

Special report

Romania



Optimism flows deep

The discovery of new oil deposits in the Black Sea holds promise of a new golden age for Romania's energy industry – and for the local law firms

Natasha Bernal

Romania's energy industry could soon be hitting a high. Earlier this year, the country discovered new oil reserves in the Black Sea that have the potential to reinvigorate its local energy sector and have wider repercussions for Europe by offering a pipeline free of the dependence on Russia.

The development could not have come at a more fortuitous time. The country's current oil reserves are winding down, which means that this new deposit will be heavily relied on in future to boost the country's potential as an energy hub in Eastern Europe.

Musat & Asociatii managing partner Mona Musat, however, warns that the discovery has a catch: "It is a very optimistic trend in the market but offshore discoveries rely on investment."

That investment is likely to come mainly from foreign investors. Historically Romania's energy market was nationalised but it is now mostly in private hands. However, local investors play only a small part.

"We have a significant presence of local entrepreneurs in the energy market, but on a smaller scale," **Popovici Nitu & Asociatii** managing partner Florian Nitu says. "In the green sector there are a lot of at-

In brief

The energy sector is providing Romanian law firms with plenty of work, as the country looks to safeguard its future energy needs with new sources of oil from the Black Sea. However there remain a number of challenges before recent discoveries pay off with supplies.

tempts by local investors to enter the market but energy is an unequal playing field. The local economy is not that developed for entrepreneurs to be able to reach the scale of outside players."

European investment is on a high, according to law firms, following the lead of American and Chinese investors who are making inroads into the market.

There is US interest in the oil sector, shale gas projects and hydroelectric projects, Nitu says.

"There is also significant interest from continental Europe. Pretty much the entire energy market is in private hands, and the key fundamental strategic investments in Europe will consolidate investments," he adds.

The legal challenges that these external investors face are mainly

regulatory, which is generating a new avenue of work for lawyers.

"Regulations governing offshore discoveries are complicated," explains Musat. "There are a lot of gaps because laws have not been adapted to this particular situation. For example, there are important issues around taxing offshore operations. The Ministry of Finance faces a learning process."

Offshore and on

But not all of the investment activity in the country is about developing offshore resources. Some companies are dedicating themselves to

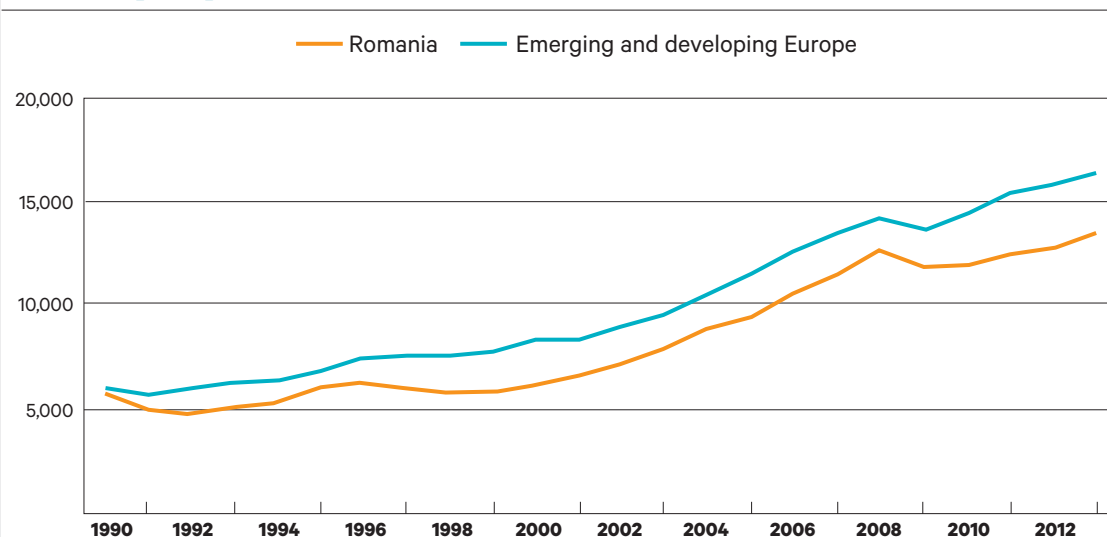


"Romania is institutionally changing. Politicians and the institutions are fighting corruption. Transparency is a key value"
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GDP (PPP) per capita (\$), 1990-2013



Source: The World Economic Forum Global Competitiveness Report 2014-15

exploring other potential sources of energy, which would mean a further boost in the sector.

"American investors have a large presence here," **Tuca Zbarcea & Asociatii** energy partner Cristian Radu says. "There are big discussions around fracking and shale gas."

However these investments carry huge risk, Radu explains. "Nobody knows if these resources actually exist," he says.

"Upstream [exploration and production in the oil and gas sector] is different, it is supporting investments for the longer term. This sector is very regulated so there's been no massive changes in the past year. There is interest from some investors in taking over existing players in the Romanian market through acquisition or buying shares. The Black Sea is a very interesting area, it has just started to be developed."

New players may be set to enter the energy market. The privatisation of many of the state-controlled energy companies, such as Hidroelectrica's sale of 27 micro hydro plants in September 2014, has been a profitable pipeline for firms over the years, with many predicting that many of the remaining entities will be listed in the stock exchange in 2015.

Potential black clouds

Maravela & Asociatii managing partner Gelu Maravela can see the potential in the exploitation of new oil deposits, although he suggests the sharing of space in the Black Sea could lead to future legal trouble.

"What happens if the platform of the exploration is outside of the ter-



ritory? Does VAT apply or not? The Romanian government doesn't have a provision for this," he says.

Although there has not yet been any litigation regarding the jurisdiction of the oil deposits, which are understood to be firmly in Romanian territory, the possibility of future legal complications exists.

"What do you do when you find a reservoir that extends underneath the border, to which more than one country could claim rights?" Radu asks. "So far this has not been an issue but it doesn't mean it won't be an issue in the future. It would be

"American investors have a large presence here. There are big discussions around fracking and shale gas"
Cristian Radu

easier to negotiate with Hungary as part of the EU. Russia could give some complications."

On the home front, local environmental groups have firmly opposed the exploitation of non-renewable energy sources in Romania, although there has yet to be any official legal action taken by either side that would affect any investment.

"There's big interest in Romania in terms of exploiting its natural resources," says Radu. "The problem is there is local opposition."

Musat says that shale gas has produced "a lot of public debate, and we will watch this conflict, which could lead to litigation work".

But that doesn't mean that renewable energy is off the table. "There have been many projects to develop wind farms," Radu adds.

Dynamic M&A sector

The energy sector is generating a sizeable amount of transactional work for Romanian firms. Maravela says his firm's energy M&A practice is the highest performing practice at the firm. "We have great M&A and I am happy that it keeps up the pace for getting new deals," Maravela says. "The Chinese government and Chinese investors are quite active."

Musat says her firm has been "constantly involved in activities in the sector" and that legal activity is improving and increasing. "We have grown steadily and advised on almost all of the privatisation in the sector and expanded to other regulatory and more complex deals," she says.

Nitu's energy practice deals mainly with transactions, projects and privatisations. "We are transactionally orientated, looking at established clients and panel clients. We are exclusive providers," he explains. "We're pretty much covering all areas and have been retained by most clients in most areas."

His firm believes that Romania has a sector with huge organic growth potential, a "blue ocean market" with promising prospects for new business.

Nitu believes that more work is yet to come. "In the next two years activity in the legal service markets will be very hot," he predicts.

Radu says that his team is dedicated "to the challenges of the market".

"We're currently working with most of the operators in the oil and gas sector and with some of the most important ones in the electricity sector. We try to be up to date and anticipate clients' needs."

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Key figures: Romania

GDP
\$189.6bn

Inflation
1.2%

Population
20m

Life expectancy at birth
75

Unemployment
6.5%

Source: World Bank, Romanian National Institute of Statistics

His firm, which has separate teams for oil and gas and renewables, doesn't have plans to expand – although it is never out of the question. "The mood is quite positive," he says.

Elections bring opportunity

The elections in Romania in December 2014 gave way to some uncertainty in the market, but its outcome has given lawyers renewed hope in the possibilities that might be achieved through policy in the energy sector.

The election of pro-western former mayor Klaus Iohannis as the country's president last year has the promise of a better relationship with the US, the EU and particularly Germany. This would be good news for the energy sector, especially if it provided the opportunity for less stringent regulation and more opportunities to grow.

Looking back at 2014, Radu says it was a year with some instability.

"There was also the situation in Ukraine, which created some tensions with Russia. This also had an impact on investments in downstream [the refining and manufacturing process in the oil and gas industry], which was interesting coming from the states of the former Soviet Union."

The previous government had not made great strides into exploit the burgeoning potential of its energy sector.

Cuts to the government's scheme for new wind, solar and small hydro-

energy projects in January 2014 signalled a drop in support from the state. Under a new bill, wind energy will get 1.5 certificates per MW until 2017 and 0.75 after that, down from originally two and then one.

This is something that Nitu believes the new government has the potential to alter.

"Romania is institutionally changing," he says. "The corruption issue is being tackled seriously. The decision makers, the politicians and the institutions are fighting corruption. Transparency is a key value."

He predicts Romania will become a net exporter of energy, producing in-house commodities that will benefit Europe as a whole, and suggests that the next big raft of legal work will come from big infrastructure projects.

"Infrastructure is still a major challenge. I am not sure what the solution is for European funding. Romania had a significant funding facility from the EU, but didn't take advantage of it properly."

Radu agrees that many future projects will hinge on "building transport for products between Serbia and Romania, networks to central Europe and an open road to the Western European market".

Strained Russian relations

Tensions between Europe and Russia are expected to continue, Radu says. After the Ukrainian conflict, Russia's ban on outside exports hit Romania particularly hard.

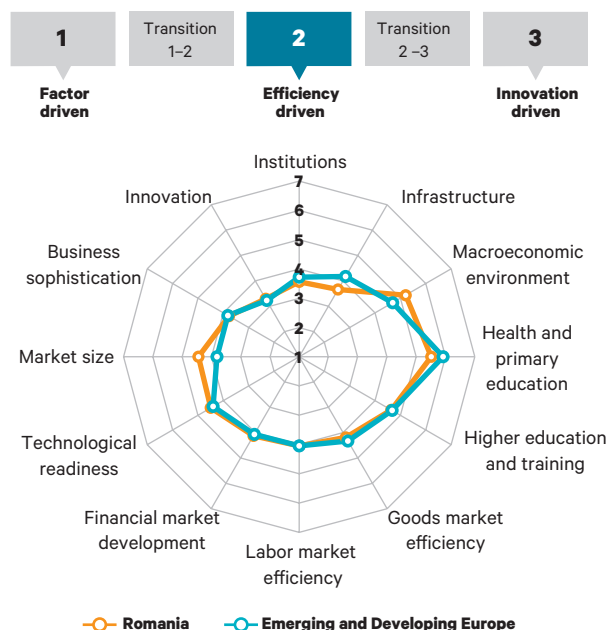
"It is mainly the Romanian agricultural producers that have been hit by the embargo in Russia because they were exporting there. It was not a usual year for Romania," he says. It is expected that, despite this, agriculture will continue to be at the head of the country's economy, followed by the energy market.

Maravela believes that the energy shift will occur in 2015. "The former oil fields are almost empty," he says. "We are trying to see whether indeed those reserves are depleted and are now very concerned from a political standpoint about finding new reserves for energy independence. For the next six to eight months you aren't going to see anything revolutionary."

But it's not all about external commercial gain: the new Romanian government has put improving the country's internal market high on the agenda.

"There have been talks about making a commitment to use part of the Black Sea discoveries to benefit the local market," Musat explains.

Romania's stage of development



Source: The World Economic Forum Global Competitiveness Report 2014-15

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Gelu Maravela



If all goes to plan, Romania will attract more international investors and have a plethora of profitable businesses for years to come – but it isn't all going to happen in 2015.

"As far as natural gas is concerned, I believe it will take around three and a half years to get it through the pipes," Maravela says.

He believes that although the market is booming, the influence of new projects that involve a variety of energy will put Romania in a good position in the international energy market. "The best is yet to come," he says.



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