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Recent developments in oil & gas E&P legislation in Romania

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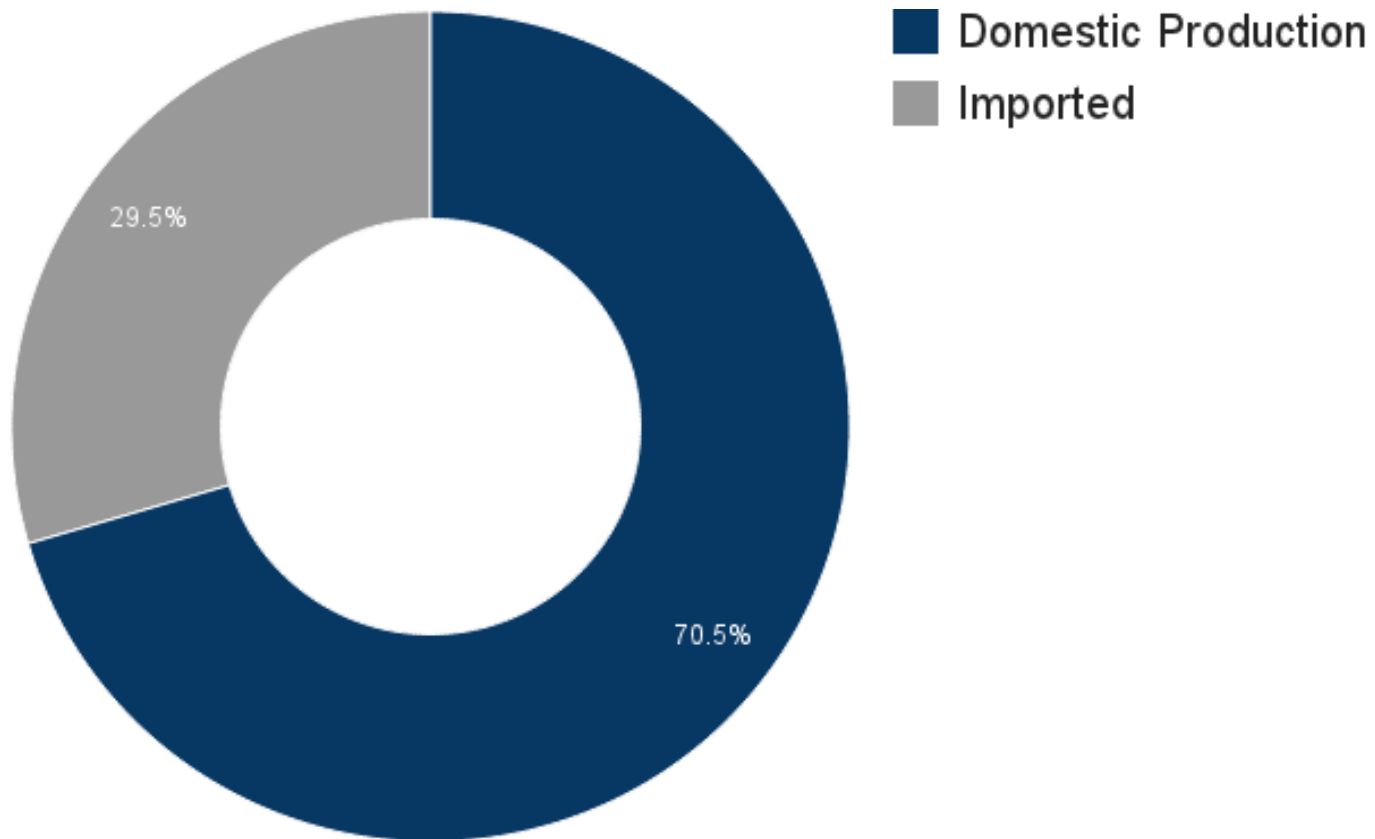
Facts on hydrocarbons resources in Romania

a. Energy dependance

Country	Energy dependance rate (net imports / gross consumption)	Comment
Denmark	-9 %	Net energy exporter
Estonia	12%	
Romania	21%	
Czech Republic	29%	
Netherlands	30%	
Poland	34%	
United Kingdom	36%	
Sweden	37%	
Average EU-27	54%	

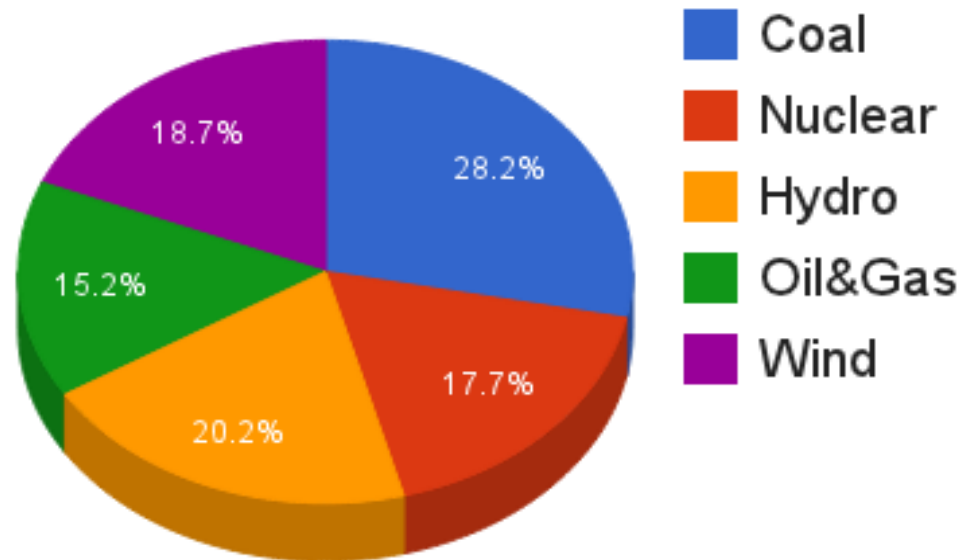
Source: Eurostat, February 2013

b. Gas imports



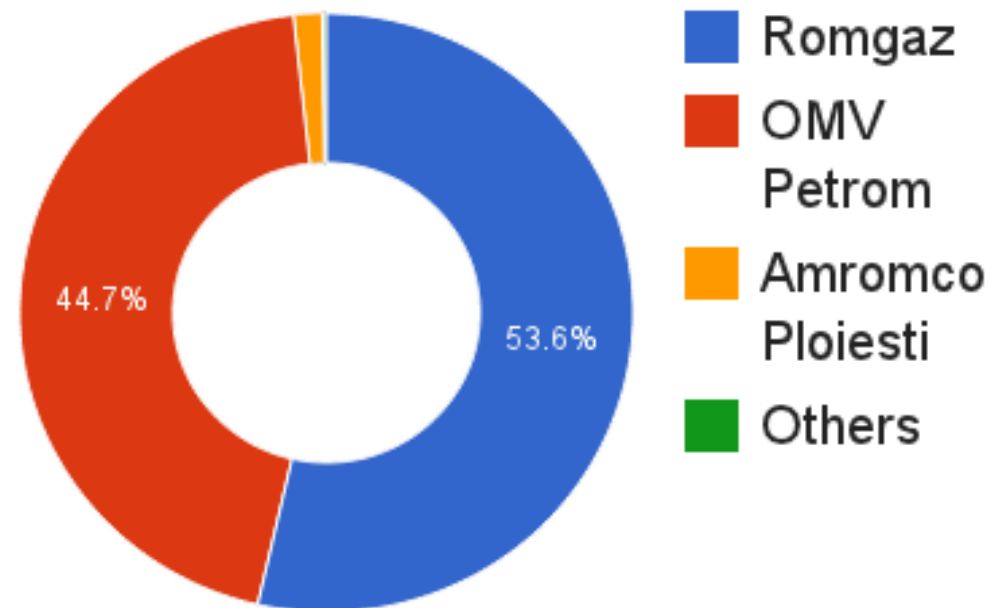
c. Energy mix

Energy production structure

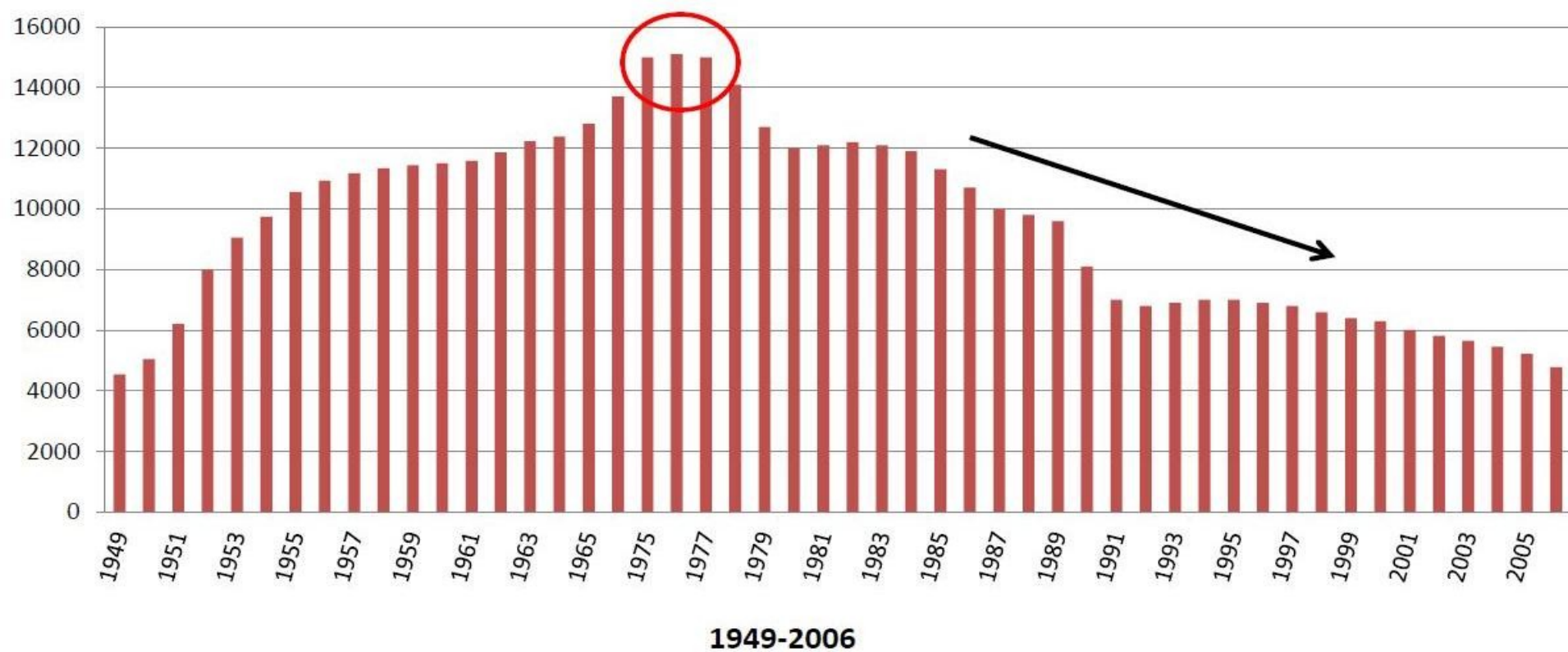


d. Important players on the energy market

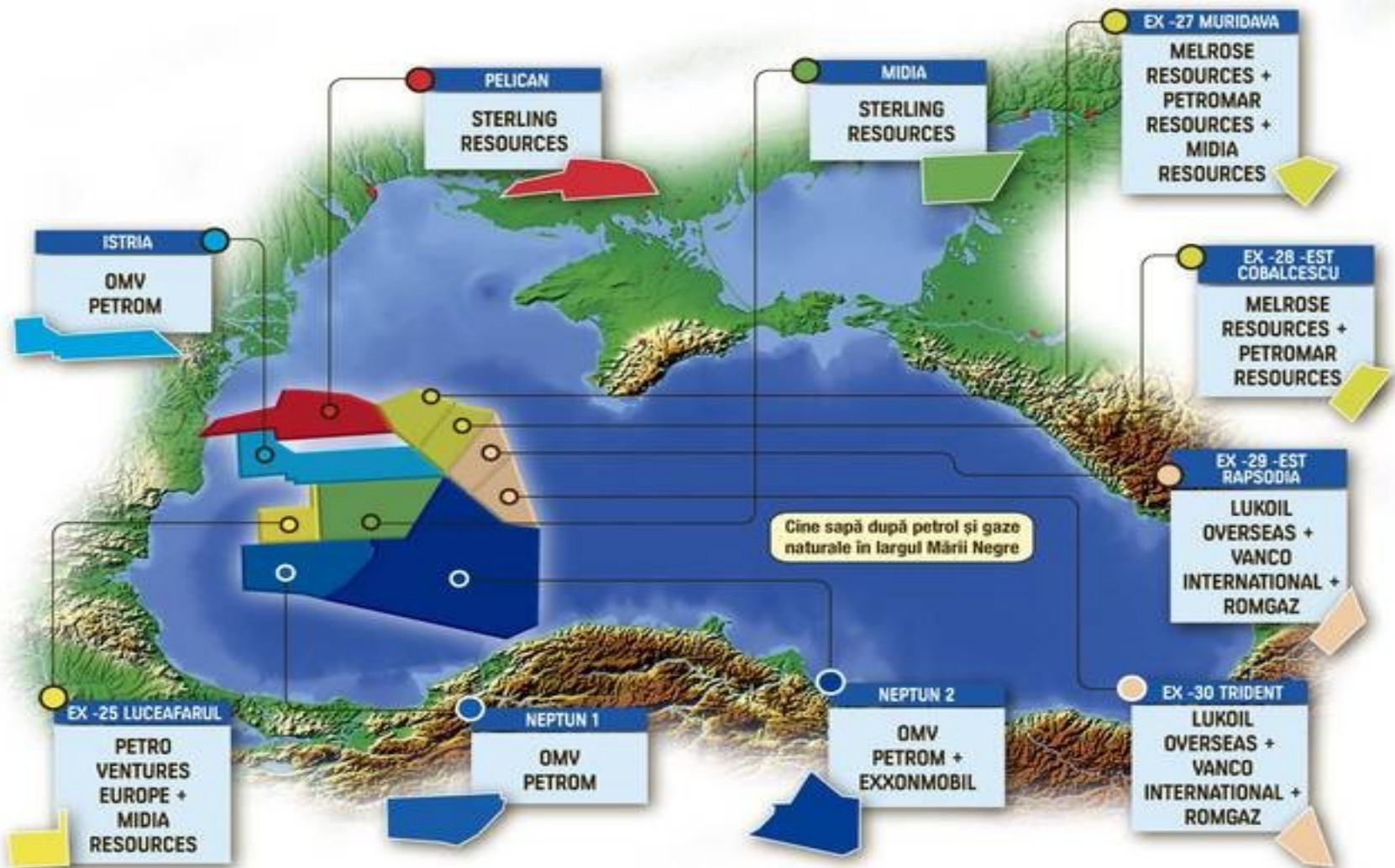
Main natural gas producers



e. Declining Oil Production



f. Offshore perimeters



Relevant legislation

- **Romanian Constitution**
 - preserves the principle of public ownership of subsoil resources and reinstates the concessions system
- **Law no. 238/2004 on Petroleum** implementing Directive 94/22/EC (Hydrocarbons Licensing Directive)
- **Law no. 123/2012 on Electricity and Natural Gas** (transposing the 3rd Energy Package provisions)
 - Transposing the 3rd Energy Package provisions
 - Gradual price deregulation for electricity and natural gas
 - For natural gas, the deregulation will end on December 31st, 2014 (for industrial consumers) and December 31st, 2018 (for household consumers)
 - Infringement procedures pending
- **Fiscal regime**
 - Royalties (volume based, ranging from 3.5 to 13.5%, paid quarterly on a field-by-field basis)
 - Corporate Income Tax (CIT) of 16%
- **Environmental legislation (Romania implemented all the relevant UE legislation)**

Petroleum Law 238/2004

- Implements **Directive 94/22/EC**
 - Ensures a competitive, non-discriminatory and transparent process in the granting of concessions
 - Ensures a non-discriminatory access to the national gas transportation network
 - Petroleum operations shall be performed on the operator's risk and expense.
- Maintains the legal system of concessions (actually, a hybrid system combining the concession system with the licensing system)
- Requires the approval of concessions by the Government
- No provisions specifically targeted to conventional/unconventional oil and gas sources or onshore/offshore oil and gas operations.
- The State retains ownership of the hydrocarbons up to the well
- Investments made by the operator in midstream infrastructure become public property, except for the upstream/collecting pipelines

Developments in 2013

- **New windfall taxes**
 - **0.5% special tax on revenues** obtained from exploitation of natural resources other than natural gas. Applies to production of crude oil, superior quality coal, low quality coal, uranium, thorium and other extractive activities. (GEO no. 6/2013)
 - **60% tax on excess revenues** realized as a result of natural gas price deregulation Applies to natural gas only. (GEO no. 7/2013)
 - Both taxes entered in force on February 1, 2013 and will apply for the next 2 years only (until December 31, 2014)
- **The Energy ministry: Delegate Ministry structure**
 - Separate legal entity, but under the umbrella of the Ministry Economy
 - coordinates 94 energy companies and 16 research institutes
 - is targeting the drafting of a New Energy Strategy
- **Decision of the Shah Deniz consortium on the Nabucco project**
- **Unconventional gas – green light from the EU and lift of “moratorium” by the Romanian Government. Explorations started in Dobrogea, but not in Vaslui county**
- **Natural gas exports allowed**
- **Gas interconnections: Iasi – Ungheni (under construction); Giurgiu – Ruse (functional from 2014); Arad – Szeged (completed, but no reverse flow yet)**
- **Directive 2013/30/EU of the European Parliament and of the Council of 12 June 2013 on safety of offshore oil and gas operations**



Present Challenges

- The concession agreement is hardly negotiable (it resembles more of an adhesion contract)
- Delay in the ratification of some concession contracts
- Delay in the issuing of permits and other authorizations, as well as concluding customs formalities for imported equipments
- The gradual liberalization of the gas market – Cost and risk-related problems
- Unbundling of the state-owned energy companies
- The lack of proper offshore infrastructure necessary for the transportation of the gas/oil produced – impact on the investment costs
- No trans-boundary unitization agreements concluded regarding the continental shelf
- Low public support for unconventional gas E&P operation. Some local administrations held referendums with regard to denying the use of hydraulic fracturing
- Hydrocarbons rights – separated from rights over the land (makes difficult the access on the oil/gas field)
- Post- Nabucco Dilemma

Possible future developments

- New tender (XIth) on the horizon
- Changes in the royalties system
- New Energy Strategy



Thank you!

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