Gas on Fire: the Romanian State for Sale

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On October 24, the Romanian Parliament voted a law that regulates the fiscal regime of the offshore gas exploitation in the Black Sea. It rules in favor of the gas companies that will extract the gas who will bag 56% of the profits, even after paying royalties and income taxes to the state. Normally, states usually get between 60%-80% of the profits. Not in the Romanian case. The current arrangement was arrived at after months of protracted negotiations and immense lobbying from the gas companies. It was prefaced by a heated debate in the summer when the President rejected a first version of the law. Local politics and geopolitics mixed together to offer the contours of one of the most compelling tales in the region.

There are 200 billion cubic meters of gas estimated to be in the Black Sea, but the calculations that supported the law took into account the exploitation of 115 billion cubic meters. Romania in the end will get around 5 billion euros from royalties and an estimated further 9 billions from profit taxes. Companies are estimated to get around 18 billions. The terms of the contract cannot be changed in the next 30 years.

Even though the law is clearly unfavorable to the Romanian state, it was presented as a victory by the ruling coalition. Liviu Dragnea, the head of PSD, used the opportunity to present himself as a staunch defender of Romanian interests against the ravenous corporations. Other politicians and commentators alike used the opportunity to affirm their nationalism and souveranism in a sui generis “Romanian first” outburst. At the other end of the spectrum, opposition politicians, especially from Union Save Romania, and other voices expressed their fears that the investors will lose their impetus if the level of taxation is too high. This was a curious reversal of the 2013 situation when members of PSD openly supported the goldmine exploitation by a Canadian firm in Rosia Montana, while people who are now part of USR where on the streets protesting the project under the banner “the corporation does not make the legislation”.

As it is usually the case, such gesticulations from both sides obscured the bigger picture. First, the law only establishes the fiscal regime of the exploitation. While better conditions could have been arranged, the room of maneuver was already firmly pre-determined. In 2008, the government led by Calin Popescu Tariceanu, today the other leader of the ruling coalition besides Dragnea, changed the law in order to allow for the concession of the gas to a series of gas companies: chiefly Lukoil, OMV, Exxon, Carlyle. They have the right to prospection and exploitation of the gas resources. What is more, as journalist Lucian Davidescu noted, the study they commanded –realized by Deloitte – became the basis for the Romanian state experts when making the calculations for the law. The study is obviously biased towards the interests of the companies.

As things stand, the Romanian state – theoretically the owner of the gas in the Black Sea – has no control over the selling of this gas, its price or market. One of the most controversial decisions in the law was the obligation of the companies to sell 50% of the gas in Romania, in the hope that such an inflow will bring the price of gas down. Now, Romania pays some of the highest prices for gas in Europe, following the liberalization of this market in the past years. But as economic analyst Ilie

Serbanescu rightfully noted such a move makes little sense. Romania already covers 90% of its consumption from internal sources, with the rest imported from Russia. Therefore, there is no much need for gas in the Romanian market especially since the consumption of gas plummeted. The systemic dismembering of the petrochemical industry after 1989 and affiliated industries that run on gas led to the paradoxical situation in which household consumption of gas is higher than the industrial one. This in a country where only 1/3 of households are connected to gas, one of the lowest rates in Europe, predictably. Therefore, most of the gas from the Black Sea will go in other markets of Europe, most probably in Austria and Germany, which will reduce their dependency on imported Russian gas and will offer handsome profits to companies like OMV who will deliver it. In fact, OMV already is planning a pipe from the Black Sea to Austria (BRUA), which, in Romania, will run parallel to the state-owned one by Transgaz. To add insult to injury, the Romanian state will have to expropriate the owners of the land on which the pipe will stand.

In the Romanian context, the whole affair was immediately viewed through the lenses of current politics. Dragnea was accused of using this law to buy the benevolence of the western states in order to avoid criticism from changing the anti-corruption laws. But the stakes are obviously higher than this. The gas from the Black Sea will allow OMV to become an important regional player, which in turn will alter the clout of Russia and Gazprom, the main providers of gas in Europe, and of their power that comes from this privileged position. The geopolitical implications of the exploitation of the gas in Black Sea are undeniable, even though they are not clearly discernable yet.

This regional arm-wrestling comes with a high price and the bill is already paid by Romanian consumers. Even though the state is nominally the owner of a 200 billion cubic meters of gas, it still has to import gas, either from Russia or from the companies that have the concession. Estimates are that during the life-time of the current contract, the internal sources of gas will dwindle significantly, and therefore, the imports will rise. Since there is no special provision, the Romanian state will have to buy its own gas in the market place at whatever the price will be then. Small consolation then that a small percentage will return as profit tax from the corporations.

What made such an absurd situation possible were the actions of weak and obedient politicians, sensitive to the incentives of big capital and corporations. This much is clear and is in fact the key story of the transition in Eastern-Europe: the “opening up” of the former communist countries was mediated by a local class of politicians with vested interests. The privatization of the Romanian oil and gas company – Petrom – to OMV is a case in point of the wider processes that shaped the neoliberal trajectory of the region in the past three decades. The concessions and their unequal terms are a logical prolongation of this “accumulation by dispossession”.

But the EU also has a crucial role to play in this. The pressure to externalize and liberalize the access and the exploitation of the natural resources was a conditionality for entering the EU in the first place. The liberalization of the energy and gas prices, even though it came in stages, was also part of the entering package. Moreover, by design, the EU encourages the type of operations run by big conglomerates like OMV since it strictly prevents states from imposing preferential deals for prices and distribution, forces them to export rather than develop state-driven industries and allows for the costs of pipes to be transferred to the consumers bills.

As long as the states cannot really control their resources to finance developmentalist projects within the straightjacket of the EU, situations like the one developing now in the Black Sea will only favor big companies at the expense of consumers and it will fuel stronger claims for national sovereignty among right-wing groups at home. It is not by accident that Norway is not part of the EU: it would not be able to reap the benefits of its reserves as it does now. Peripheral countries like Romania cannot afford this luxury.

In this context the only hope is for some crumbles. Not only the entire established political class assumed this defeatist position when it voted the aforementioned law, but also the emerging leftist party Demos. Their solution: higher levels of royalties not the sorry levels negotiated by Dragnea. But this, of course, does not address any of the underlining mechanisms and it only obscures the bigger picture. Higher taxation is not always the proper solution – albeit it seems that it became recently the mantra of the left everywhere. A proper bold leftist solution in this case would have simply been reinstituting state control of the gas reserves followed by their exploitation via national companies. If this meant a collision course with Brussels, so be it. Having one of the biggest gas reserves in Europe at the moment is not quite the worst bargaining chip.

At the moment, at least, the local left seems unable to overcome the framework of the establishment and go beyond mere modest social-democratic perspectives. This is frustrating and dangerous. Ideas that should legitimately be leftist, like demands for more state involvement, especially when it comes to key issues like resources, surface in a twisted and perverted form in right-wing circles, cured by the libertarian impulses from the neoliberal era and staunchly convinced by its failure. With economic nationalism and protectionism the new rule in town it will be no wonder that the frustrations around the Black Sea reserves will only pour gas on the local right-wing fire.

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P.S.

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