

## **STEEL MILL ARCELORMITTAL IN GALATI, ROMANIA - BETWEEN SURVIVAL AND GLOBALIZATION. COGNITIVE ASPECTS**

**Gabriela G.C. IORDĂCHIȚĂ<sup>1</sup>**

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### **ABSTRACT:**

*THIS RESEARCH IS AN EXPLORATION OF SOME ASPECTS RELATED TO THE EVOLUTION OF STEEL MILL IN GALATI AFTER THE TOTALITARIAN REGIME CHANGE AND CENTRALIZED ECONOMIC SYSTEM IN ROMANIA. WE EXAMINE HOW THE FORMER BIG STEELWORKS IS NOW ADAPTED TO THE NEW POLITICAL AND ECONOMIC REALITIES. CONSIDERING THAT ETHICAL DIMENSION CAN'T BE NEGLECTED WE ANALYZE THE PROCESS OF PRIVATIZATION AND OTHER ASPECTS OF ARCELORMITTAL AS TRANSNATIONAL CORPORATION. OUR EXPLORATION IS CONTEXTUALIZED WIDER PROCESS OF GLOBALIZATION. IN SAME TIME, WE ANALYZE HOW THE PRIVATIZATION OF GALATI STEEL MILL WITH MITTAL GROUP AND MERGER OF MITTAL STEEL WITH ARCELOR IS AN ADVANTAGE FOR THE SURVIVAL OF THE STEELWORKS IN GALATI. CONCLUSIONS OUR APPROACH PROVES TO BE NUANCED AND PROVOCATIVE, REVEALING A LESS EXPLORED RESEARCH FIELD.*

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**KEY WORDS:** ARCELOR MITTAL GLATI, TRANSNATIONAL CORPORATION, GLOBALIZATION, PRIVATIZATION, RESTRUCTURATION

### **1. ON THE GLOBALIZATION OF THE ECONOMIC CRISIS**

We are living in a time of great complexity, a consequence of developing new technologies of communication, information processing, transportation and of *the world economy based on networks*<sup>2</sup>. In this background, we are becoming more and more conscious that most of actions, decisions or events occurring at a restricted level acquired an extraordinary force in influencing the destiny of an increasing number of people spread on geographical territories far away from the place of their initial triggering. In this respect, a recent illustration, and as a result easy to be accessed by everyone's memory, is the outbreak of the world financial crisis that took place together with the historically considered collapse of September 15, 2008 of the Lehman Brothers Bank followed by the AIG investment fund and then by the Dow Jones stock index, in the same fatidic year, on September 29. This entire chain collapse was followed by many others and generated millions of unemployed persons

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<sup>1</sup> Ph.D., Fellow SOP HDR/159/1.5/133675 Project, Romanian Academy Iasi Branch and Doctoral School of the Faculty of Philosophy and Social-Political, University "Alexandru Ioan Cuza", Iasi; gabrielaordachita@gmail.com.

<sup>2</sup> "[...] it seems that we are witnessing the crystallization of a global economy based on networks as the transition takes place from a system of inter-dependencies mostly based on trade towards a system of interconnections mostly based on networks." in Bari, Ioan, *Globalization of Economy*, (Bucharest: Economic Printing House, 2005), 41.

in an already weakened economy. The loss of jobs unfortunately did not stop at the borders of the USA, but included many economies inter-connected with the American one. The financial and real estate bubble that shattered so loudly seems to have as main cause the abuse of bankers related to the risk of insolvency promoted through the financial mechanism of *default swap credit*<sup>3</sup>.

It is worthy to point out that the current financial crisis is by no means isolated as a phenomenon in the last 100 years as it was preceded by others among which we mention: the Great Depression (1929-1940), the Hyperinflation in Germany (1921-1924), the Oil Crisis (1973), the Financial Crisis of Asia (1997), the Black Monday of 1987, the Ruble Crisis (1998), the “Lost Decade” of Japan (1990-2000), etc.

In the background of this financial crisis which settled at international level in the past years and from which the world countries are trying with difficulty to recover, we will place our analysis on the Galati Steel Works.

## 2. THE “LIQUID” DECISIONAL RESPONSIBILITY?

We are living in a fragile world in which the current crisis is a complex social phenomenon. At international level, in most countries, the inequalities between a very rich and numerically restricted social class and the rest of the population are greatly maintained from a statistical point of view while the middle class is more and more limited and less protected from the crisis and the lower class is fully hit from the point of view of accessing resources. Considering the above, it is obvious that the economic factor and mainly the political one did not stop to play an extremely important role in increasing or remedying these issues. Related to the above presented situation, the sociologist Zygmunt Bauman considers that the current social systems have become more liquid, lacking consistency, confidence, solidarity with people eager for easy earnings and very conformist,<sup>4</sup> moreover, they also lost the compass of morality. In our opinion, they are a creation of the capitalist system. They reached a level where they behave more against the general wellbeing of the community they are coming from, pushed by the fast desire of becoming rich. The social systems seem to head in a wrong way in which those that can influence them have become less responsible and also more powerless in order to influence their future. The opposite of the presented case is considered by us, from an ethical point of view at the same time, the one in which the interest of the community, its security and future are placed above the interest of individuality.

## 3. BETWEEN HISTORY AND PRESENT

Galati Steel Works was built following the Plenary decision of November 1958 by the Central Committee of the Romanian Workers Party. The decision was a reaction independent to the policy of the CAER<sup>5</sup> organization. This organization was created for trade purposes and for the integration of Soviet Block economies. The plan was that Romania to be rather economically dependent to the USSR and more agrarian than industrialized<sup>6</sup>. However, these ideas contravened to the independence plans towards Moscow especially those of Gheorghe-

<sup>3</sup>For more details see: Pierre Jovanovici, *Blythe Masters-the banker who started the world crisis. What did he do and what will he do next*, (Bucharest: Philobia Printing House, 2011)

<sup>4</sup>This concept of „liquidity” of institutions and society belongs to the sociologist Zygmunt Bauman and it is detailed in the paperwork: *Liquid Modernity*, (Bucharest: Antet Publishing House, 2000)

<sup>5</sup>The Council for Mutual Assistance – a creation of USSR in 1949 as an answer to the Marshall Plan for stimulating the trade between the countries of the former Soviet block.

<sup>6</sup>For more details, see the works of the authors: Popescu, Claudia, Rodica , *The Industry of Romania in the 20<sup>th</sup> Century. Geographical Analysis*, (Bucharest: Oscar Print Publishing House, 2000), 99 and Constantiniu, Florin, *A True History of the Romanian people*, (Bucharest: Univers encyclopedic Publishing House, 2000) , 256-257.

Gheorghiu Dej who held the supreme power in his position of President of the State Council of the Popular Republic of Romania between March 21, 1961 and March 18, 1965. As a consequence, the industrialization of Romania was decided at national level by building many large industrial objectives among them Galati Steel Works, the construction works of which began in 1960 and the effective steel production in 1968. This was designed as part of a national production chain and at the same time as a strategic objective in a strongly industrialized economy. It was equipped with the latest German and French technology and strategically located in Galati in an advantageous area from a geographical point of view for water transportation<sup>7</sup> of raw materials and finished products.

It is known that before First World War, Romania was a more agrarian country. The effects of this industrialization were many, on the one hand positive on the short term, by the migration of the rural population to the urban areas where a need of labor existed for the new enterprises, thus developing the cities but also negative one on the long term following the losses recorded at economic level by some of these large industrial producers of the socialist period. Many of the socialist economy products were not profitable on the external competitive market. This issue grew serious after 1989 and culminated with financial blockings during the transition period of Romania from a centralized economy to market economy. These manifested by delayed payment of wages to the employees, forced leaves without pay, massive layoffs of personnel and reconstructions in order to make economy efficient, labor conflicts and as a solution for all: privatization.

It is obvious that due to the industrialization of Romania the share of the urban population increased from 23.4% in 1948 to 39.1% in 1966, and the share of the rural population decreased between the same periods from 76.6% to 60.9%. While the economy percentage of the GDP represented by industry increased from 39% in 1938 to 46.6% in 1950 and to 57.3% in 1963, the GDP experienced an ascending curve, rising from 180 dollars in 1953 to 653 dollars in 1965. In reality, the situation was not that good, regardless the optimism of the era, from the point of view of the purchasing power, for example, the income of the average worker was in 1938 with 1.9 higher than the one of the average worker of 1963<sup>8</sup>.

#### 4. FROM A CENTRALIZED ECONOMY TO CAPITALISM

The idea of privatization of public enterprises is a recent one. It was introduced according to the Swedish economist Anders Åslund<sup>9</sup>, by the British Prime Minister, Margaret Thatcher, in 1979. He was also along with other reputed figures in the field of economy, such as Jeffrey Sachs or David Lipton, those who supported a sudden and not gradual passing of countries with a centralized economic system towards the market economy. This was mainly carried out through an accelerated privatization that, in their opinion, would be better than its absence. Afterwards, by facilitating the closure of obsolete enterprises and the access of new companies in order to carry out the *creative destruction* of Schumpeter<sup>10</sup> and, most important, by building a new strong legal system.

The ideas promoted in the 90s by these economists seemed to be offering the expected results. However, things did not go as planned due to some disturbing factors such as: the

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<sup>7</sup>The route was on the Danube to the Black Sea towards the Mediterranean Sea and through the Bosphorus Strait towards the Atlantic but also towards the Danubian countries in Germany.

<sup>8</sup>Statistical data taken from the paperwork: Constantiniu, Florin, *A True History of the Romanian People*, (Bucharest: Univers encicloped Publishing House, 2002) , 257 – 258.

<sup>9</sup>Åslund, Anders, *How the Capitalism Was Built. The Transformation of the Central and Eastern Europe, of Russia and of Central Asia*, (Iasi: Tipo Moldova Publishing House, 2010), 177.

<sup>10</sup>Anders, *How the Capitalism Was Built. The Transformation of the Central and Eastern Europe, of Russia and of Central Asia*, 182

syncope of the legal systems, corruption and political influence made the former totalitarian economies to become in fact predatory<sup>11</sup>.

Romania was not an exception; many of the privatizations carried out ended in a total destruction and not in a creative one, to achieve something instead, and corruption, theft of state property and speculations of any kind disturbed the economic, social and value system.

After more than 15 years of instability, officially, in the fall of 2004, with 5 straight years of economic growth, Romania is recognized by the EU as a *functional market economy*.

Following the *recipe* of notorious economists on the acceleration of privatization, on November 6<sup>th</sup>, 2001, *LNM Holdings NV*, member of the *LNM Group* acquired *S.C. Sidex SA*<sup>12</sup> of Galati<sup>13</sup>. The contract was signed with the *Authority for Privatization and Administration of State Holdings (APAPS)* in London and was ratified by the minister of privatization, Ovidiu Musetescu, together with the Prime Minister of that time, Adrian Nastase. The Indian party was represented by the *LNM Group* president, Lakshmi Mittal. Thus, the Steel Works passed from state patrimony in private propriety by acquiring the majority shares (87% of the total of shares) at a price of 70.6 million USD<sup>14</sup>. Some of the debts of the steel works were transformed into shares.

Regarding the privatization of *S.C. Sidex S.A.* with the *LNM Group*, we may notice that in the period before signing the contract with the Romanian state, the topic of the privatization of the Steel Works was the object of many debates, and many opinions in the international press circulated regarding this topic. For example, *The Telegraph* mentions a donation made by the billionaire Lakshmi Mittal to the *Labour Party* amounting to 125.000 GBP and, as a response to this gesture, the English Prime Minister Tony Blair would have sent a letter to the Romanian Prime Minister Adrian Năstase in order to facilitate the takeover of Sidex by LNM Holdings NV, stating that this company is English. The gesture of the British Prime Minister was not left behind as allegations were made that Blair would have favored the *LNM Group* that competed in a disloyal manner with a large international English steel producer Corus. Due to this situation, the English steel producers were forced to lay off about 6.000 jobs of this segment. We do not know to what extent these rumors are true, but it is obvious that they circulated in the mass-media of that time.

An important episode related to the events of the privatization of the Steel Works is the visit of the French Prime Minister Lionel Jospin on July 23, 2001 in Bucharest in order to discuss the possibility according to which Usinor, a French steel producer, would acquire the Sidex management. The visit of the French Prime Minister, however, could not influence the outcome of the privatization of the large Steel Works plant of Galati which has a surface of 1600 hectares.<sup>15</sup>

We would like to bring to your attention some details related to the *LNM Group* (then operating *of shore* headquartered in the Dutch Antilles). The *LNM Group* was under the

<sup>11</sup>We mention here the words of the American anthropologist Katherine Verdery: "In my opinion, to assume that we are witnessing a transition from socialism to capital, democracy or market economy is wrong. [...] The development of some political systems closer by the corporatist authoritarian regimes than the liberal democracies is another possibility in many countries (for example, Romania) while the military dictatorships should not be excluded in the case of others (maybe Russia). When we are referring to «transition», we quote it in order to mock the naivety of such a modern transitology." (Verdery, K., 2003, *What Was Socialism and What Comes Next*, Iași: Institutul European Publishing House, 28).

<sup>12</sup>S.C. Sidex SA represents the old name of the Galati Steel Works before privatization in 2001.

<sup>13</sup>We will detail further on this episode in order to follow the socio-political context in which the privatization was made and in order to set a better framework in the qualitative analysis which we would like to carry out.

<sup>14</sup>The real value of S.C. Sidex S.A. being of about 400 million USD (the equivalent of 300 million GDP as mentioned by *The Telegraph* on February 10, 2002).

<sup>15</sup>Information taken from: [www.telegraph.co.uk](http://www.telegraph.co.uk), <http://www.theguardian.com/uk>și [www.ispat.com](http://www.ispat.com) (March 18, 2003).

patronage of the Mittal family. It held in 2002 80% of the shares of this multinational company with branches in over 15 world countries. The group benefited from important BERD financings in order to facilitate the acquiring of some production facilities mainly located in Eastern Europe and recorded in the same year a production of 27.5 million of tons/year, thus ranking 4<sup>th</sup> in the top of the world largest steel producing companies. At that time, it had over 125.000 employees on all 5 continents among which only 100 employees in Great Britain.

If we analyze the privatization of Galati Steel Works, it raises many issues related to the ethics of the process. Bought at a price considered by many to be ridiculous<sup>16</sup>, with a contract kept secret for a period of 50 years from signing and privatized at the pressure of the European Union, as well as the conditions for making available a percentage of 50% of the RICOP funds, the Steel Works starts a new stage in its existence, not under state supervision as until then, but under foreign patronage.

After privatization, there comes a period of turmoil at the level of the employed personnel, in which the wage and cultural discrepancies between the foreign and Romanian management were highly significant. The period concurs with the shutting down of more than half of production facilities, the steel quantity being also reduced to a half. In the same rhythm, the employed personnel was decreased from about 28.000 employees at the moment of privatization to about 7000 in 2014 and the process has not yet ended.

The future of this production facility remains, however uncertain even after the merger of the Mittal group with Arcelor in 2006 that lead to the creation of one of the most powerful multinational corporations in the world regarding the steel market, a fact mainly due to the decrease of steel demand due to the world financial crisis in recent years.

The climate within Galati Steel Works changed a lot under the new private management, based on the values of performance and on capitalization strategies with a precise objective: efficiency. With all these changes imposed by survival on the market, the new patronage omitted in our opinion an essential aspect and namely to take into account the *soul of the enterprise*. What is in fact this *soul of the enterprise*? It is the *last cry* as Gilles Lipovetsky calls it in the post-modernist project of enterprise<sup>17</sup>, it is the conduct code and the morality within the organization, the atmosphere of its frame. The fact is not omitted by the average employees of the plant who notice this absence, remembering with nostalgia the working atmosphere that existed before privatization, characterized by enthusiasm, warmth and intimacy regarding the relationships between the employees in contrast with the fear of losing their jobs, the permanent shift from one position to another within the organization, distance, secrecy and currently a rather cold atmosphere between them. According to their accounts, it seems that at that time this *soul of the organization* was a pleasant presence in the working atmosphere and motivated their work. *Now*, in contrast with that *then*, the *soul of the enterprise* would be the last thing to be considered by the management of Galati multinational company which is more concerned with a fight for efficiency.

## 5. THE ONLY LASTING THING IS CHANGE

Galati Steel Works suffered during history, from its entering in 1968 in the productive circuit and until now, a series of transformations in direct relation with what is going on in its external environment. The transition of the Romanian society after the Revolution of

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<sup>16</sup>70.6 million USD while soon after acquiring the Galati plant, in 2004, the wedding of the first daughter of Mittal takes place, Vanisha Mittal with Amit Bhatia which took place in the Versailles Palace and cost 60 million USD as being one of the most expensive ones in the world.

<sup>17</sup>For more details see Lipovetsky, Gilles, *Amurgul datoriei. Etica nedureroasă a noilor timpuri democratice*, (Bucharest: Babel Publishing House, 1996), 275-316.

December 1989 from a socialist and totalitarian political regime with a planned economy to a democratic system, with an economy which wanted to be capitalist but instead began firstly as a predatory one. This sinusoid of Romanian society also transmitted in the evolution of the Steel Works plant in three periods: a period of extension of the production units and of increasing productivity in a planned economy; the second period which lasted 11 years since the fall of the communist regime in 1989, characterized by chaos, theft, in other words, a fall in the abyss of the productive unit when it was named the “black hole” of the Romanian economy because the plant was pushed there government after government, a situation which lasted until the privatization of 2001; a third period after privatization with LNM Group, characterized by great sacrifices and readjustment with great efforts made for increasing the effectiveness of the activity, with the implementation of a new management and massive personnel layoffs.

The privatization was a moment in which the plant employees hoped that the patronage would bring more stability and wage increases, in reality the situation did not change in the direction desired by them. The wages for the large majority of works remained until nowadays at a modest level, the trade unions became more and more powerless, theft could not be entirely stopped but the implementation of a better system of work security was successful. For example, from the data derived from the internal statistics of the enterprise, the labor related death decreased from 8 in 2006 to a single death in 2014 while the accidents with temporary inability to work were: 37 in 2006, 33 in 2007, 27 in 2008, 12 in 2009, 18 in 2010, 12 in 2011, 16 in 2012 and 2 in 2014.

The layoffs continued in no less than 13 “waves” with a variable number of people that left from the plant with compensatory payments as a solution to increase efficiency and to practically save the unit from collapse.

The personnel policy was radically changed, the permanent “rotation” of the staff from one job to another is practiced. This rotation was also practiced by the communists as the idea seemed attractive to the plant management and was applied. The adaptation of the employees to this continuous change from one job to another is pretty much difficult and those who cannot carry out this fact are quickly eliminated.

## 6. CONCLUSIONS

The history of the Galati Steel Works reflects the world nowadays as it passes through an accelerated change regarding its values which are often slippery and dissipated based on a permanent struggle to cope with the challenges of a power field to which it is added the lack of involvement of the political factors in order to create and protect jobs. We can compare this history of the plant with a rock rift in which all climatic transformations were impregnated and it seems that it piles them up all in one place: totalitarianism, predatory economy, privatization, capitalism, globalization, old and new and in the end part of a multinational company.

It is a wonder that this plant still exists after all he passed through and yet it still exists due to some people who invested a part of their life, their competence, honesty and soul.

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