

PUBLIC AID IN MANAGEMENT OF RESTRUCTURING PROCESS IN STEEL INDUSTRY

Extract: Restructuring of steel industry is a very significant process due to the fact that its role in the economy is very important. This process is also very difficult because it requires major capital expenditures. Since it is very hard for an individual company to bear the costs of restructuring, it is very important that the state should support the whole process with public aid.

Key words: public aid, restructuring, steel industry

In economies of many countries the rule of free competition is based on anti-monopoly and unfair competition legal regulations which are set for entrepreneurs. Public aid, in spite of the fact that it has an influence on competition, does not concern activities of entrepreneurs. The body which disturbs or may disturb the competition by granting the public aid is always the public authority which has the public resources at its disposal. This is why all legal regulations concerning public aid are very important. It might be said that they are a form of self-restriction of the state in spending the public resources for subjects of corporal law. Existence of such restrictions concerning the granting of public aid is a proof of maturity of legislative body because it constitutes a legal barrier for state intervention in the free market.[6]

Basic economic grounds for granting of public aid are so called 'market imperfections', i.e. the situations in which market mechanisms are not able to influence optimally the behaviour of market participants.[7]

1. Public aid for steel industry in European Union

The Treaty which set up the European Coal and Steel Community (ECSC) in 1951, according to article 4(c), forbade granting any public aid for steel industry. In spite of this, the Community allowed in various periods certain forms of subsidizing of steel industry on the basis of article 95 of the ECSC Treaty. This article authorised the European Commission to take relevant decisions or recommendations in all cases which were not stipulated in the Treaty with approval of the Council and after opinion of Consulting Committee.[8]

Major support from Union countries for steel industry took place in first half of the eighties. Deep crisis in steel sector was a result of fuel crisis as well as structural changes in Western economies which decreased demand for steel products. This key sector of Member States was threatened by the crisis to such a degree that hundreds of thousands of people faced the unemployment spectre and it might have been followed by the unprecedented economic crisis.

The Communities recognized that steel sector would not be able to carry out a radical restructuring resulting in decrease of production capacities and increase of competitiveness basing only on its own resources. In this situation Member States prepared themselves for granting major government subsidies for enterprises in steel sector. These major subsidies in steel industry in some of the Union countries made the freedom of common market, set earlier by ECSC Treaty, become questionable.

The Community found itself in the situation where disapproval for high level of subsidies required reduction through implementation of effective control mechanism. As a result, new regulations were set up in 1980 which described specific sector rules for granting the public aid in steel sector. These regulations, known as Steel Aid Code, were then changed several times in 1981, 1985, 1989, 1991 and 1996.

Elaboration and implementation of these solutions was possible thanks to political will of governments and awareness about the role of steel industry in economies of Member States.

In European Union countries the restructuring process of steel industry was very important for governments, which treated state steelworks as a tool in realization of their own economic projects. This situation took place in the sixties and seventies, when major economic growth was driven by high capital investments in steel sector. Many of them were financed from state budget whereas its reasons were based partially on national ambitions.

European steel industry used the public aid in the course of restructuring process and without it its present condition would be different. This aid was based on industrial, commercial, social and regional cases of aid (for example the resolution of Board of Ministers concerning credit guarantees for major steelworks).[2]

2. Public aid for steel industry in Poland

Before the above mentioned Act came into force any public aid for steel industry, as well as for other sectors, was granted on the basis of several acts and decrees referring to obligations of economic bodies to the State as well as on the basis of immediate decisions referring to particular cases of aid (for example the resolution of Board of Ministers concerning credit guarantees for major steelworks).

Since the steel sector was treated in European Union as especially sensitive, any public aid for steel industry in Poland was subject to many limitations according to ECSC regulations. Conditions for public aid for Polish steel industry are included in Protocol No. 2.[9]. It says that no public aid is advisable in any form except for cases mentioned in ECSC Treaty because it could have a negative influence on trade relation between Poland and Communities.

Protocol No. 2 states that restructuring aid for Polish steel industry depends on reduction of production capacities. It was a major difficulty for support of restructuring process from state resources. This fact was more restrictive than regulations in the Union in the period of restructuring of its steel industry. It was also more restrictive than temporary regulations negotiated by Spain, Greece or Portugal in their accession treaties.

Grace period for public aid ended in 1996 (according to the Treaty it started on 1st January 1992). In November 1996 Poland put forward a proposal to European Commission to prolong this period till end of 1999. In July 1997 EC proposed an aid in the amount of 10 million ECU for employment restructuring but the grace period was not prolonged. This is why, during pre-accession negotiations, the period for granting the public aid was agreed for 1997 – 2006.

According to the Protocol No. 8[10] of Accession Treaty public aid could be granted to eleven steelworks: four steelworks from PHS S.A. (Huta T.Senzimir in Cracow, Huta Katowice in Dąbrowa Górnicza, Huta Florian in Świętochłowice and Huta Cedler in Sosnowiec) as well as steelworks: Andrzej in Zawadzkie, Bankowa in Dąbrowa Górnicza, Batory in Chorzów, Buczek in Sosnowiec, L.W. in Warsaw, Łabędy in Gliwice and Pokój in Ruda Śląska. Volume of production capacities must be reduced by 901 thousand tonnes (i.e. by almost 10%) as compensation for public aid (3 387 million PLN in the period 1997 – 2003), which is to be granted to steelworks for restructuring and achieving the profitability of the sector. Since 1997 to 2006 the total reduction of production capacities of Polish steel sector will amount 1 231 thousand tonnes of finished products.

Conditions of restructuring of Polish steel industry which were accepted by Poland were the result of hard negotiations with European Commission. The EC put a great pressure to negotiate the restructuring programme that would be in line with current and future European industrial policy for this sector.

3. Value and appropriation of public aid for restructuring of Polish steel industry in 1992 - 2003

Total amount of public aid for Polish steel industry in 1992 – 2003 can be assessed at the level of more than 3 530 671 thousand EDN.¹

More than 30% of its value was spent in 1992-1997. In this period steelworks used many forms of budget subsidies (table 1).

Table 1. Public aid for Polish steel industry in 1992-1997 (000's PLN)²

FORM OF PUBLIC AID	VALUE OF PUBLIC AID
1	2
Budget subsidy for restructuring of debts against ZUS	24 568
Allowances in payments of tax profit to budget	19 444
Allowances in payment of dividends	31 066
Investment allowances in income tax	213 997
Reduction of debts against budget as a result of taxes cancelled on the basis of the Decree of Minister of Finance dd. 4.03.1994	4 875
Reduction of debts against budget as a result of the Decree of Minister of Finance dd. 20.05.1996	15 024
Guarantees of State Treasury for credit payments	743 888
Allowances resulting from Tax Code	13
Aid from Work Fund	2 323
Allowances in payments for PFRON	4 710
Total	1 059 908

Source: Basic programme of restructuring for Polish steel industry, Ministry of Economy, Warsaw, June 1998.

70,47% of total amount of public aid in 1992-1997 was in form of credit guarantees of State Treasury whereas 20,2% - investment abatements in income tax.

Guarantees for investment credits were granted to the following steelworks:

- Huta Baildon 154 809 000 PLN
- Huta Katowice 155 936 000 PLN
- Huta Ostrowiec 136 942 000 PLN
- Huta im. T. Sendzimira 289 324 000 PLN
- Zakład Hutniczy Stalowa Wola Sp. z o.o. 6 877 000 PLN

The following commitments of steelworks were paid from resources of State budget in virtue of granted guarantees and loans:[5]

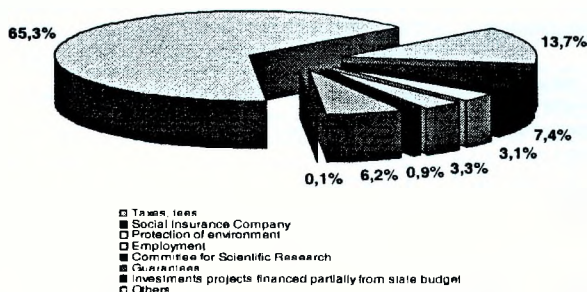
- 1) as a part of foreign guarantees, Huta Katowice paid its commitments in 2001 and 2002 in the amount of 67 875 594 PLN
- 2) as a part of domestic guarantees the following commitments were paid:
 - Huta Sendzimira (2003) in the amount of 6 391 635 PLN,
 - Huta Baildon (2000) in the amount of 113 450 806 PLN,
 - Huta Ostrowiec (2003) in the amount of 72 591 830 PLN.

¹ EDN – amount of aid granted to an entrepreneur if he or she had received an aid in form of subsidy, after income tax is deducted, expressed in centimal place (Decree of Board of Ministers dd. 15 October 2002 concerning calculation of public aid value granted in various forms)

² Presented data are partial and apply to sixteen steelworks

State Treasury suffered especially from requirement of the grantor of credit for Huta Baildon (which was covered by 60% state guarantee) to repay it immediately. Because the above mentioned credits were paid from state resources, these companies became debtors to State Treasury.

State subsidies for Polish steelworks in consecutive period are assessed at 2 470 763 461 EDN¹. State aid was appropriated as shown in drawing 1.



Drawing 1. Percentage share of public aid appropriation for chosen steelworks in 1997 - 2003

Source: Own summary on the basis of business plans of chosen steelworks, UOKIK materials and Decision of Commission dd. 05.07.2005 concerning state aid for Huta Częstochowa S.A.

Public aid in form of remissions, instalments agreements and deferment of taxes was granted by Offices, Treasury Offices, Municipal Offices and particular Presidents of Towns in order to improve financial standing of beneficiaries of public aid. Major aid in form of remission of outstanding taxes was granted to Huta Katowice S.A. in 2003.

Generally, in the analysed period the amount of tax remissions was at level of 121 674 thousand EDN whereas almost 9 million EDN was spread into instalments and aid in form of deferred payment amounted almost 268 623 thousand EDN.

The aid granted by Zakład Ubezpieczeń Społecznych (Social Insurance Office) was temporary and similar. Payments spread into instalments amounted 149 571 841 EDN, remissions of outstanding payments amounted almost 60 200 thousand EDN and deferred payments – more than 3,7 million EDN.

In case of public aid granted for protection of environment, almost 90% was in form of deferred payments, penalties and loans as well as prolonged period for credit payments. More than 5,8 million EDN were preferential ecological loan granted by Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (National Fund for Protection of Environment and Water Management) and Wojewódzkie Fundusze Ochrony Środowiska i Gospodarki Wodnej (Regional Funds for Protection of Environment and Water Management). According to recommendations of European Commission, the aid in form of preferential credits could be granted for investments which would result in better protection of environment in cases where permissible standards were significantly exceeded. Other forms of aid for protection of environment are: subsidies from Municipal Offices (85 663 EDN) and deferred payments, penalties and loans (almost 4 373 thousand EDN)

Support of steelworks policy concerning human resources cost more than 98 381 thousand EDN. Major item among total aid constituted Hutniczy Pakiet Socjalny (Steelwork social agreement). Beneficiaries of this agreement were granted 63 229 356 EDN of public aid.

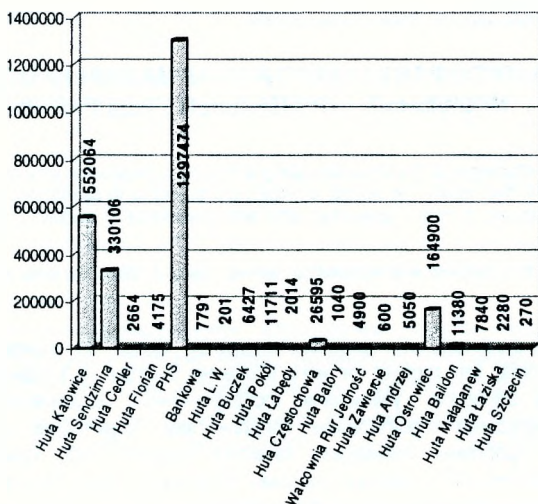
Significant support for employment was also granted to Polish steelworks from Fundusz Gwarantowanych Świadczeń Pracowniczych (Fund of Guaranteed Employees Considerations) – almost 15 114 thousand EDN and from Państwowy Fundusz Rehabilitacji Osób Niepełnosprawnych (State Fund for Rehabilitation of Disabled Workers) – more than 13 900 thousand EDN.

Public aid in form of guarantees was granted in 2003 and almost its total value constituted the guarantee for bridge credit granted to Huta L.W. Sp. z o.o. (177 056 thousand EDN).

Direct support for investment projects from state budget constituted only 0,075% of total public aid granted to analysed companies in 1997 – 2003.

Major part of the public aid, more than 65%, took place in 2002 – 2003 in form of conversion of debts into shares.

Comparison of public aid granted to particular companies shows (drawing no. 2) that major part of it – almost 50% in 1997-2003, was granted to PHS. Other significant beneficiaries of public aid in this period were also the following steelworks: Katowice S.A. (215), Sendzimir S.A. (12,5%), L.W. Sp. z o.o. (7,6%) and Ostrowiec S.A. (6,2%).



Drawing 2. Value of public aid granted to steelworks in 1997-2003 (000's EDN)

Source: Own summary on the basis of business plans of chosen steelworks, UOKiK materials and Decision of Commission dd. 05.07.2005 concerning state aid for Huta Częstochowa S.A.

Public aid for Polish steel sector constituted a major support for its restructuring process in spite of the fact that its value was much lower when compared to resources granted to European companies for the same purpose. Major part of the aid was appropriated for restructuring of financial standing of the companies, less was granted for employment restructuring and research and development. Support for investment projects was rather of small value.

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ПРИНЦИПЫ ОРГАНИЗАЦИОННОГО И ИНФОРМАЦИОННОГО ПОСТРОЕНИЯ МОБИЛЬНЫХ СТРОИТЕЛЬНЫХ ПРЕДПРИЯТИЙ

Abstract: The paper emphasises on the competitive ability of Belarusian construction firms on the international market through development of their mobility. The essence of mobility and reasons for its development are given. Possible ways of organisational structuring of mobile construction firms and development of mobility's informational potential are discussed.

Keywords: mobility, organisational and technological factors, potential, database, parameters, construction firms, exports.

Инвестиционно-строительный комплекс является одной из приоритетных отраслей народного хозяйства, что требует от него особенно быстрых и кардинальных изменений. Происходящее в Беларуси увеличение государственных ассигнований на капитальное строительство позволяет строительным предприятиям существенно загрузить основные фонды, однако проблемы повышения качества строительства, конкурентоспособности, инновационной активности остаются открытыми. Возможность выхода на рынки строительных услуг других регионов для большинства организаций остается лишь долгосрочной целью.

О чем свидетельствует динамика экспорта строительных услуг Республики Беларусь (рис. 1).

В период с 1997 по 2003 г.г. экспорт снизился со 103,7 млн. долларов США до 55,1 млн. дол., что составляет соответственно 11,3% и 4,2% в общем объеме экспорта услуг. Необходимо обратить внимание на то, что более 90% экспорта приходится на рынок стран СНГ. Строительные рынки стран Центральной и Восточной Европы остаются для Республики Беларусь практически несвоенными. Это объясняется во многом недостаточно развитыми свойствами строительных предприятий: адаптивности, гибкости, мобильности.