

A GENERAL PRESENTATION OF THE RESTRUCTURING AND DESTRUCTURING OF THE MINING INDUSTRY IN EUROPE

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Abstract

The mining industry has been involved in a series of changes of the fiscal, administrative and monetary policies, implemented as part of economic restructuring in most countries of the world, implicitly in Europe. With the development of capitalism, the state mining industry underwent significant transformations, either economically or technologically, but also socially and communityly. In the developing countries of Europe, the disappearance of state monopolies as a consequence of the globalization process has opened the path to a competitive mining industry. Due to the economic impact this restructuring, the human communities that have developed around the mines have been deeply affected. The present paper presents the restructuring, or, as the case may be, the destruction of the mining sector and the mining communities, giving concrete examples from Eastern European countries such as Poland and Romania,

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1. Introduction and context of the study

Regardless the size of the economic organizations or the field in which they operate, the development of a business must meet the requirements of globalization. The freedom of action is what characterizes the evolution of contemporary societies, giving them the chance to achieve a global trade, regardless the type of trade they make (Paliu-Popa, 2009). With the globalization process, the global financial restructuring and the financial restructuring among mining companies have prompted an acquisition activity in this sector, as sales will increase in the context of the volatility and uncertainty regarding the moment of rebounding markets. Global mining and the volume of metal transactions worldwide had the lowest level in 2015, as claimed by the people of "Building a better working word", with only 358 transactions completed.

We cannot say the same about the European mining. At European Union level, according to data published by Eurostat, there were 19,000 enterprises with primary activities operating in the extractive industry in 2014. They employed 567 thousand people, equivalent to 0.4% of the total number of people employed in the non-financial business economy, while they have generated an added value of EUR 64.9 billion, which represents 1.0% of total non-financial business economy. Regarding staff costs, they reached an average of € 87.2 thousand per employee for the extraction of crude oil and natural gas in 2014. The extractive metal mining industry has recorded average personnel costs that slightly exceeded the average non-financial economy (EUR 33.3 thousand per employee). For coal and lignite mines, it has been recorded a relatively low average personnel cost (EUR 29.6 thousand per employee), reflecting the geographic distribution of this activity, mainly concentrated in Eastern Europe.

Iron ore, as claimed by PwC-UK, has been affected by the offer increase from major manufacturers, which has led a number of minor operators to fail to compete. On the other hand, the market of thermal coal has also suffered due to the cheap competition, which appeared with the exploitation of shale gas but also with the tightening of environmental standards. Most industry experts expect the price to remain low, at least for a while. This will reduce operating costs, and, most likely, those with high debts will have to restructure their debts. Restructuring these assets can be very difficult for investors, as well as for the communities that have established near the major mining exploitations. In addition, without the assistance of national governments in drafting legislation and regulations that approach this change and without a clear direction of mining, we

have witnessed the restructuring of the mining industry formerly owned by the state (Duncan and Allen, 2017).

The new rules guarantee the foreign investor equal rights and responsibilities as the internal investor. The results of this decision led to an avalanche of new investments made by foreign mining companies. For example, Mexico has offered an appealing refuge to small companies (especially those from United States and Canada), who probably could not survive the increasingly restrictive regulations in their countries of origin. Therefore, Mexican mining companies are also challenged to become more international, especially by expanding to other Latin American countries. The creation of a North American Free Trade Zone further increases the capacity of capital to enter the regions and projects with attractive rates of return (Flores, 1994). In Europe, the situation is similar to the American continent. Many mining companies outside the national states, and most outside Europe are interested in Europe's natural resources or deposits. Even more, some of them, mostly with Canadian foreign capital, have obtained mining licenses and have made investments that have not been received very well by the local population.

On the other hand, the environmental issue has become one of the key issues faced by the country's mining industry, as well as the lack of infrastructure of traditional Mexican companies, which will have to respond to new competition from outside (Frumkin, Frank, & Jackson, 2004).

2. The mining restructuring in Eastern Europe

With the transition of economy from centrally planned systems to free market systems, extractive industry often goes through the same processes as developing countries. Previous inefficient industries, such as coal extraction, are usually diminishing from the point of view of economic efficiency. Usually, these industries are not able to restructure themselves on their own due to the high costs involved or because of the resistance of trade unions regarding job cuts. The Polish exploitation of coal is a typical example. Immediately after the economic transition began in 1989, the demand for coal started to decrease. (Suwala, 2010).

Prior to 1990, during the communist governance, coal mining was strongly supported by the state, but there is no concrete data regarding the amounts of money allocated at that time. The mining coal industry was considered the basis of the country's economy, and in order to limit the cost, the prices were established by the state. However, little has been done to control costs. Since Poland's adherence to the European Union in 2005, its coal-mining subventions have been regulated in accordance with EU legislation. (Suwala, 2010).

The origin of mine restructuring problems consisted in the challenge faced by the government to reclassify miners for employment in other sectors. Another contributing factor was the government's tendency to intervene to control prices as an anti-inflationary measure. The resulting economic failure has made it difficult for mining companies to find the funds needed for social or closure programs, finally asking for state subventions. It is clear that mining organizations could not have covered all the costs of these restructuring programs, but the necessary subventions would have been lower if the restructuring had begun earlier. The measures taken between 1990 and 2005 placed the mining industry in the right direction. However, of these measures seem to have benefited mainly coal miners and, of course, the communities near the mines that have managed to maintain their traditional occupations. (Suwala, 2010).

The Polish people obviously understood the need for restructuring and there were no significant objections regarding the money spent on social programs for miners. However, after the success of the mining social programs in other industries that were supposed to undergo the restructuring (e.g. steel), many requests have been made to benefit from similar facilities as those offered to the mining sector. Initial negligence on coal mine restructuring could be partly attributable to the Polish government's inability to allocate sufficient funds to restructuring. (Suwala, 2010).

Social tensions, the resistance of trade unions and the fear of local communities of losing their jobs are obstacles that can not be overcome without the support from outside the industry. It also appears that slow restructuring, step by step, without the introduction of rigid controls in

industry is not a viable option. Only significant effort, sustained by a well-conceived and well-oriented subsistence, social acceptance and a sound legal framework could improve the performance of the mining sector (Suwala, 2010). These general characteristics are valid for all post-communist societies, including Romania, the history of these countries being similar.

3. Mining Restructuring in Romania

Over the years, mining has fully contributed to the development of the national economy, both by providing the mineral raw materials necessary for the development of various industrial branches and as a promoter of new techniques and technologies. Decision makers need to understand the particularly complex issues of the mining activities and the important role it can play in achieving a sustainable economic growth in the country. In only two decades and a half, from 1990 to 2015, major transformations have taken place in Romania's mining industry through reorganizations, restructurings, concessions, and especially by stopping activities and closing mining sites (mines, quarries and related technological annexes) with major negative effects on the economy and social life of the whole country.

In the past, mining in Romania, as in other states, was seen as an opportunity to develop the region by creating jobs, so mining was seen as a path to modernity and sustainable development, producers focusing more on technology and development, than on environment and nature (Krueger, 2002). At the time, the emphasis was not on the environment destruction through mining activity but on the transformation of the environment by mining (Bridge and McManus, 2000), therefore the local community and the impact area were forced to bear the consequences of the mining activity (Egresi, 2011).

Mining on Valea Jiului suffered the most from the Romanian transition because closing the mines and the redundancy of miners were part of Government Decision 646/2002 which aimed at restructuring the "economy of Valea Jiului by replacing its dependence on the mining industry with a diverse range of business and qualifications sectors." But successful entrepreneurs wanted to leave a hard-accessible area without development prospects, and the others managed to make a subsistence entrepreneurship. Consequently, the private sector left in the area has failed to develop the area (Chiribucă, 2016).

In the "Mining Strategy of Romania, 2017-2035", it is stated that "the mine closure in Romania is not an objective in itself, but a natural consequence of the evolution of the Romanian economy after 1989, when investments in the national economy were reduced, which led to a significant decrease in the demand for raw materials (including mineral resources) and consequently the mining production (the extracted amount of useful minerals) had no outlet." Another reason presented is the "unprofitable exploitation of mineral resources, their economic inefficiency, for reasons that were mainly related to the technical conditions, the access to the deposit, but also its increasingly difficult exploitation, the moral and physical wear of the installations and equipment used".

Using the same source of information, we note that "mine closure has led both to a decrease in the income of the population in those regions, with restrictive consequences on the local economy, and to a decrease in the local budget revenues. The impact on the living standard of the population of ceasing the exploitation of mineral resources is manifested in several ways, namely: the difficulty of finding a job according to their professional training, difficult access to basic services and a decrease in the level of financial support from the government", and the implementation of a new mining program leads, besides sustainable development, to irreversible changes in the life of the inhabitants of the mining communities, because for a part of the community appears the problem of displacement (Popoiu and others, 2010) and for the other inhabitants, the emergence of a foreign investor represented a chance to restart the mining activity, so the foreign investor was regarded as the only one able to provide sustainable development of the area (Mucea 2018).

In many ways, mining companies are subject to a much stricter analysis when it comes to sustainability. The sustainability revolution in the mining industry has been substantial in recent

years, and is still gaining ground. Mining companies know that they must follow, besides their own profit, sustainability solutions too for the community in which they operate. In order to keep their exploitation license, mining companies have to consider: environmental, social and economic considerations. However, after the Rosia Montana project ceased, the Romanian Mineral Resources Agency reported through a press release that S.C. Samax Romania S.R.L. obtains the concession license of mining activities for the exploitation of deposits of copper ore in the Rovina perimeter of Hunedoara County.

Since Romania is a member of the EU, the commitments made for each stage of the mining restructuring must be prepared with the highest professionalism and exigency, in order to meet the national interest but also with the understanding for achieving the common EU objectives. In too many cases, after the fall of communism, there can be noticed an important shift between the new legal framework and the economic and organizational structure of the Romanian mining sector. The revival of industry and the economy as a whole must be a priority for governments. Even though in the communist period the mining industry operated at maximum capacity, Romania still has enough mineral resources, which can be a guarantee for the future, in the medium and long term, by using modern extraction and processing technologies. A policy to increase the period of deposits depletion has to be pursued, with the main purpose of harmonizing the economic and social development of mining areas.

At present, the mining activity is carried out on the basis of the Mining Law no.85 / 2003 and its Norms of application, regulated by H.G. 1208/2003. The legal framework is aligned with the fiscal and environmental conditions set in a national and European context. The fiscal policy is centered on ensuring a stimulating and non-discriminatory environment, while focusing at the same time on measures to reinforce its transparency, stability and predictability. From the fiscal point of view, the mining activity is carried out according to the Fiscal Code provisions, approved by the Law 227/2015 with the subsequent modifications and completions. However, a detailed analysis of the mining tax regime is needed to create a predictable investment framework.

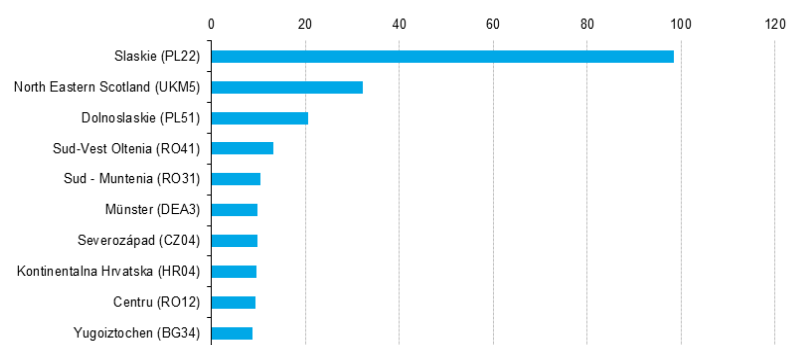
4. Current mining activities in the European Union

At present, in European Union and worldwide, the demand for mining products, especially in the non-energy sector, is on the increase, a trend that also manifests in Romania. Consulting the "Mining Strategy of Romania 2017-2035" we find that the European leaders have decided to promote a policy of economic growth through regulations regarding non-energy raw materials and that the European Union aims to stimulate economic growth, guarantee European energy security and fight against climate changes caused by mining and other activities.

Analyzing the data published by Eurostat regarding the oil and gas extraction, the country with the highest ratio in the European Union is the United Kingdom that registered in 2014 30.8% of the EU added value, followed by the Netherlands and Denmark. The Polish labor force in the field of exploitation is of 164 thousand people, equivalent to more than a quarter (28.9%) of the total EU. Poland is followed by the United Kingdom (11.7%) and Germany (10.7%).

The relative importance of the extractive sector of mining industry in the EU Member States was the highest among countries specialized in the extraction of fossil fuels. These figures, as can be seen in *Figure 1*, were closely related to the geological distribution of fossil fuel deposits, which were rare or non-existent in many Member States. Bulgaria recorded the highest mining ratio of coal and lignite, while Denmark was the most specialized in the extraction of crude oil and natural gas.

Figure 1. Ten largest regions in terms of employment, mining and quarrying



Note: Data for Croatia not available.
Source: Eurostat (online data code: sbs_r_nuts06_r2)

The EU is currently the world's largest energy importer, importing 53% of the annual energy requirement, at an annual cost of around € 400 billion. Many of the EU Member States rely on a limited number of suppliers, in particular for the supply of natural gas. This makes them vulnerable to disturbances that may occur in the supply of energy.

Also, the outdated energy infrastructure of Central and Eastern Europe, as well as the lack of coordination of national energy policies, often make consumers and businesses in these countries less likely to have the possibility of choice or the opportunity of lower energy prices. Modernization and diversification of energy infrastructure contributes to reducing the disturbances and energy dependence on external suppliers, thus helping to the development of gas extraction industry, as well as improving the accessibility and lowering prices for consumers. According to the objectives of the European Union assumed in the C.E. communication - "Climate and Energy Framework for 2030", the EU is working to reduce greenhouse gas emissions and the overall dependency on fossil fuels. The strategy is based on the principles of the Framework regarding the climate and energy for 2030 and those of the energy security strategy launched in 2014.

5. Conclusions

The destruction and restructuring of mining has produced significant effects on human communities located near mines. The community offers the best framework for the development of human relationships, but the contemporary human communities, regardless of which Europe zone we are referring to, are no longer the same as they were in the past. Regardless of how we relate to the community, globalization and economic restructuring of mining had a seriously impact on the community life.

Mining restructuring and market liberalization had significant global effects, regardless we are talking about their economic or social impact. All the more, the restructuring of the mining industry and sometimes its destruction in the Eastern European countries had even more profound implications on national economies and the way in which mining communities were forced to survive. The presentation of the global context and the way in which the restructuring of mining took place leads to an overall understanding of the economic, social and cultural transformations faced by the countries where the mining industry occupied a central place.

After the moment of glory of the mining industry before the fall of totalitarian regimes, this sector underwent a period of restructuring and, as the case may be, destruction, either totally or partially, and today we are talking about a restarting of this sector at European level. However, as a result of the restructuring of this sector, today's mining industry is no longer the same as in the past, regardless we are talking about the number of people employed in the sector, or we refer to extraction and preparation, or the way we use the deposits. Thus, as a result of restructuring and legislative regulations at European level, the extractive industry has become more economically efficient, more competitive and more focused on environmental issues. And people, due to globalization and the liberalization of markets and free movement, no longer see mining as the only chance of community survival and development.

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