

Taxation regime for oil & gas industry in Romania

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Agenda

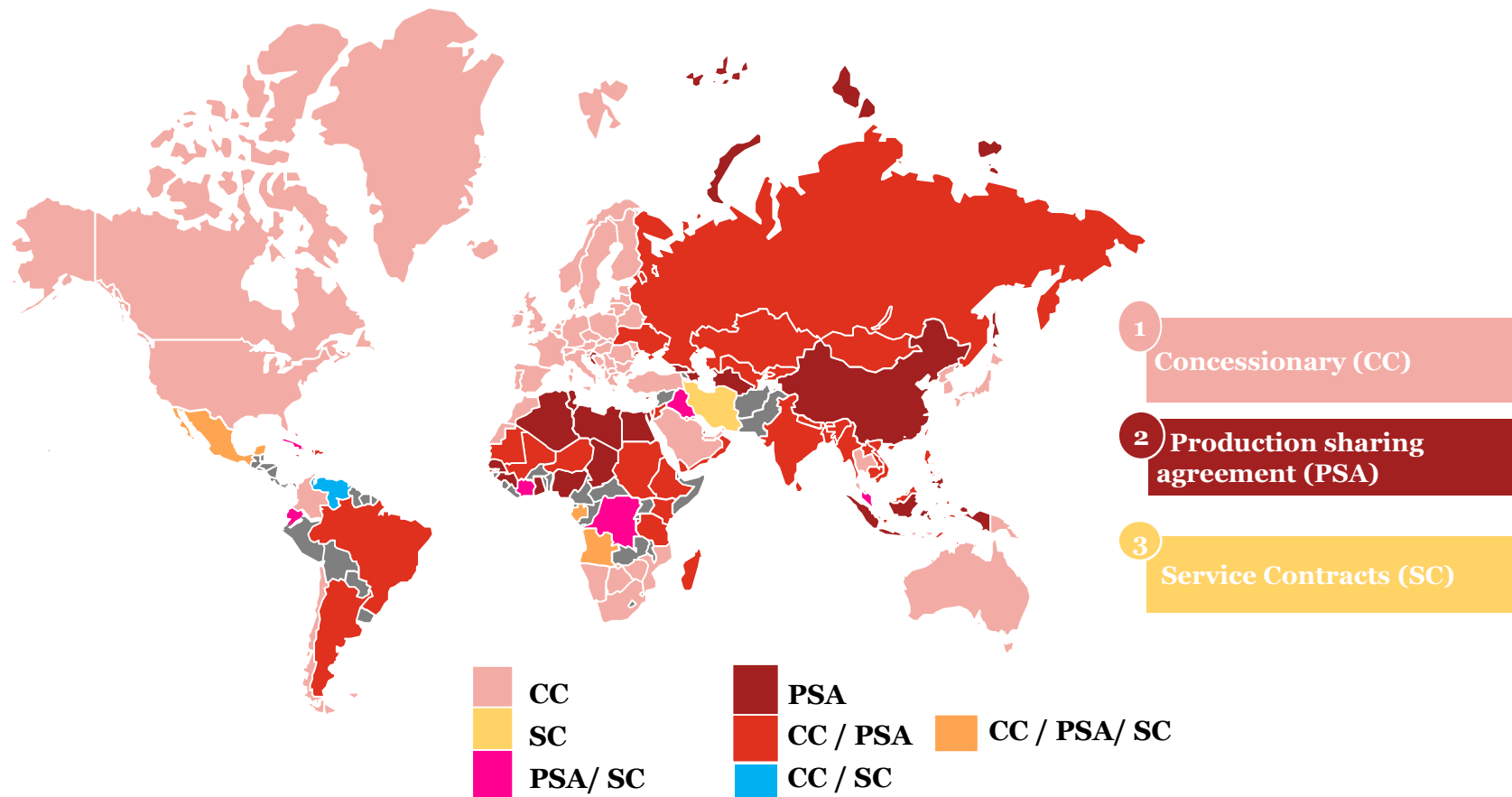
The background of the slide is a photograph of an offshore oil and gas rig. The rig is a complex structure of steel towers and platforms, silhouetted against a bright, hazy sky at sunset or sunrise. The sun is low on the horizon, creating a golden glow. The rig is situated in the middle of the ocean, with waves visible in the foreground. Another smaller rig is visible in the distance to the left.

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

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.

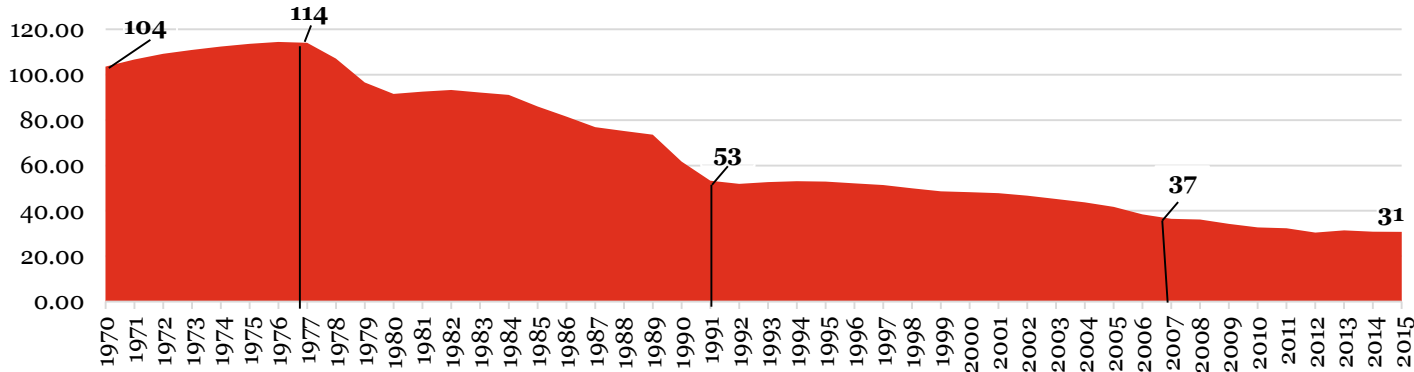
Tax system based on revenue versus based on profit

Issues considered	System based on revenue	System based on profit
<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.

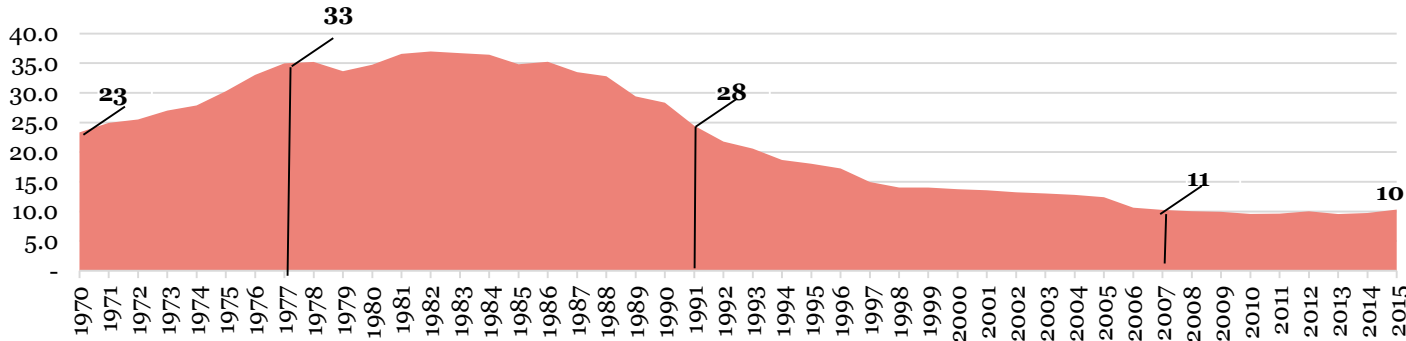
Specific conditions of oil and gas industry in Romania

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)**



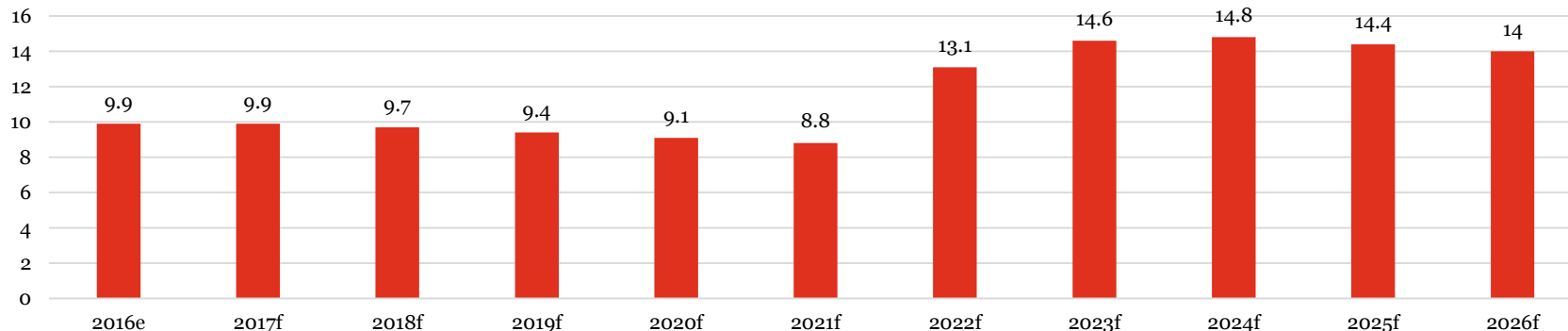
Natural decline of oil production is about 10% per year

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 – 11th 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

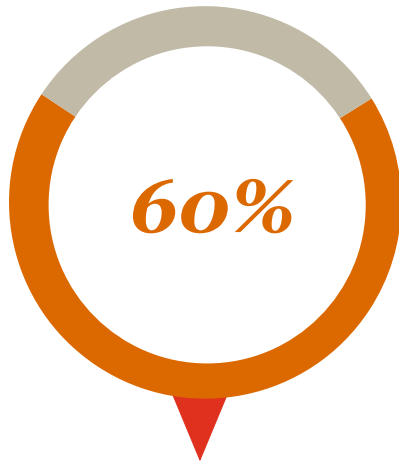
Romania - Revenue based royalties*		
		Production sliding scale on an annualised basis ¹
Royalty (per field)	Production sliding scale (for oil in '000 tonnes / quarter; for gas in mn cm / quarter)	(for oil in '000 tonnes / year; for gas in mn cm / year)
Oil 3.5% - 13.5%	Range 1: Small fields <10 – 3.5% Range 2: Small fields 10-20 – 5.0% Range 3: Medium 20-100 – 7.0% Range 4: Large >100 – 13.5%	<40 – 3.5% 40-80 – 5.0% 80-400 – 7.0% >400 – 13.5%
Gas 3.5% - 13.0%	Range 1: <10 – 3.5% Range 2: 10-50 – 7.5% Range 3: 50-200 – 9.0% Range 4: >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 25th 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***

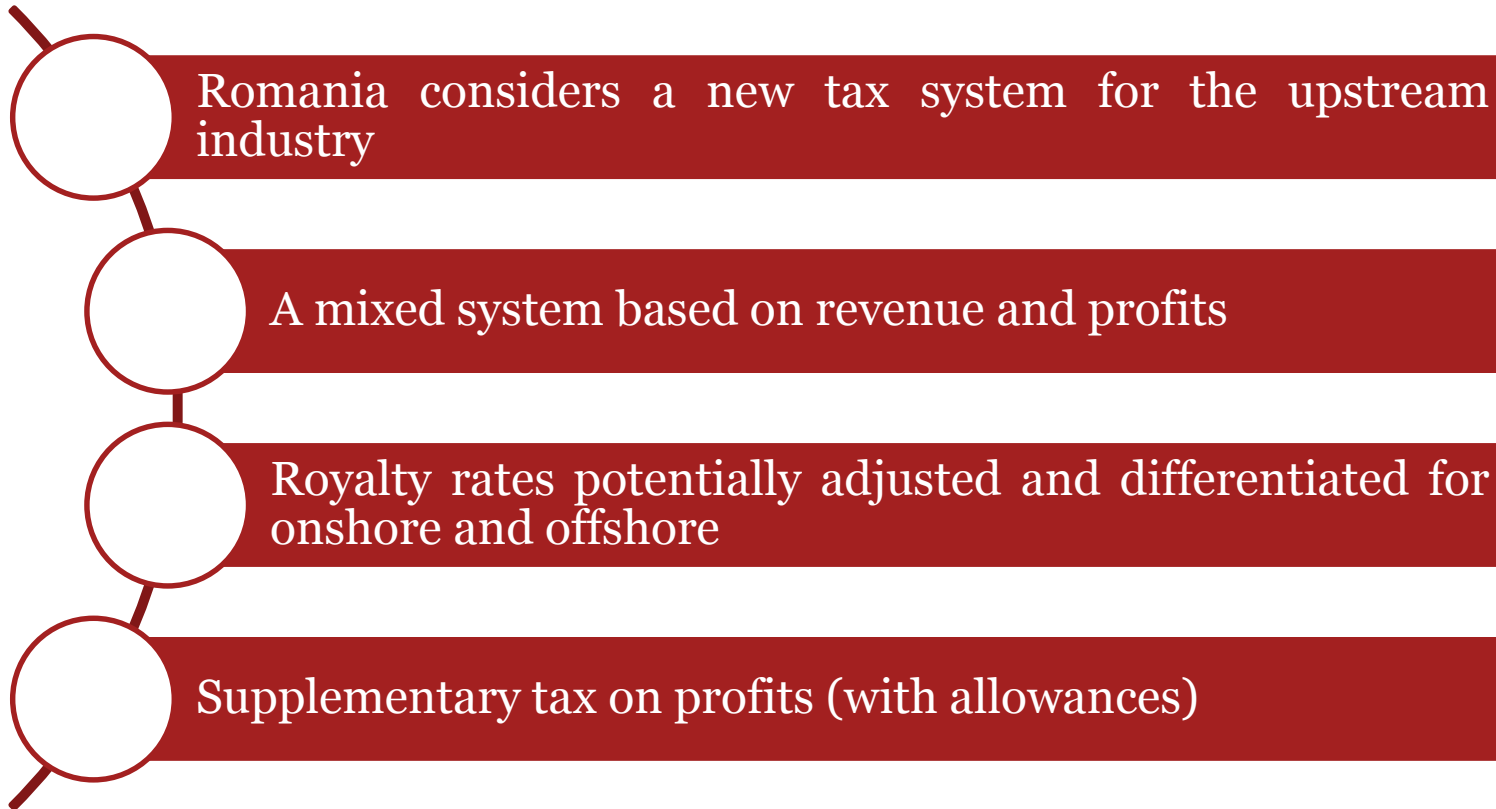
** Introduced as of 1 February 2013*

***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



A tax system should be competitive – Corporate Income Tax features

16%
CIT rate

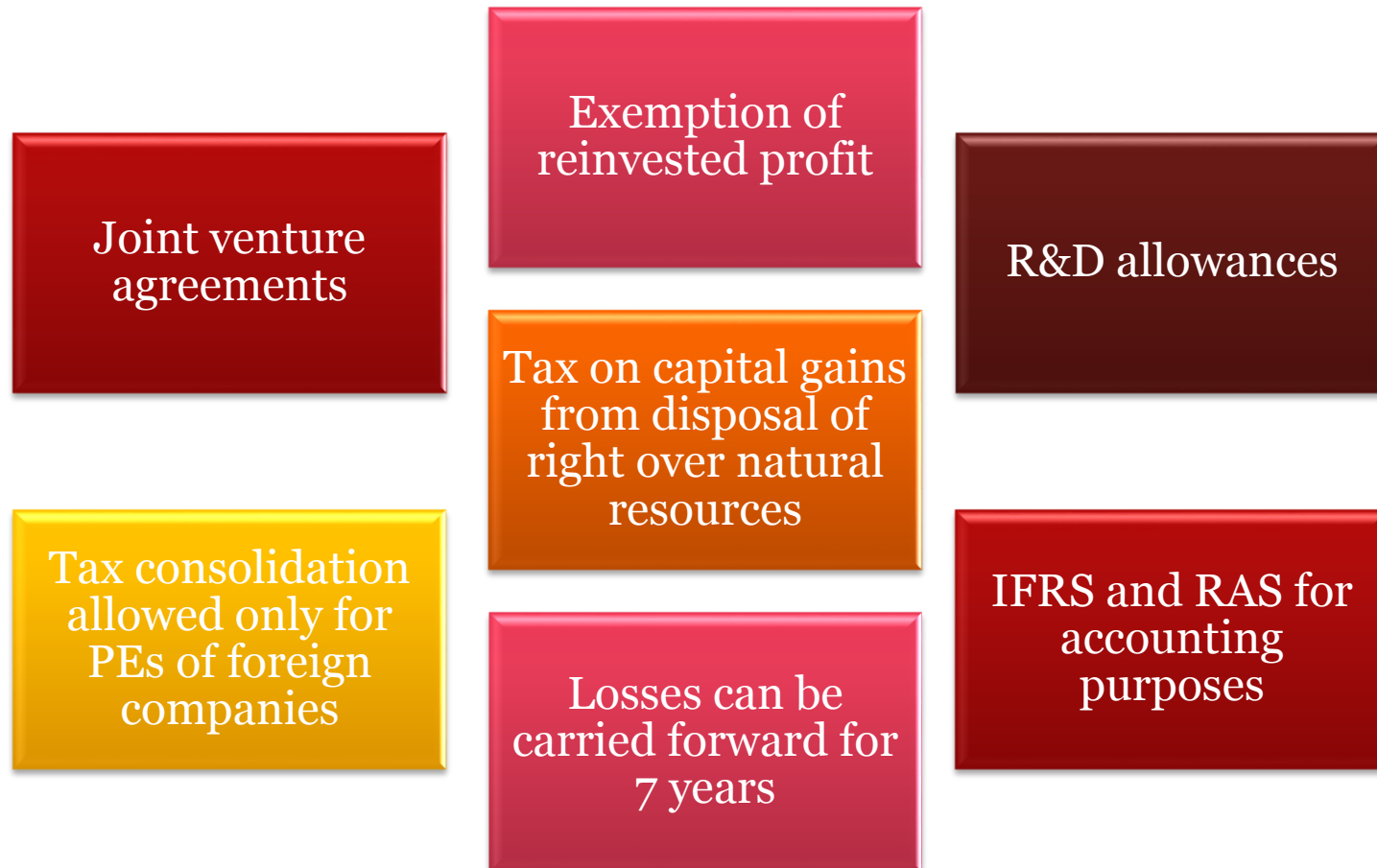
No ring fencing rules

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.

Thank you!



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Thank you!

Being distinctive

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