ROMANIA

By a Special Contributor

Compared with other former members of the Warsaw Pact group of countries, Romania's transition towards a market economy has been painfully slow. The demise of the country's Communist dictator, Nicolae Ceaucescu, took place in 1989 and for several years afterwards the economy contracted. However, there has been some progress in recent years and in 2001 there was a marked improvement. The economy grew by some 5%, inflation was lower and moves towards the privatisation of some of the loss-making, inefficient state-owned companies was accelerated.

The progress was attributed to the efforts of the country's new Prime Minister, Adrian Nastase. A lawyer by training and a former foreign minister, Mr Nastase has not been deflected from his efforts to make the country's industries more competitive - electricity prices have been increased and privatisations have gone ahead despite protests by unions that the sale of loss-making state enterprises will lead to job losses.

Thus far, the majority of the electorate appears to remain supportive of Mr Nastatse's reforms. Nevertheless, there is a long way to go and the fact remains that although the average monthly wage last year rose to US$150 from US$100 a year previously, the country remains desperately poor and most of Romania's 23 million population continue to struggle close to the subsistance level.

One of the most successful privatisations to date was the sale last year of the Sidex steel plant to LNM, an Anglo-Indian steel company, for US$52 million. Sidex is Romania's largest industrial employer, with a workforce of 28,000. It contributes 4% of the country's industrial production and accounts for 7% of export revenues. LNM is controlled by Lakshmi Mittal, an Indian entrepreneur who has acquired a number of loss-making steel plants worldwide and transformed them into profitable enterprises. At the time of the sale of the government's majority interest, Sidex is believed to have had debts of some US$350 million and it is understood that LNM has agreed to take on a portion of the debt and to keep the entire workforce for at least five years.

The European Bank for Reconstruction and Development estimated that Sidex was costing the state around US$300 million annually. In November last year, the EBRD agreed to assist in the privatisation by providing LNM with a one-year revolving credit facility, to be used to upgrade production facilities and reduce emissions at the mill. Sidex currently produces some 3 Mt/y of steel and LNM plans to increase this to 5 Mt/y. During 2001, Romania imported around 3.1 Mt/y of iron ore and produced a total of 4.93 Mt of crude steel.

Not all privatisations have gone according to plan. The 175,000 t/y capacity Alro primary aluminium smelter at Slatina is 54.7% state-owned and the government has yet to decide how it should be privatised. It is a profitable operation and current upgrades are designed to raise annual capacity to 190,000 t by 2003. A proposal that existing shareholders approve a US$60 million increase in the company's capital was criticised because it would dilute the state's interest to a minority too small to attract a strategic investor.

Analysts have estimated the state's interest in Alro at some US$120 million. Prospective bidders included Alcan, Alcoa, Pechiney (which supplied the smelter's technology), Glencore, UK-based metals trader Balli Group and the Romanian investment company, Conef, and its US affiliate Marco Acquisitions. By February this year, only Conef and Marco remained in the bidding. They were actively buying up minority shares and increased their combined stake to 42%. If it eventually acquires a controlling interest, Conef says that it will raise capacity further and build a new thermal power station at Slatina to make the operation self-sufficient in energy.

Romania's 240,000 t/y capacity alumina refinery at Oradea, acquired in 2000 by Russia's largest aluminium producer, RusAl, was closed during the year because of declining alumina prices and operating costs of US$230-240/t.

Romania's production of hard coal, lignite and brown coal last year totalled 33.3 Mt and reserves amount to some 1,457 Mt. In terms of oil equivalent, the country produced 7.3 Mtoe, an increase of 13%, and consumed an estimated 7.7 Mtoe, 9% more than in 2000. The coal sector's performance was marred by an underground methane explosion in August 2001 that killed 14 miners at the Vulcan mine near Timisoara.

In the base metals sector, mine production of lead in concentrates is estimated at 19,000 t and refined production at 29,000 t, with consumption at around 20,000 t. For zinc, mine production totalled 28,000 t of metal in concentrate and refined output is estimated at 52,000 t, with consumption nearer 22,000 t. The latest available figures for copper are for 1999, when mine production was estimated at 17,000 t (productive capacity 30,000 t/y) and refined output at 23,000 t (productive capacity 70,000 t/y).

Two state-owned regional mining companies produce the bulk of base metals. Minvest based at Deva in west-central Romania produces primarily copper from mainly low-grade porphyry deposits, plus some, lead and zinc, as well as gold, silver and iron ore. REMIN, based in Baia Mare in northwest Romania, operates mines there and at Baia Borsa, Bucovina and Rodna, and produces mainly lead and zinc, plus copper, gold and silver.

Romania's environmental record in the minerals sector was badly tarnished by the spillage at the Baia Mare gold tailings retreatment facility in January 2000, when an estimated 100,000 m^3 of water containing cyanide contaminated the Tisza River which runs through Hungary into the Danube. In December 2001, the Government of Hungary launched a US$100 million damages claim in a Budapest court against the operator at Baia Mare, Aurul SA. It was alleged that fish stocks in the Tisza had been devastated and had still not recovered. Aurul is jointly owned by the Romanian state-owned mining company, REMIN SA, and the junior Australian mining company, Esmeralda Exploration Ltd.

The Baia Mare accident led to a gathering of experts from those countries affected by the spill, under the auspices of the Council of Europe, to formulate a 'Tisza agreement' as a framework to prevent further environmental catastrophes. In addition, the European Commission was seeking to amend existing EU environmental legislation covering the mining sector to include processing of ores from tailings and the management of mine waste. Meanwhile, the Australian company Virotec International claimed some considerable success in reducing heavy metal concentration and tackling the acid mine drainage problem at Baia Mare using its Bauxsoltm technology.

The Aurul incident has not deterred gold exploration and development in Romania, and during 2001 two companies made substantial progress. Toronto-based Gabriel Resources, which owns 80% of the Rosia Montana gold project, commissioned a feasibility study prepared by GRD Minproc of Perth which had considered a conventional open-pit mine with an annual ore throughput of 20 Mt yielding 755,000 oz/y over 11 years and a capital cost of US$296 million. Subsequently, Gabriel received an optimisation study of the plant design from SNC Lavalin Engineers and Constructors Inc. This concluded that a throughput of 13 Mt/y would be a suitable rate and would yield an average of 504,000 oz/y over 16 years at a total production cost of US$157/oz, and with a significantly lower capital cost. The two principal deposits, Cetate and Cirnic, contain the majority of the proven and probable reserves amounting to 225.7 Mt averaging 1.4 g/t Au and 7.5 g/t Ag. Another option, involving an initial throughput of 8 Mt/y, has been considered. Various approvals from the Romanian Government have been given for Rosia Montana and Gabriel is in the process of raising the necessary financing.

A second company, European Goldfields Ltd, is focusing on the Certej gold project, part of its Baita-Cracuniesti property, where drilling and channel sampling during 2001 outlined an indicated resource of 44.1 Mt averaging 1.9 g/t Au and inferred resources of 17 Mt at 1.5 g/t Au for a total of 3.43 Moz of contained gold. The deposit, located in the Apuseni Mountains in west central Romania, appears to be an epithermal system associated with a porphyry-style hydrothermal system at depth. Exploratory drilling has intersected significant mineralisation on the adjacent Teascu prospect.