
ROMANIA'S BLACK SEA GAS SPARKS POLITICAL CRISIS

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A political battle over Romanias Black Sea gas wealth risks scaring off big energy companies and putting in jeopardy the countrys plans to become a gas exporter.

The president and Romanias most powerful politician are tangling over, among other things, corruption and reform of the justice system. Now add gas to that list.

The nub of their disagreement is over how to tax the gas wealth. Romanias parliament will try for the second time next month to move ahead with a tax law. An earlier version was vetoed by President Klaus Iohannis in July, but the ruling Social Democratic Party (PSD) insisted last week that it will brook no changes to the legislation.

Even if Iohannis wants something else, the core of the law will not change, Liviu Dragnea, the leader of the PSD and the countrys de facto ruler (he cant become prime minister because of a suspended jail sentence), said on Romanian television.

Taxes and politics

Dragnea seized on the gas tax issue in July, when he unexpectedly went on national television armed with a marker and a flip chart to propose a series of amendments to a bill setting out the fiscal framework for taxing Black Sea offshore gas.

The countrys national resource agency puts Romanias Black Sea offshore reserves at about 200 billion cubic meters of gas, which means Romania could almost double its production to about 20 bcm per year over the next two decades. Romania now covers almost all of its own gas needs – except for about 10 percent it imports from Russias Gazprom – but a boost in production could see it become an exporter at a time when the rest of the EU is looking for secure sources of supply.

Dragnea complained that existing laws are too generous to gas producers. Instead, he proposed a tax on windfall profits ranging from 15 percent to 50 percent. He estimated the expected revenues at over \$20 billion, which would be used to build highways. He also demanded that half of any gas produced be sold in Romania.

When he did that, Dragnea wanted to show he is the only one who can deliver such a big project for Romania, he wanted to show he can negotiate, said Vlad Epurescu, energy journalist and blogger at the Adevărul newspaper. He pressed the button that triggered the stakes for the

offshore resources. Until then, this topic was marginal.

Dragnea was sentenced in June to three and a half years in jail in a case that involved fake jobs for party workers; he is appealing against the decision. The PSD leader is also struggling to maintain public backing, with a poll last month showing the party with only 28 percent support, down from the 45 percent it won in the 2016 election. Another poll, conducted after protests in Bucharest earlier this month, showed the PSD, in coalition with the ALDE group, has only 9 percent support.

Dragneas gas tax proposal came on the same day that Iohannis reluctantly agreed to dismiss the countrys leading anti-corruption fighter, Laura Codruța Kövesi — a step long demanded by Dragnea and the PSD.

He wanted to show that between him and the president, it is Dragnea who decides. He is the state, Epurescu said.

The tax bill was approved, but Iohannis sent it back to parliament, saying MPs need to take another look to ensure the law offers investors long-term stability and predictability.

Black Sea gas is now likely to be a key issue in next years presidential election, when Iohannis hopes to win a second term in the face of opposition from Dragnea.

Waiting energy majors

Energy companies such as ExxonMobil, OMV Petrom and Lukoil are watching parliament next month before making drilling investment decisions by the end of the year.

Its a very risky situation, said Radu Dudău, director of the Bucharest-based Energy Policy Group, a think tank. Are these guys going to start the activity in the Black Sea or not? They could easily say No — and then everything is lost.

The companies have made clear that theyre worried about the instability around Romanias energy tax plans.

After Dragneas July intervention, Richard Tasker, ExxonMobil director general for production and exploration in Romania, said the proposal will make it more difficult for investors to make a positive decision.

Mark Beacom, CEO of Black Sea Oil and Gas, which is controlled by private equity firm Carlyle Group, said that there have been many successive governments that weve been working with that gave us constant assurances and those have now been broken. In an interview with Romanian media in August, Christina Verchere, CEO of OMV Petrom, said, We wont run after barrels at any price.

MPs are going to have to balance the countrys revenue needs with the interests of the gas industry. So far little work has been done on an appropriate tax regime. There was one consultancy-led study sponsored by energy companies this year and several private reports, but no government has ever done a proper study, Dudău said.

Cristina Prună, an MP from the opposition Save Romania Union, called on the government to come up with in-depth studies and impact assessments resulting from the proposed fiscal framework so

that we see who is making what in the coming years.

But MPs are also under pressure to stick with Dragneas ideas.

Darius Vâlcov, economic adviser to Social Democratic Prime Minister Viorica Dăncilă, last week warned that anyone amending the current law should be tried for treason.

<https://www.politico.eu/article/romania-black-sea-gas-political-crisis-liviu-dragnea/>

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