic crisis of recent years have been strongly felt in the energy sector in Romania due to a sizeable reduction in power consumption in industry. To survive on the market, Oltenia Energy Complex, recently established must resort to a massive reduction in spending. Staff costs may not be an exception to these cuts. Thus, a certain reduction, counting between 1000 and 5000 people, is expected in the future. Within this article, we tried to analyze the influence of this impending layoffs on the county service market considering two scenarios corresponding to the number of thousands of employees made redundant (2500, 5000).

Key words: restructuring, unemployment, scenario, energy

1.Introduction

Economic developments in recent years have led to a decrease in consumption, which has adversely affected major economic producers in Romanian industry. As a result, they have reduced or stopped production activities. We support the previous statement using the cases of Mechel metallurgical plants or Oltchim Râmnicu Vâlcea plant. Under these conditions energy consumption nationwide has decreased by about 10%.

Also, new production units appeared, such as: the oil power plant from Brazi, with an installed capacity of 860 MW and wind farms in Dobrogea with a total installed capacity of over 1,700 Mw. Energy Development Strategy 2020 states that an installed capacity of 4000 MW must be achieved in wind farms and a double production capacity from 1400 Mw to 2800 Mw for Nuclearelectrica. Moreover, the European legislation on pollution was adopted in our country too and it requires that a certain number of green certificates purchased for every major polluter.

Oltenia Energy Complex, with an installed capacity of 3570 Mw is the largest electricity producer in Romania. Although it is the largest polluter, it represents the backbone of the Romanian Power System and its disappearance would cause dependence on imported electricity.

Considering these aspects, in order to withstand on the market, Oltenia Energy Complex has to resort to upgrading refurbishments and restructuring to enable electricity production at competitive prices)

2.Presentation of the situation in previous years

To quantify the effects of redundancies the following indicators will be used: number of employees, average gross wage, net average wage, number of unemployed persons, unemployment rate.

A first analysis, the number of employees in our county between 2006-2013, as evidenced by the chart below, brings to the fore a critical situation beginning with January 2009.

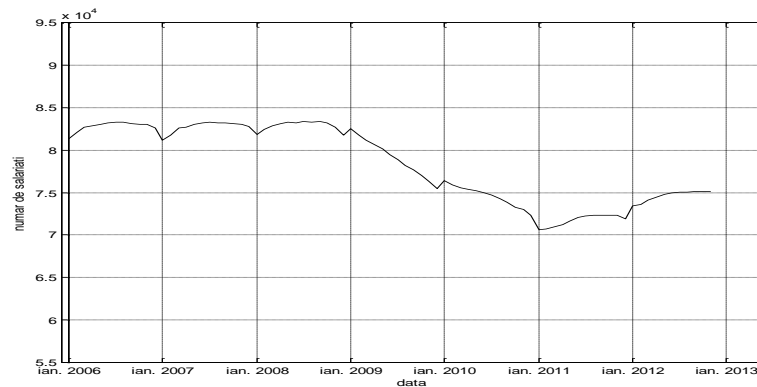


Chart 1 Evolution of the number of employees in Gorj county

The downward trend during January. 2009 – January 2012 is mainly due to blocking of employment in the public sector and the annual approximately cyclical trends with smaller values during cold periods in early years of analysis can be explained taking into account the workers in seasonal activities, such as agriculture.

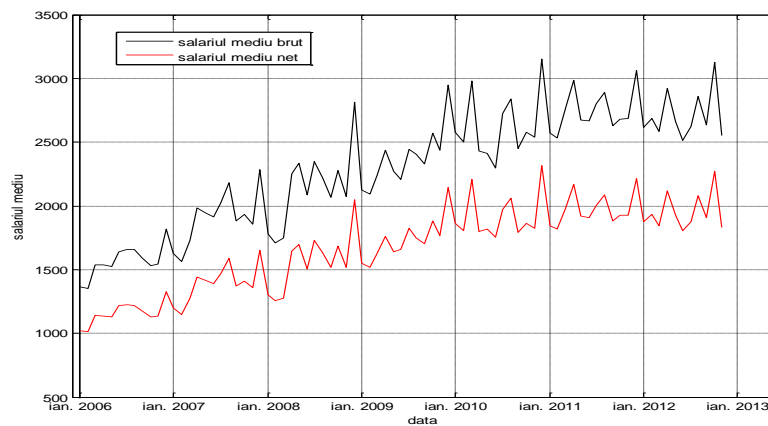


Chart 2 Monthly dynamics of average wages in Gorj county

An analysis of the average wages shows us that several peaks can be observed within the annual trends. These correspond to celebration periods, such as Easter, Christmas or to summer holiday period, when bonuses paid can increase the average salary of the month.

3. Scenarios for the next evolution

Economic and technical arguments outlined above allow us to state that the question is not whether there will be layoffs, but it is only a matter of time before they take place.

We will present the effects of redundancies of 2,500, respectively 5,000 employees within Oltenia Energy Complex. Moreover, we estimate that other 800, respectively 1,600 employees from the companies providing services for Oltenia Energy Complex will lose their jobs.

Because most of those made redundant will come from Branch Mining Division, to perform financial calculations we consider a gross income of about 3500 lei, corresponding to a net income of 2,250 lei.

A simple calculation leads to the value of 5,625,000, respectively 11,250,000 lei which will not be submitted monthly to the employees and therefore will not go into the county's economy. About a quarter of wage earnings are consumed for services, so a decrease in revenues of between 1,600,000 and 2,800,000 lei will be experienced. This decrease in revenue will lead to decreases in salaries of employees or even layoffs in services.

In the Gorj county, we estimate a decrease in total revenue obtained from salaries of between 5% and 10% leading to a decrease in receipts for services directly related to lower revenues.

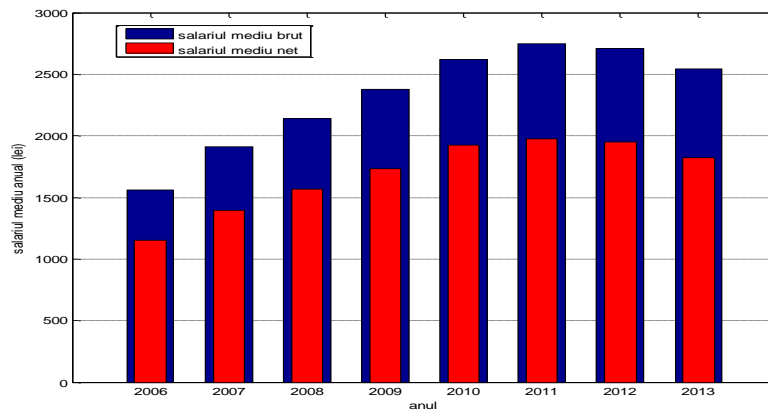


Chart 5 Influence of redundancies on average annual wage in Gorj county

The effect on annual gross average wage in Gorj county will mean a reduction from 2,708 lei in 2012 to around 2,540 lei. Depending on the date on which the redundancies will take place, one can easily estimate that, as it is easy to guess, the effect will be felt in proportion to the rest of the year.

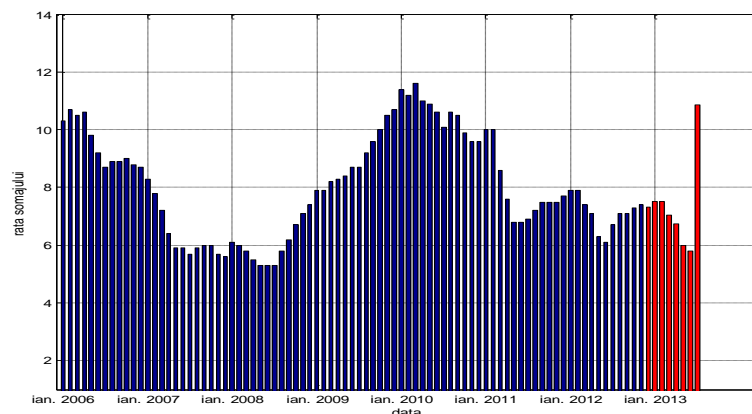


Chart 6 Influence of redundancies on the unemployment rate in Gorj county

Regarding the influence of redundancy on the unemployment rate, taking into account the negative, almost inevitable, scenarios that the economic environment will be a subject to, by a statistical processing of available data, we can estimate an increase in unemployment in Gorj county, of about 4%, as it can be easily seen in the chart above.

4. Conclusions

Wind energy is really not polluting, but very erratic, rapidly decreasing in a much shorter time than the time required to plants to reach the necessary power to cover the deficit. Stopping and starting groups are operations that require entire days that power plants achieve optimal operating parameters. In order to quickly produce energy for rapid coverage of gap energy, groups have to be maintained in operation which considerably increases production costs.

We must also consider also that in conditions of prolonged drought and poor wind electricity based on coal must support the entire energy system.

The best solution to this problem would be the establishment of holding companies containing both green components (hydro, wind, solar) and plants. Such combinations would allow both a constant level of electricity production and to obtain competitive prices.

Another step to be made is to identify foreign markets (Turkey) for electricity sales.

No matter the direction, restructuring and reorganization of Oltenia Energy Complex will occur and will produce a higher or lower number of unemployed persons in a shorter or longer period of time.

The effects of these layoffs will be felt mostly in the county and surrounding counties, because mining plants will be mainly affected.

Given the lack of alternative employment in the area and already quite high unemployment, the layoffs in energy sector will adversely affect trade and services activities in the affected area.

If providing compensatory payments, negative effects will appear with a time lag approximately equal to the ratio between the average amounts awarded as compensation and the average salary of employees redundant. Based on similar events in the past, we estimate this gap to one year, a year and a half.

Because the moment is "favorable" in terms of labor market liberalization in the UK for Romanian and Bulgarian starting from January 1, 2103, we anticipate that a significant part of the redundant will try to find jobs abroad.

5. Referrences:

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