EC/Bulgaria Europe agreement: public aid to restructuring the steel products sector, additional protocol

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PURPOSE: to present the first monitoring report on steel reconstruction in Bulgaria and Romania.

CONTENT: this report describes the progress in restructuring made by Bulgarian and Romanian steel companies that are subject to the requirements set out in the specific chapters of the Europe Agreement and the Treaty of Accession respectively. More specifically these obligations, both for the respective governments and for individual companies, are set out in:

- Protocol 2 to the Europe Agreement which refers to the restructuring of the Bulgarian steel industry and EU-Bulgaria Association Council Decision 3/2006 dated 29 December 2006 amending the Protocol 2 to the Europe Agreement, and
- Annex VII of the Accession Treaty which refers to the restructuring of Romanian steel industry.

These provisions outline the conditions for a transitional regime for state aid given for steel restructuring. Although state aids for restructuring the steel industry are expressly forbidden under EU law, the European Union agreed on transitional arrangements for according certain aids which would allow these new Member States to complete this task while minimising social and market disturbance. Strict conditions are attached to the granting of this aid, notably the achievement of viability by the companies concerned.

The duration of the arrangements applicable to the transitional period lasts until 31 December 2008. The above mentioned Protocol and Annex also set out detailed provisions for monitoring and reporting on the associated obligations. This report to the Council is part of these provisions, and refers to the results achieved in the year 2006.

Restructuring exercise: the exception to the EU rules on state aid was conditional on the fulfilment of certain obligations, negotiated between the EU and Bulgaria and Romania. The precondition for granting state aid was the preparation of National Restructuring Programmes (NRP) consisting of a national steel sector plan and individual business plans (IBP) for each benefiting company. The purpose of the steel restructuring programmes was to show that the conditions for granting of restructuring aid are observed and that the NRP leads to the viability of companies. Based on the information provided by Bulgarian and Romanian authorities in their 6-monthly reports, the Commission has assessed the progress in the implementation of measures envisaged in the NRPs and companies' IBPs. The scope of information provided includes data on production, capacity, investments, employment, productivity, financial results and the environment. The report notes that the steel sector in Bulgaria accounts for 2% of total industry employment and 3% of GDP, and in Romania for 4% of total industry employment and 4% of GDP.

Conclusions: following the presentation of NRPs, important steps in the restructuring of the steel industry in both countries have been taken. Existing plants are being modernised so as to adapt production to the quality of steel required by the EU and export markets. Changes in management structures took place in parallel with the ongoing concentration processes, especially in Romania.

However, in spite of these efforts, the Commission has identified delays, sometimes significant, in the implementation of the obligations and requirements as specified in the respective Decisions and Protocols.

The Commission will in its next and final monitoring report thoroughly analyse whether the problems identified regarding the implementation of the restructuring plans are mainly due to the firms themselves or whether they have to be attributed to exceptional and unforeseeable circumstances for which the company is not responsible. This will include a further assessment of the possible impact of recent raw materials price increases.

Bulgaria: at the moment, the only beneficiary company concerned, Kremikovtzi, is entering into a situation of serious non-compliance with its commitments to the Bulgarian government and to the Commission. The non-compliance concerns technological and environmental investments, sales, cost reduction and productivity which affect the viability, efficiency and effectiveness of the business management. Moreover, the Commission encountered difficulties in obtaining appropriate and consistent data related to the restructuring of the company. Even in the exceptionally favourable current world steel market conditions, achievement of viability under the conditions prescribed by the end of 2008 looks a very difficult challenge for the company. The Commission will closely monitor the areas where delays and lack of compliance were registered and will report accordingly in its future progress reports.

Romania: the monitoring process is being carried out with sufficient respect for the mutual obligations of the government and the companies concerned. Focusing on 2006 results, all six companies have improved their results comparing to the previous year. Nevertheless, the degree of compliance with the viability benchmarks is falling behind the commitments adopted in the respective IBPs. In order to achieve viability, restructuring efforts for all companies should be intensified in particularly with regard to implementation of the cost reduction strategies, improvement of their business management and sales strategies in order to profit from favourable market conditions. These are fundamental requirements for achieving the objectives of the IBPs in 2007 and in 2008.

Follow up: the Commission considers it necessary to intensify the restructuring process so as to enable the beneficiary companies to achieve viability in 2008. The Commission recalls that the provisions of the EU-Bulgaria Accession Council and Protocol to the Accession Treaty with Romania clearly stipulate that, other than the aid planned, **no further state aid for restructuring shall be granted**. Any additional restructuring aid would, therefore, be incompatible with their respective provisions. In the case of non-compliance with the conditions applicable to state aid already granted, namely, non-compliance with EC viability benchmarks, the Commission will take the necessary measures to recover any such aid.