

# Romania could challenge Russian grip on Europe's energy

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Romania is sitting on vast oil and gas reserves, enough to challenge Russia's grip on the region's energy supply

Romania, one of the EU's poorest members, could emerge as an unlikely challenger to Russia's iron grip on eastern Europe's energy supply thanks

to vast oil and gas reserves waiting to be tapped, experts say.

Its hydrocarbon riches already give Romania a high degree of energy self-sufficiency, but there are many more untapped reserves under the Black Sea, attracting the attention of the world's oil and gas majors.

Some, including US giant ExxonMobil and Austria's OMV Petrom, have started drilling in the Black Sea.

"Romania's position as a potentially significant gas producer in this region is unique and the resources here may pose a threat to what has been mostly a Russian monopoly," said Mark Beacom, CEO of Black Sea Oil & Gas, a company owned jointly by the Carlyle Group and the European Bank for Reconstruction and Development.

But the energy majors have put their ambitions on hold after Bucharest passed legislation that will tax revenues from [offshore drilling](#) and stipulate that half of output must be reserved for the domestic market—even though the country still lacks much of the infrastructure needed to distribute and consume it.

Romania currently produces about 10.5 billion cubic metres of gas each year, largely onshore, and consumes 11-12 billion cubic metres, making it almost completely independent from Russian gas unlike its eastern European neighbours.

According to varying estimates, further untapped reserves of between 170 and 200 billion cubic metres lie deep in the Black Sea that could be extracted by 2040.

That represents the equivalent of Romania's total annual consumption for 15 years, and four years' consumption of a country such as France.

It was the former communist leader Nicolae Ceausescu who first launched an offshore drilling project in the Black Sea 50 years ago.

And now Romania could "become a regional hub and contribute to Europe's energy security," the Energy Ministry told AFP.

## **Russian stranglehold**

Russia is one of the biggest suppliers of oil and gas to Europe, a stranglehold that the West has long tried to break in view of recurring geopolitical tensions between the former Cold War foes.

In the 2000s, a dispute between Russia and Ukraine left Europeans shivering in the middle of winter when Russian giant Gazprom cut supplies to the West.

"The volume of (offshore) reserves can turn Romania into the main EU gas producer, after the UK leaves the bloc," Razvan Nicolescu, a consultant with Deloitte told AFP.

To capitalise on this, authorities have started work on the Romanian stretch of the BRUA pipeline, a 479-kilometre (308-mile) artery, partly financed by the European Commission, that will also cross Bulgaria, Hungary and Austria, and transport gas from the Caspian and Black Seas to Central Europe.



Energy majors don't like Romania's tax and sales rules for gas production

But the plan can only proceed "if the gas companies decide to go ahead with their investments," Nicolescu said.

And therein lies the catch.

In October, the Romanian parliament passed a law introducing progressive taxation on revenues from offshore drilling and stipulating that half of the gas produced must be sold on the local market.

## **Investment on hold**

The government hopes the new legislation will bring in up to \$20 billion (17.5 billion euros) over the next 20 years.

But companies are getting cold feet and putting their plans on hold.

"There are no assurances that the industry will move forward particularly with these proposed fiscal terms," BSOG CEO Beacom said.

Christina Verchere, CEO of Austria's OMW Petrom, said that "we are currently assessing the impact of the offshore law but we do not see a final investment decision (possible) in the fourth quarter of 2018" as initially planned.

The Romanian Black Sea Offshore Titleholders Association (RBSTA), whose members have invested more than \$2.0 billion over the past 10 years, have also criticised the bill.

Experts point out that Romania lacks the infrastructure to consume half of the estimated offshore gas production—barely one in three households is connected to the gas network, while rural Romania overwhelmingly uses wood for heating.

But the government is standing firm.

"Having gas simply transit the country and contribute to the neighbouring nations' development would be unpardonable", said the head of the ruling Social Democratic Party, Liviu Dragnea, regarded as Romania's de facto prime minister.

Reversing the legislation "would be tantamount to treason," echoed the government's main economic advisor, Darius Valcov.

As a result, investors are keeping cautious.

"Romania is in an enviable position," Beacom stressed, but the new proposals "are very onerous and will likely make (it) uncompetitive compared to other offshore jurisdictions."

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