

Romania: controversies over the extraction of Black Sea gas

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On 9 July, the Romanian parliament passed an act regulating oil and gas extraction from offshore fields in the Black Sea. The leader of the government coalition, Liviu Dragnea, is arguing that the new regulations will make Romania self-sufficient in terms of gas production and will end its dependence on imports from Russia. The new law opens up the way to the extraction of natural resources from offshore fields on the Black Sea and imposes a tax on extraordinary incomes generated by oil and gas producers ranging from 15% to 50% (depending on the raw material price). In addition to this, they will pay royalties standard for this sector equivalent to 3–13.5% of the production value. The primary sector has criticised the amendment and has warned that excessively high and unstable taxes may block the plans to launch production at the Black Sea fields. Natural gas deposits estimated at approximately 170 billion m³ (the equivalent of around 17 years' worth of Romanian consumption) have been confirmed on the Black Sea bed over the past decade. The licences to explore more than half of these fields have been granted to ExxonMobil based in the USA, and OMV Petrom (a company co-owned by Austria's OMV and the Romanian state). According to announcements made, production is set to begin in 2020–2022. Romanian gas production may even reach double the present level as a result of the launch of natural gas production from the offshore Black Sea fields. At present, the annual output of Romania's onshore gas fields is around 10–11 billion m³.

Since the beginning of the political system's transformation, Romania has managed to reduce its gas consumption to one-third, from 32 billion m³ in 1990 to around 10 billion m³ in the past few years. As consumption fell, the level of gas imports from Russia was also reduced (from 6.5 billion m³ in 1990 to 0.5 billion m³ in 2014). In 2015, 97% of natural gas consumed in Romania originated from local sources. This trend was reversed in 2016 when imports rose to the level of 1.48 billion m³. The increase in the share of Russian gas in Romania's energy balance was linked to the Romanian government's imposition of additional taxation on local production companies.

Commentary

- It was necessary to pass an act setting the fiscal framework for oil and gas extraction from the offshore fields in the Black Sea in order to launch the operation of the new fields. The regulation passed by the parliament imposes higher taxes on this sector as compared to the initial version of the act. The final version most likely had not been consulted with companies from the primary sector and came as a big surprise to them.

One of the reasons for imposing higher fiscal levies on companies was most likely the centre-left coalition's desire to improve its perception by the electorate. The government started a bitter dispute with the president and the opposition involving controversial reforms of the judiciary system and prosecution authorities being set on a faster track; this has adversely affected the popularity rankings of the coalition parties.

- Even though the work in parliament has ended, the foreign companies active in Romania's primary sector will most likely continue their intense efforts to regain the favourable fiscal solutions they had been offered before. One proof of the strength of their lobbying is the first version of the act which imposed only licence charges on them. Some deputies from the coalition party ALDE criticised the new regulations immediately after the vote; this stance was most likely also an effect of the companies' lobbying. Even though it seems fairly certain that President Klaus Iohannis will sign the act in the version adopted by the parliament, it is likely that it will be amended in the coming months, and the regulations criticised by the primary sector will be modified to better suit its interests.