

# *Taxation regime for oil & gas industry in Romania*

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# *Agenda*

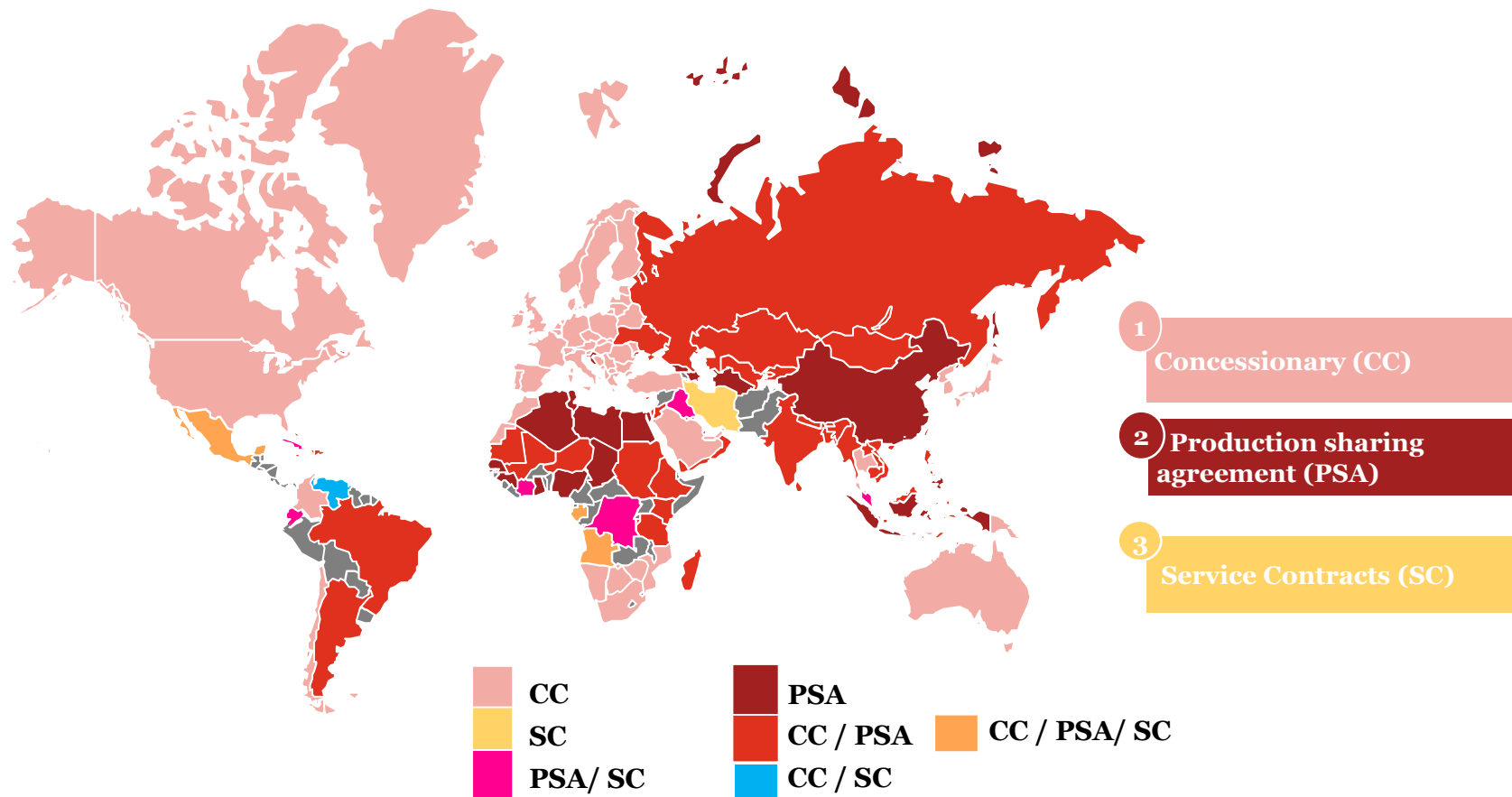
The background of the slide is a photograph of an offshore oil and gas rig. The rig is silhouetted against a bright, hazy sky at sunset or sunrise. The rig consists of several tall, lattice-structured towers and a central platform. The sea is visible in the foreground, with some ripples on the surface. The overall tone is warm and industrial.

*Overview of tax systems applicable  
in upstream (oil and gas industry)*

*Specific conditions of oil and gas  
industry in Romania*

# *Overview of tax systems applicable in upstream (oil and gas industry)*

# ***Of the three types of fiscal regimes applicable, in OECD countries the dominant one is Concessionary (including Romania)***



*\* Countries indicated in grey were not analysed*

## Characteristics of concession type systems

Tax base	System	Description	Profit linkage
<b>Revenue</b>	<i>Flat rate</i>	<ul style="list-style-type: none"> <li>Single royalty rate</li> <li>Discourages investments in marginal fields (with small productions/difficult conditions)</li> </ul>	<b>Minimum</b>
	<i>Sliding scale</i>	<ul style="list-style-type: none"> <li>Production- based – dependent on the volume of production per field</li> <li>Price – based – dependent on the prices of oil and gas</li> </ul>	<b>Medium to High</b>
<b>Profit</b>	<i>Flat rate - supplementary</i>	<ul style="list-style-type: none"> <li>Supplementary tax on profit, additional to regular corporate income tax, with deductions for different types of fields</li> </ul>	<b>High</b>
	<i>R-Factor</i>	<ul style="list-style-type: none"> <li>Royalty / hydrocarbon tax rates increase when ratio between cumulative revenues and costs of project is higher than defined thresholds</li> </ul>	<b>Maximum</b>
<b>Mixed (revenue and profit)</b>		<ul style="list-style-type: none"> <li>Tax on both revenue and profit, based on a combination of the 4 systems from above.</li> </ul>	<b>Medium to Maximum</b>

Where Romania is

Where Romania might be

**Beyond the pure financial analysis, the use of each system must also take into consideration the complexities of implementation.**

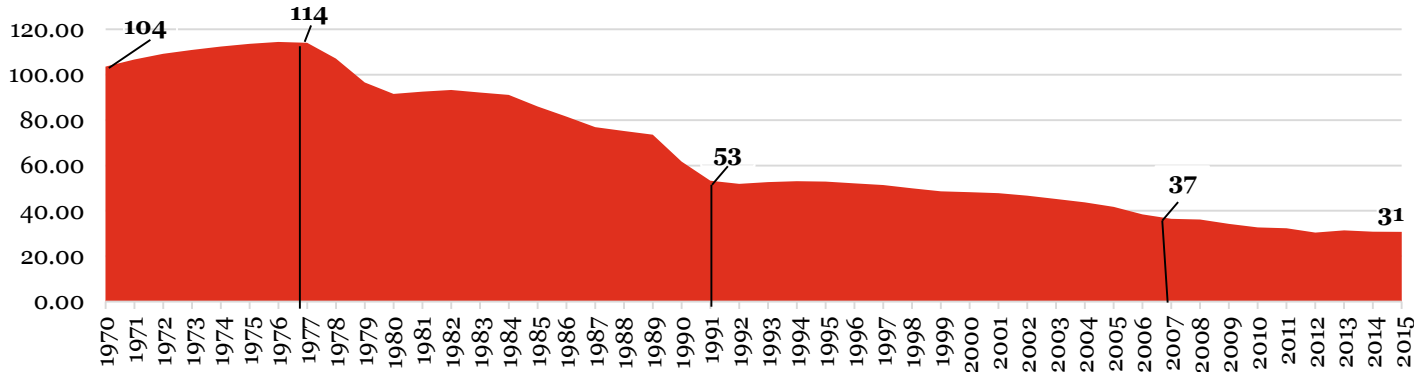
## ***Tax system based on revenue versus based on profit***

<b>Issues considered</b>	<b>System based on revenue</b>	<b>System based on profit</b>
<i>The impact on state revenues</i>	Certainty of revenue	State revenues are not certain, due to the fact that they depend on the profit obtained from fields exploitation
<i>Time record of revenue</i>	Since the start of production	Later, after making profit
<i>Challenge of implementing</i>	Reduced efforts for monitoring	High administrative efforts for monitoring and control, because usually it involves determining profitability.

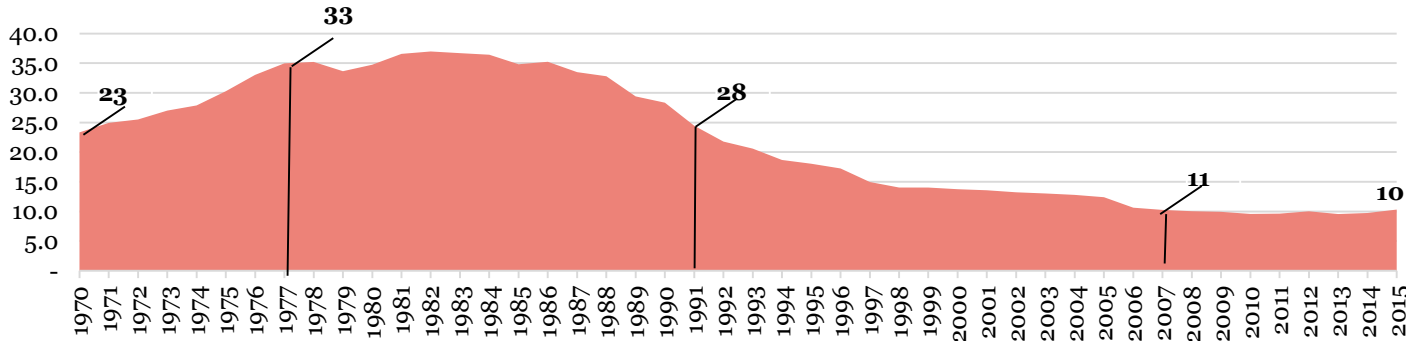
# *Specific conditions of oil and gas industry in Romania*

# *In Romania conventional deposits have a high maturity and a natural decline accentuated*

**Evolution of oil production  
(Mbbbl / year)**



**Evolution of natural gas production  
(bcm/year)**



*Natural decline of oil production is about 10% per year*

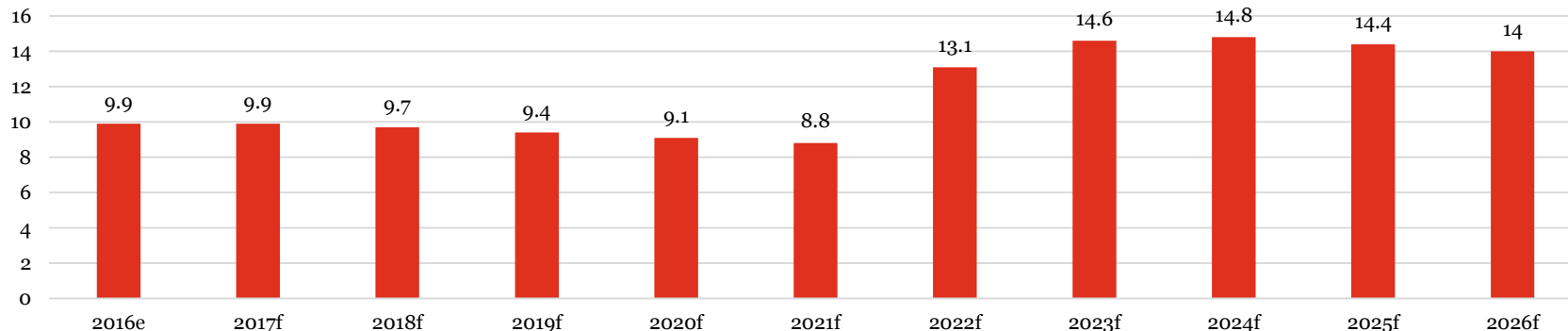
*To compensate the natural decline, major investments are needed in production capacities*

Source: BP Energy Statistical Yearbook 2016



# Romania Gas production trends & forecasts

Dry natural gas production, bcm



Source: BMI Romania Oil and Gas report – Q2 2017

## Black Sea discoveries:

### OMV & Exxon Mobile

- Domino Project in the Neptune block ;
- Estimated volume 42-84 bcm; Investment decision: 2019 ;
- Estimated production: 2021;

### Lukoil

- Lira -1 discovery in Trident block
- Estimated production 30 bcm;
- Investment decision: 2016 (up to this date no new info) ;
- Postponement reason: waiting for a fully liberalised market

## New licensing round:

- potentially 2017
- NAMR – 11<sup>th</sup> tender expected for:
  - 28 onshore blocks
  - 8 offshore Black Sea blocks

# *Tax principles*



Stability and predictability



Flexibility and progressiveness



Competitiveness



Neutrality



Certainty of taxation



Efficient administration

# A tax system should be stable and predictable

		<b>Romania - Revenue based royalties*</b>	
		<b>Production sliding scale</b> (for oil in '000 tonnes / quarter; for gas in mn cm / quarter)	<b>Production sliding scale on an annualised basis<sup>1</sup></b> (for oil in '000 tonnes / year; for gas in mn cm / year)
Royalty (per field)	<b>Oil</b> <b>3.5% - 13.5%</b>	<b>Range 1: Small fields</b> <10 – 3.5% <b>Range 2: Small fields</b> 10-20 – 5.0% <b>Range 3: Medium</b> 20-100 – 7.0% <b>Range 4: Large</b> >100 – 13.5%	<40 – 3.5% 40-80 – 5.0% 80-400 – 7.0% >400 – 13.5%
	<b>Gas</b> <b>3.5% - 13.0%</b>	<b>Range 1:</b> <10 – 3.5% <b>Range 2:</b> 10-50 – 7.5% <b>Range 3:</b> 50-200 – 9.0% <b>Range 4:</b> >200 – 13.0%	<40 – 3.5% 40-200 – 7.5% 200-800 – 9.0% >800 – 13.0%

*\*no differentiated rates for onshore vs offshore*

*Payable by 25<sup>th</sup> of the month following the quarter*

*Royalties rates were introduced in 2002 and were not amended since*

# *A tax system should be stable and predictable*



***Supplementary tax on supplementary revenues\**** from liberalization of prices for natural gas, with:

- *Allowances for investments, capped at 30%*
- *Deduction of royalties paid*



***Tax on revenue from crude oil\*\****



***Tax on special construction\*\*\****

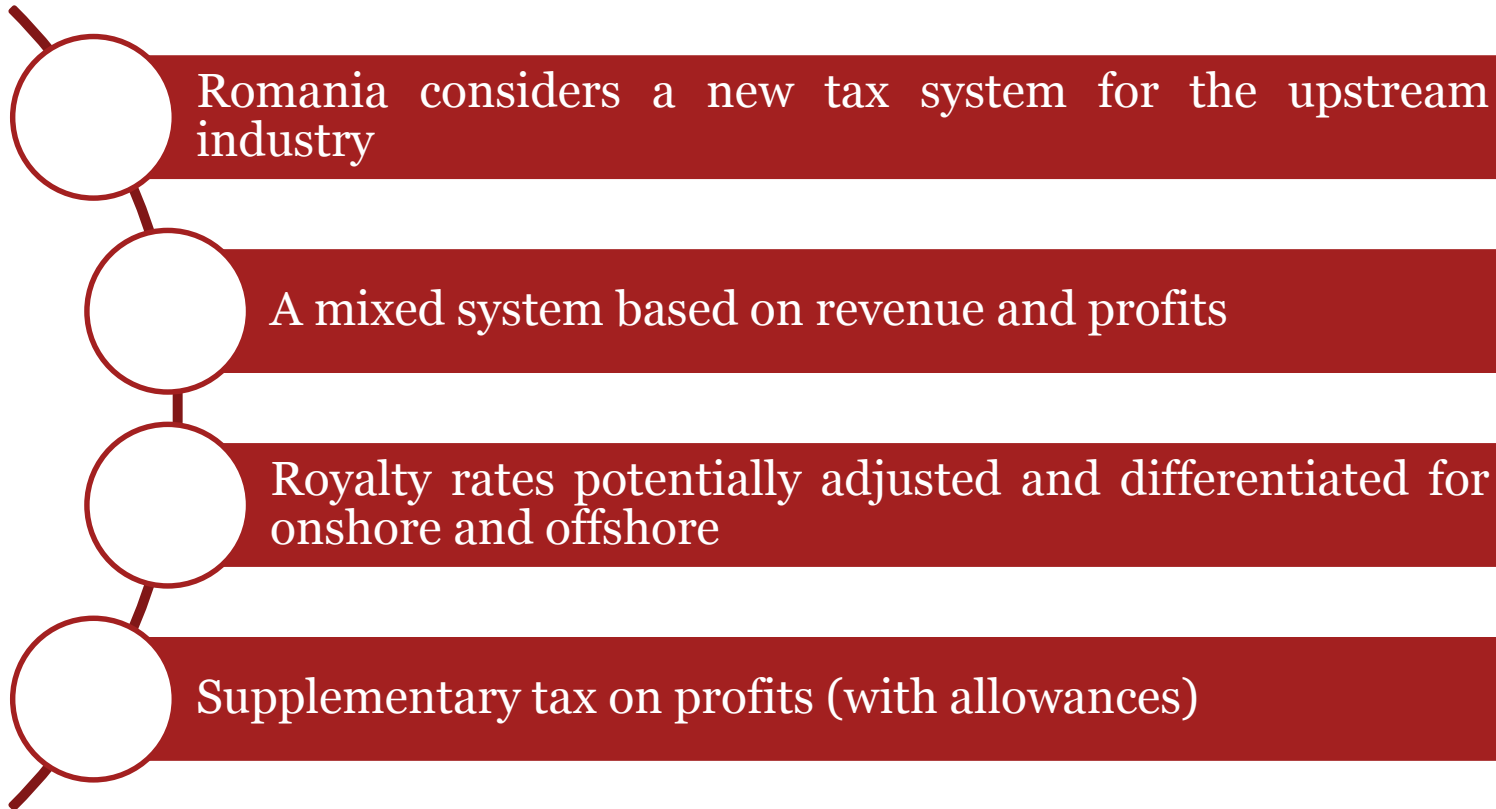
*\* Introduced as of 1 February 2013*

*\*\* Introduced as of 1 February 2013*

*\*\*\* Introduced as of 1 January 2014 and abolished as of January 2017*

**These are transitional taxes until the upstream fiscal regime enters into force.**

# *A tax system should be flexible and progressive*



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# *A tax system should be competitive – Corporate Income Tax features*

16%  
CIT rate

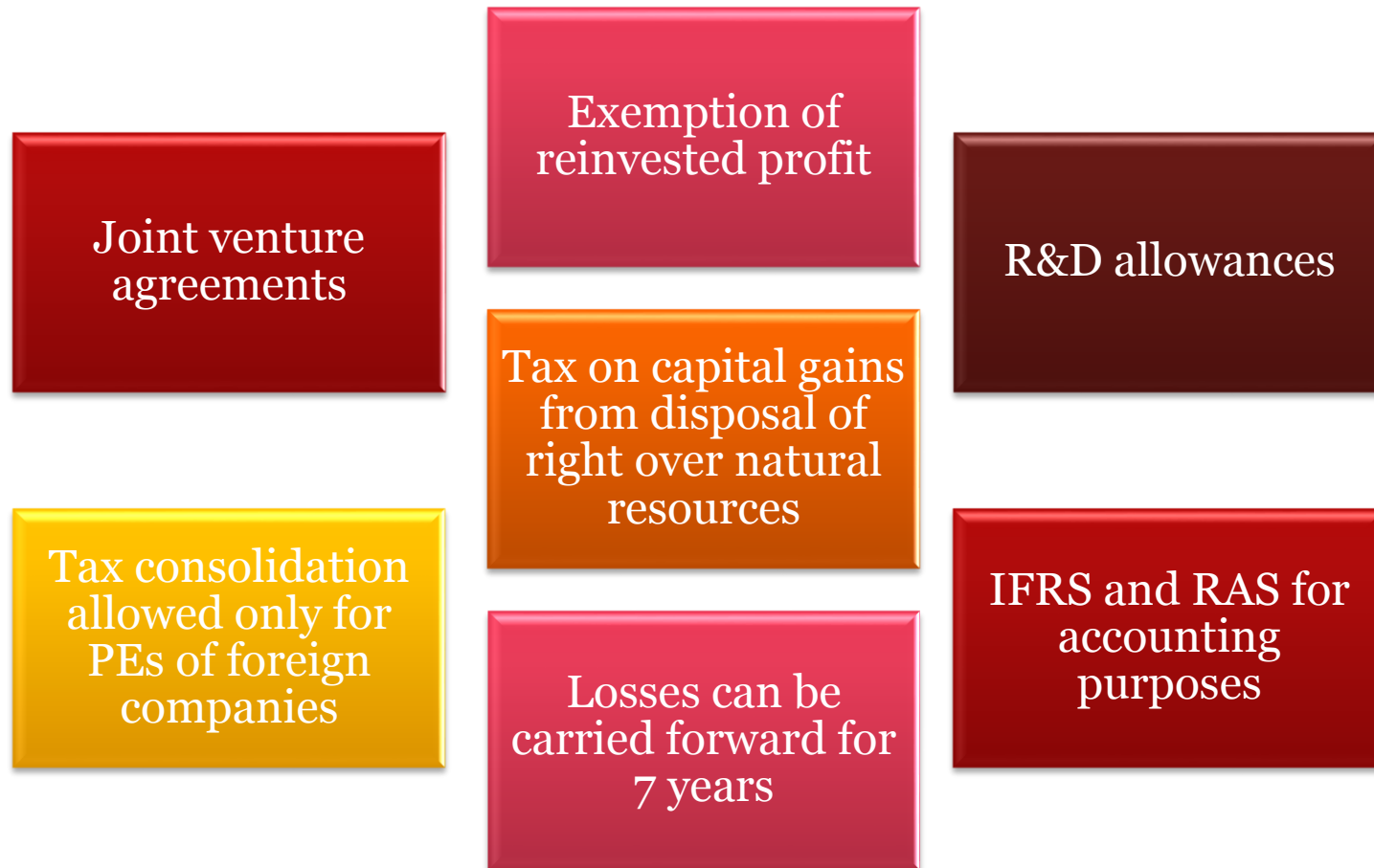
No ring fencing rules

Deductions for  
provisions &  
reserves

Specific depreciation  
rules for upstream

Royalties deducted  
for corporate tax  
purposes

# *A tax system should be competitive - Corporate Income Tax features*



# *A tax system should be neutral, certain and easy to administer*

A new tax system should not negatively impact ongoing investments

Viability of projects should be protected

Tax provisions should be clear and transparent

- Ring fencing rules for upstream activities
- Rules for determining the tax base

The tax system should be easy to administer



# *What attracts investors?*

## Tax system

- Concession agreements (royalty rates);
- Stability clause;

## Privatisation

- 2004: OMV Petrom;
- 2013: Romgaz - listed on the stock exchange (BVB, LSE);

## New concessions

- Tender rounds for new concessions;
- New potential round in 2017;

## Transfer of concessions

- Farm in, Farm out, Joint Venture agreements;
- Enhanced production contracts;

## Cooperation with authorities

- Open consultation with market players, both with the regulator (NAMR, NAER) and tax authorities (Ministry of Finance, NAFA);

## Gas price liberalisation

- The Romanian Government negotiated a calendar for the gradual liberalisation (despite EU restrictions);

## Infrastructure

- Undeveloped infrastructure, however investments are envisaged.

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***Thank you!***



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# *Thank you!*

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