

Romania's Oil and Gas Market Overview

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| Capital: | Bucharest |
| Population: | 20 million |
| GDP: | \$184 billion (2013) |
| Currency: | RON |
| Language: | Romanian |

Summary

Romania's oil and gas market policy has improved over recent years helping to attract more and more international players in the sector. Romania is one the largest oil and gas producers in Central and Eastern Europe. Romania's dependency rate is 20% on natural gas imports and 60% on crude oil imports, respectively. However, its below-ground prospective remains limited with a mature onshore and the majority of offshore acreage already licensed.

Market Entry

The National Agency for Mineral Resources (ANRM) is responsible for granting licenses and regulating Romania's oil and gas sector. Under Romania's Oil Law, all subsoil oil and gas belongs to the state and exploration and extraction rights are granted through concession agreements with ANRM. Romania does not offer production sharing agreements.

Romania is committed to liberalizing its energy sector through deregulation and privatization. To this end, the country partly privatized Petrom, which is now majority owned by Austria's OMV. There are several international oil companies (IOCs) operating in the upstream sector and are undertaking positive exploration programs. In this sector, Romania succeeded in attracting the following U.S. oil & gas producers (in alphabetical order):

- Amromco Energy benefits from strong relationships with OMV Petrom and RomGaz, acquiring three oil fields from the former and assisting with developing and enhancing production from a number of the latter's fields.
- Chevron was attracted by estimates of massive shale gas reserves in Romania and currently owns three shale-gas exploration blocks near the Black Sea. In February 2015, however, Chevron gave up shale gas exploration plans in Romania, determining that it does not compete favorably with other investment opportunities in Chevron's global portfolio.
- ExxonMobil & OMV Petrom have an exploration well on a new prospect in the Neptun block in offshore Romania. The companies each have a 50% stake in the block. They will also need to invest \$4-5bn to extract gas from the Domino exploration well in the Black Sea, after additional data confirms their find. The new gas field is expected to support Romania in meeting its gas needs along with those of Moldova by 2018-2019.
- Hunt Oil signed a partnership agreement with OMV Petrom in September 2010 for a joint exploration of two onshore blocks in eastern Romania. In late October 2013, Hunt Oil assumed ownership of the blocks and expects to drill approximately four wells.
- Stratum Energy has a concession in Bacau County in Romania and has started production from their first discovery there.

U.S. oil and field equipment and service providers are also present in Romania, including Cameron Drilling & Production Systems, GE Oil & Gas – Lufkin, Halliburton, and Weatherford.

Current Market Trends

The Romanian oil and gas market evolution depends on the interplay of several factors:

- Overall economic environment (still weak, but slowly improving).
- Generally high gas prices in the EU (especially in Eastern Europe).
- Low coal prices (although Romanian coal-fired power generation is expensive because of low-quality coal and old thermal plants).
- Renewable energy sources may be developed through energy efficiency measures.
- Very low CO2 prices (but expected to rise).

Overall, a moderate increase in national natural gas demand is anticipated up to 2035, in line with the EU pattern.

Current Demand

Romania is one of the largest oil and gas producers in Central and Eastern Europe. Domestic gas production covers 80%, and domestic oil production 40%, of consumption. Romania's dependency rate is 20% on natural gas imports and 60% on crude oil imports, respectively. 99% of Romania's gas imports come from the Russian Federation. Gazprom has long-term supply contracts with two intermediary firms that sell on to Romanian wholesale buyers:

- Wintershall Erdgas Handelshaus Zug AG (WIEE), controlled by Gazprom
 - Imex Oil Ltd (Cyprus), controlled by Russian-owned Conef Energy
- Since 2010, Romania and Hungary have been interconnected through the Arad-Szeged gas pipeline. So far the reverse (east-to-west) flow has not been implemented, so that Romanian gas producers cannot export, although virtual exports and swaps have taken place through backhaul procedures. The gas interconnector from Iași, Romania, to Ungheni, Moldova, just started to deliver a small quantity of gas to Moldova, but still needs to be extended to the capital of Moldova, Chisinau. There are also plans to build another gas interconnector between Giurgiu, Romania, and Ruse, Bulgaria, with EU financial support.

Competitors

The main government vehicle is integrated oil company Petrom, which is managed by Austria's OMV group. The upstream oil and gas segment is open to IOC participation. Refining and fuels distribution feature IOC involvement. There is growing competition in deep water exploration blocks in the Black Sea as published by ANRM:



Best Prospects

According to ANRM officials, Romania could be lining up a new oil and gas tender. The latest tender, which would be the 11th, is expected to offer 28 onshore blocks and eight offshore Black Sea blocks for oil and gas exploration. Preparation for the documentation for the tender is in progress, though no timeframe has been outlined as to when it may take place, though it could be later in 2015.

Romania's previous licensing round, which was held in May 2010, proved a success as 20 of the five offshore and 25 onshore blocks auctioned were awarded. The offshore Black Sea areas have already proved fruitful with ExxonMobil and OMV Petrom making a discovery at the Domino-1 well in the Neptune block. The discovery, made in February 2012, could be of considerable significance for Romania as initial estimates put resource potential at 42-84 bn cubic meters. An appraisal of the discovery took place in Q3 2014 to sure up estimates. This discovery will transform Romania's energy sector and make the country self-sufficient in gas.

Barriers

In addition to its regulatory powers, ANRM can monitor observance of the Petroleum Law and secondary legislation, including applying fines for breaches of the Petroleum Law or obligations under petroleum agreements by license holders. Disputes about the petroleum agreement are resolved by ordinary Romanian courts, unless the parties have agreed to arbitration (including international arbitration where there is a foreign element related to the petroleum agreement).

The National Regulatory Authority for Energy (ANRE) is the regulatory and enforcement government agency for gas transport, distribution, supply, trade and storage. ANRE has investigative powers, subject to order of the Bucharest Court of Appeals. It is also authorized to monitor observance of relevant laws and secondary legislation and to apply fines for breaches. Disputes concerning rights of access to transport infrastructure are resolved by a special ANRE committee. The decision may be challenged with the Romanian courts.

Trade Events / Associations

Trade Event: Romania Gas Conference & Exhibition, November 4-5, 2015, Bucharest, <http://romaniagasconference2014.blackseaevents.com>

Associations:

- Petroleum Club Romania, www.petroclub.ro
- Onshore License Holder Association (ROPEPCA), www.ropepca.ro
- Romanian Association of Drilling Contractors (ACFR), www.acfr.ro
- Balkan and Black Sea Petroleum Association, www.bbspetroleum.com

Contact Information & Resources

U.S. Commercial Service - Bucharest, U.S. Embassy Romania

Commercial Specialist Gabriel Popescu

Email: gabriel.popescu@trade.gov

Phone: +4 021 200 3312

Address: 4 - 6, Dr. Liviu Librescu Blvd., Sector 1, Bucharest - 015118, Romania

Commercial Intern Adina Anghelache

Email: adina.anghelache@trade.gov

Phone: +4 021 270 6178

Resources:

Romania Oil & Gas Report, Q215, BMI, www.businessmonitor.com

Oil and Gas Regulation in Romania: Overview, 2014, Pachiu & Associates, www.pachiu.com