

International Petroleum Fiscal Regimes: Trends in Tax-Royalty Worldwide and in Romania

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Abstract

“Resource nationalism” is a cyclical phenomenon whereby governments assert varying degrees of control over natural resources located within their territories, in an attempt to maximise revenue generation from their national resources. Resource nationalism often depends on the price of hydrocarbons and the ability of national governments to extract them. International oil companies are attractive partners for the development of concessions as they have advanced extractive technology, superior project management skills, flexible logistical chains and access to capital from global financial markets. However, these advantages will erode as National Oil Companies (NOCs) improve their expertise over the mid- to long-term and new forms of resource nationalism may restrict their room for manoeuvre. The recent trends in most of oil producing countries’ policies are focusing on highly increasing the fiscal levies imposed to resources exploited under the concession agreements and also on imposing minimum labor taxes. At the end of 2014, The Romanian Government will have to reappraise the fiscal systems for the companies operating in the national oil and gas upstream sector, because the 10-year “freezing” of royalties on oil and gas, at a very low level compared with other producing countries will come to an end. This article tries to present the trends in the international petroleum fiscal regimes worldwide, to make a comparative analysis between Romania and other countries from this point of view and finally to make some recommendations as regards the main guidelines that the negociators could follow in order to obtain better conditions for the new fiscal regime and implicitly a better turning into account of our natural resources to the benefit of the consumers.

Keywords: *fiscal regime, oil revenue, royalties, oil and gas extraction, oil, gas price.*

JEL Classification: *E62, H2, H25, L71, Q41.*

1. Introduction

The exploration and exploitation of hydrocarbon reserves worldwide are conducted on the basis of three main types of agreements / contracts: a) concession agreements; b) oil production sharing agreements; c) service/technical agreements.

The **concession system** is applied nowadays in Europe, including Romania, and North America. Concessions were large grants of acreage rights, they had long duration, sometimes as many as fifty to ninety-nine years. The recipient of the concession has complete oil and gas rights in the

concessions including all management decisions. The host nation was typically paid a flat royalty per barrel or a percentage of revenue.

The **system based on production sharing** requires that the investor assumes the risk, and the state receives a share of production, usually a majority quota, after the parties have recovered the share of costs and investments. These types of contracts require as a precondition the existence of significant oil or gas deposits, aiming at motivating a private company to enter a partnership with the host state and a relative easy exploitation of the field. A certain percentage of oil production is considered “cost oil” from which recoverable costs can be recouped by the contractor group. Generally “operating” costs are 100% recoverable immediately from available cost oil, although the amount of production dedicated to cost recovery may be limited to ensure that the host government always receives a share of what is being produced. By the time production commences, the contractor group will typically have spent/invest a significant amount of capital in exploration, drilling, completion and equipment costs. These costs may have to be depreciated over time for cost recovery.

The third major system is based on **service contracts** which are technical agreements and are used mainly in Mexico and Iran.

2. Main components of the fiscal tax systems applied in the international oil industry

The operating companies in the oil and gas industry are normally paying profit (income) taxes, royalties, VAT and possibly withholding tax. The royalty is the specific duty applied to oil and gas extractive industry, and must be paid by the companies that explore and exploit hydrocarbon reserves. Under concession contracts there are several types of fees: income tax, revenue tax or a combination of both. Government imposes taxes to contractor operations group, depending on the profitability of each oilfield perimeter granted. The State may negotiate with the contracting company that payment is made in kind or cash.

A number of countries with tax/royalty regimes impose, in addition to corporation tax, various forms of “rent” or taxes to capture a greater share of the economic benefits arising from operations, whether these result simply from highly profitable fields or from windfalls such as high petroleum prices. Examples include the UK’s Petroleum Revenue Tax (PRT), Norway’s Supplemental Petroleum Tax (SPT), Brazil’s Special Participation (SP), Australia’s Petroleum Resource Rent Tax (PRRT) and Alaska’s Production Tax (known as ACES). In the case of UK, Norway and much of offshore Australia no royalty at all is now levied and the countries rely on “rent” and income taxes for virtually their entire share of profits.

Leases granted under a tax/royalty style arrangement are quite different from the old-style concession agreements, even though the term “concession” may still be used (as are permit or license). While details vary from one jurisdiction to another, they all contain significant term provisions, usually involving relinquishment of some part of the acreage at various stages such that only the immediate producing area remains held for a long time (typically the life of production).

UK, Norway and Australia - no longer impose royalties on oil, but just a rent and a tax. A possible explanation is that, in UK and Norway reserves have registered a relatively pronounced depletion rate and production is declining. But oil industry tax regime could record changes in Australia and even in Norway, after they recently announced significant new discoveries of oil

deposits. A high level of royalties is practiced in large oil producing and exporting countries, while in the States interested in attracting foreign investment, the average tax rate is about 12-13%.

Annually, the consulting company "Ernst & Young" publishes an updated version of a guide of the petroleum taxation regimes in more than 160 countries all over the world.

3. Investment policy prospects in the oil and gas producing countries

Resource nationalism is a cyclical phenomenon whereby governments assert varying degrees of control over natural resources located within their territories, in an attempt to maximise revenue generation from their national resources. Resource nationalism often depends on the price of hydrocarbons and the ability of national governments to extract them. International Oil Companies are attractive partners for the development of concessions as they have advanced extractive technology, superior project management skills, flexible logistical chains and access to capital from global financial markets. However, these advantages will erode as National Oil Companies (NOCs) improve their expertise over the mid- to long-term and new forms of resource nationalism may restrict their room for manoeuvre.

Several trends are emerging for the coming years:

1) The tax regime for foreign investment will be differentiated depending on extractive sectors type (oil or gas), as long as national oil companies will not have the know - how necessary for the operation of their natural gas deposits associated with the oil. This will lead to tighter regulation of access to the oil sector and relatively more flexible natural gas development.

2) The fact that a greater part of the new oil and gas discoveries will originate in remote or hardly affordable areas in technological, geological and commercial terms, will prompt the developing country governments to resort to a greater extent to international oil companies and to offer more favorable conditions for foreign investment, in exchange for their expertise and financial assistance in energy exploration and production.

3) The recent guidelines, worldwide, for the governments that own natural resources is to highly increase the fiscal levies imposed to resources exploited under concession agreements and to impose minimum labor taxes; in this case, the new forms of resource nationalism will consist of the acquisition by the host state of some minority stakes in production concession, imposing regulations on labor force utilisation and temporary access restrictions to international oil companies.

4) The high crude oil prices stimulate policies of "resource nationalism" type because they increase the benefits/rent that the state can extract from resources ownership. In the last decade, international oil companies' control on hydrocarbon reserves and production declined steadily, and this trend is expected to continue, as governments who possess resources will tend to capitalize the advantages of high energy prices, implicitly by increasing the technical and financial capacity of their own national oil companies (NOC). In 2012, NOC's controlled 90 % of the world's oil and gas reserves and at least 75 % of their production

5) During lower energy prices periods, governments tend to relax the rules on foreign investment regime in order to secure additional funding/ investment.

6) The interest in unconventional resources development worldwide will increase. In addition to conventional resources, the attention of governments has been increasingly captured by the new fuel sources, such as, for example, shale gas, whose exploitation is a priority in North America, China and

probably in certain European countries. Poland, for instance, recently amended its legislation on exploration/exploitation of shale gas, including the fiscal regime for this domain in order to stimulate these operations.

7) Improving the management of the high cost oil and gas fields: Governments are struggling to manage the high prices of oil fields by maximizing production efficiency of oil and gas. This strategy aims to redress the budget, while ensuring a satisfactory return on exploitation of natural resources.

In assessing the tax efficiency of a tax/royalty one must take into account a number of factors : the commercial reserves of hydrocarbons; the tax deduction system ; the overall fiscal context (tax circumscribing oil operations - the so-called "ring fence" system – to carry forward the losses, the depreciation regime,the tax incentives , transaction tax , withholding tax, customs duties, VAT, excise duties, etc.); the overall development of the resources owner countries.

It has been demonstrated that a high rate of petroleum taxation does not always lead automatically to the rise of of the budget revenues of a country. The correlation between the amount of natural resources and the development level of a country has been subject to complex analysis. The British economist Richard Auty was the first, in 1993, who used the term "the resource curse" also known as the "paradox of plenty " in his book " Sustainable development in mineral economies" in order to highlight the paradox that countries and regions with an abundance of natural resources, specifically non-renewable resources like minerals and fuels, tend to have less economic growth and worse development outcomes than countries with fewer natural resources. This is supposed to happen for many different reasons, including a decline in the competitiveness of other economic sectors than the petroleum sector (caused by appreciation of the real exchange rate as resource revenues enter an economy, a phenomenon known as Dutch disease), volatility of revenues from the natural resource sector due to exposure to global commodity market swings, government mismanagement of resources, or weak, ineffectual, unstable or corrupt institutions (possibly due to the easily diverted actual or anticipated revenue stream from extractive activities).

The most disruptive effects were ascertained in the Middle East region, which although holds more than 50% of the world's oil reserves, has had serious backlogs in terms of democratization and economic reforms. The situation was described also, by Michael Ross (2013), as follows: "The revolution of energy markets made oil-rich governments stronger and richer than they ever imagined. But for their citizens the results were often disastrous". Paradoxically, countries with low income levels are the most vulnerable to be affected by "the resource curse" and paradoxically, are the target of the increased interest of Western oil companies in order to capitalize on their resources. On the other side there are also, oil countries where mineral resources which are efficiently administered (most of them, accidentally or not, developed countries such as Norway, Canada, Australia, USA, UK) but recently they include also some emerging countries, such as Chile or Botswana. The defeatist thesis of the "resource curse" contains exaggerations, and even a dose of manipulation, because it can become a supporting factor for the most powerful countries to come back to resource-rich states, (after their "banishment" from the '70s) and for international oil companies in their pursuit of overprofits. The economic aspect of this thesis has been reformulated lately, in more moderate terms as it was found that the oil/gas resource-rich countries do not tend to have a lower growth than the scarcer ones, but only a more volatile and suboptimal growth rate, the most deprived countries being those where the state had the right to develop resources and to control their management.

The conclusion is that the exploitation of mineral resources should be perceived as a development tool, not as an end in itself, and a good governance is a crucial condition for the efficient management of mineral resources: efficient governance, fighting corruption, good regulations, sound and democratic consultation.

Tax policies applied to the exploration/exploitation of hydrocarbons (crude oil, natural gas) varies greatly from one country to another. According to the analysis made by "Conoco Phillips" and "Forbes", in 2006-2010, the average profit margin of oil companies has been around 6.5 %, a level which ranged the oil sector on a medium place (114) in a ranking of 215 industries, and showed that the upstream petroleum operations, are far from being a very profitable sector, because of its highly intensive capital character.

U.S.A represents a positive experience, from two points of view: the balance in the distribution of risks between the state and oil companies and the stability of the investment climate, which ensures high budget revenues. The oil companies exploiting hydrocarbons in oil/gas blocks owned by the federal government, are paying royalties of 12.5 % for onshore mining and 18.75 % for the offshore, and a corporate general tax of 35% applied to taxable income.

In the **UK**, the fiscal regime applied to exploration and production of oil and gas includes two main components:

-A 30% income tax, to all operating companies, from April 1, 2008;

-A surcharge tax of 32 % levied on 24 March 2011.

The Great Britain has charged royalties only until 2002, when they were abolished. Their size amounted to 12.5 %, and they have been levied on the gross value of oil and gas extracted, less a rebate for expenses related to transportation, treatment and storage. The fiscal regime includes also a complex system of tax deductions, so that the effective impact of charges is visibly subdued.

Norway is the largest oil and gas producer in Western Europe. A company involved in extractive activities (i.e., upstream activities) within the geographic areas defined by the Norwegian Petroleum Tax Act (PTA) is subject to a marginal tax rate of 78% on its net operating profits (28% ordinary corporate tax and 50% special tax) derived from the extractive activities. The area covered, generally, is within Norwegian territorial borders or on the Norwegian continental shelf (NCS). Basically, the Norwegian State retains almost 8 of every 10 euros of profit obtained by oil companies. Norwegian philosophy regarding exploitation of its natural wealth is that "the state operates on the principle that international companies supports the host state in its natural resources valorisation but, in the end, the oil belongs to the nation".

Western European countries -that generally have low or very low hydrocarbon reserves- apply the following levels of royalties:

- In Denmark, the tax regime that applies to hydrocarbon exploration and production (E&P) companies consists of a combination of corporate income tax (CIT) and a hydrocarbon tax, amounting to a notional level of 52%, but which by deduction (depletion allowances) reaches only 18 % .
- Turkey applies a fixed royalty of 12.5 % for both oil and gas production and a 20% tax on corporation income.
- Germany charges a royalty of 10% to the value of oil and gas production.

- In Hungary, the royalties registered an average of 12% by 2010, with variations depending on the size of the deposit, which in some cases (of higher deposits) can reach up to 30 % .
- In France, the royalties can reach up to 30 % of the production value, depending on the level of the productivity of the reservoir;
- In Italy, a country whose oil and gas industry can be compared to that of Romania, the royalty represents 7% of the production value, with slight variations depending on the size of the deposit, which is subject to a surcharge of 3% in order to create a special fund;
- In almost all Arab countries rich in oil reserves about 70 % of the profits go to the state budget, and in countries like Saudi Arabia or Iraq, the state income from oil exploitation reached 85-90% %.

Israel applies an income tax and a tax on windfall profits in the upstream activities (exploration / exploitation) of oil and gas. Overprofit tax is progressive, ranging from 0% to 50 %. It must be emphasized, however, that the recent increase in oil taxes in this country has as motivation, the discovery of huge gas reserves in the eastern Mediterranean basin.

Poland is very representative from the point of view of shale gas policies. The government of this country is on track to complete the process of improving the fiscal and regulatory framework for shale gas. In early March 2014, the Polish government decided to exempt from taxes shale gas industry until 2020. The move is seen as an important incentive to encourage shale gas projects. After 2020, Poland will impose two special taxes on gas and oil production: a fixed tax calculated on the production value, a variable tax ranging between 0 and 25%, that will apply to the profits from oil and gas production, differentiated by production costs. Overall, taxes, including the corporation tax will not exceed 40 % of company profits, and will bring to the state revenues of 5 billion dollars in the period 2020-2029. (One can note that unfavorable regulatory regime was one of the causes of recent withdrawal of large companies from shale gas industry in Poland).

4. The oil fiscal regime in Romania

The fiscal regime practiced in the oil and gas industry in Romania includes the following components:

- Income taxes -16 %;
- Charges (royalties levied on the value of the production, the income from gas storage and pipeline transportation of crude oil);
- Tax on non-resident income -16 % ;
- VAT -24% ;
- A fee of 4 euro/ton applied on oil sales revenues from domestic production;
- A “building” tax applied starting 2014 and calculated as a 1.5 % quote to the buildings’ value owned by the respective taxpayers (wells and gas and oil pipelines);
- A temporary surcharge of 60 % to the profits from natural gas price liberalization, while granting a deduction for investments exceeding 30 %.

In Romania, the “Petroleum Law” stipulates that royalties are calculated as a percentage of the production value. In addition to this fee, there are also over 80 types of taxes, payroll taxes, income taxes, local taxes, etc.). The current levels of royalties, which are applicable to all operators in the oil and gas upstream sector, were established before the privatization of Petrom national oil company, in 2004. Petrom argued the “freezing” of taxes at a very low level, averaging 7%, by the need for fiscal stability, given the long investment cycle, of 10-20 years, specific to oil sector. The royalties are not fixed, but varies depending on the size and the oil fields’ yield, being also influenced by the international crude oil price dynamics.

The Romanian Government is nowadays facing major challenges as regards the renewing of the fiscal oil tax system. In 2014, the 10-year "freezing" of royalties on oil and gas, will come to an end and must be replaced with a new fiscal system.

One of the major challenge for the future negotiations relates to whether the current system of progressive rates should remain in force or should be replaced with a flat corporate income tax on oil and gas operations.

The present status of Romania’s oil industry is characterized by the following features:

- 1) Romania has the lowest yield per oil field in Europe, 31 boe/day for ROMGAZ and 17 boe/ day for Petrom (for proved reserves) , while in Italy, the same indicator is 265 boe/day, in the UK, 409 boe/day, and in Israel, 4,804 boe/day. The data set covers only exploitable deposits and not those found in the Black Sea or the shale gas deposits.
- 2) The oil proved reserves of Romania have an average depletion degree of 87%.
- 3) The operating costs in Romania oil industry (\$ 17/barrel, on average) can be compared with those of the UK (23 U.S. dollars / barrel).
- 4) Romania is supposed to have important offshore natural gas deposits in the Black Sea and also big shale gas reserves.

The second challenge relates to the amount of the new fee/royalty. Romania is interested in establishing a level of taxation that ensures an increase of budget revenues without jeopardizing major investment projects, especially the Black Sea exploration operations.

In this context it should be noted that the defining features of the Romanian energy policies oscillated between policy dilemmas related to the national character of oil industry and the insufficient financial and technical resources needed to ensure its development and modernization. It is already well known, the traditional political and legislative approach, contextual and shallow, about the exploitation of national energy resources and the ineffective way of using these revenues. It is also worth remembering that before “taking” Petrom, OMV was almost an unknown company on the petroleum market while now, its market value reached more than 20 billion euros .

The most circulating variants for changing the oil fiscal regime in Romania are the following:

- 1) A report of Erste Research Group expects a tripling of royalties level (from 7.5 % to 22.5%). The same source noted that "it is possible that Romania will introduce a completely new system or will simplify the current one. They are considering the idea of a differentiated taxation of oil and gas, depending on the location of resources - onshore or offshore.

2) The experts of "PricewaterhouseCooper's (PwC)" consulting company believe that the current concession system and the relating fiscal regime are the most suitable for Romania. According to PwC, a tax system based on revenues is appropriate to Romania as it takes into account the production yield per field and the development of international oil prices. Moreover "the tax regime should take into account a deduction system for hydrocarbon exploitation under difficult conditions (e.g. deep conventional deposits, deposits with high maturity, heavy oil, deposits in offshore blocks) and must be simple and easy to implement and monitor." PwC said that maintaining differentiated rates would be advisable to avoid the closure of marginal deposits with low production yields. "Given the low volume of production, the high degree of exhaustion of the deposits, the high operating costs, low production per well, the high risk involved, Romania should practice a moderate tax in order to stimulate investment in the oil sector". The conclusion of PwC study is that such a system, made of moderate levels of taxation could be a growth engine of the economy and can help to maintain the level of energy independence to an acceptable level".

3) ROMGAZ considers that it will be necessary to increase the level of oil and gas royalties, by 25%-40 % .

4) Romania's Government is considering the need to establish an "incentive scheme" for companies exploiting shale gas and oil in the Black Sea, although "an increase of the current level of fees being absolutely necessary." The beneficiaries of this "incentive scheme" could be Exxon and OMV Petrom, which announced in 2012 the discovery of a gas field in the Black Sea estimated at 42-84 billion cubic meters. Romanian government plans also to create a special fund, following the Norwegian model, which will be designed to finance important projects for the country."

5) OMV, the majority shareholder of OMV-Petrom company, had contradictory reactions to the prospect of an increase in fees. OMV threatened that if fees will be increased, it will diminish investment even threatening to cease exploration in the Black Sea: "We can not make investments if they are not profitable". But in the last ten years OMV recorded huge profits in Romania, mainly due to very low prices of Romanian crude oil.

5. Considerations regarding the future oil tax regime variants for Romania

The generalization of the European royalty rate, in EU including Romania even at its highest level, is theoretically unacceptable. The European countries that have established these rates have developed economies, but generally are deprived from energy resources. These countries were interested in establishing small royalties and taxes in order to attract investors, because the investors came even from these countries.

As a country with a less developed economy, Romania needs higher budgetary revenues from these royalties in order to support its development. A generalization of the low European royalty does not offer this opportunity. On the other hand, if the new system will establish too high royalty rates, the investors will be discouraged and probably will not be willing to get involved.

Considered until recently, "a rich country in poor resources " (mainly in hydrocarbon resources), Romania may benefit from the recent discovery of a major deposit of natural gas in the Black Sea continental shelf and also from its very important reserves of shale gas. These new energy sources have fueled the idea that Romania could become energy independent in the years ahead, or at least will suppress gas imports. But acquiring the energy independence status can be only temporary, and will have a cost, usually very high, and sometimes prohibitive. Moreover, we may not talk about

energy independence for a period of 3-6 years, as would be the equivalent of time-life of reserves in the Black Sea, at the current rate of consumption.

Therefore the key question to be answered specifically, is that the energy strategy of a country has a cost limit in terms of economic efficiency, sustainability and environmental policy, and in case that a country does not have the capital and the necessary know-how, it must assess the effects of economic and social concessions of these resources. It should be considered that the exploitation of newly discovered gas reservoirs in the Black Sea might cost between three and ten billion dollars, and the resulting output does not belong, in fact, to the Romanian state, but to foreign companies, mainly to Exxon/Mobil and OMV/Petrom, that received operating licenses. These companies are not obliged to sell the gas in Romania, but presumably they will do it, provided that the state should have negotiated a repurchase clause of the production at a preferential price, before licensing the exploration/ exploitation to them.

If natural gas deposits in the Black Sea and the shale fees are renegotiated this year, probably for the next 10 years, the promised "energy independence " will be reached at best, at the "beginning of the next decade", while the proven reserves in the Black Sea, have not yet been determined and evaluated in terms of commercial viability. Therefore, the state should guarantee the venture of OMV in Romania, a practice unusual elsewhere in the world.

The rule established by the EU under the single market practice is that the resources exploited must be purchased at the same price level all over the European Community. Romania agreed with the IMF, in exchange for financial stability, to liberalize its gas market and increase the price, to the import parity levels by the end of 2018 for corporate customers and households. As a result, the domestic price of gas will increase substantially. This will entail a big rise of suppliers and distributors' profits, in total contradiction to the essence of the concept of liberalization, which supposes a reduction of costs and prices, both to producers and consumers, as a result of increased competitive pressure. Such gas price liberalization imposed by the European Commission transforms itself from a beneficial instrument of economic progress into a negative impact factor for economic and social evolution.

The "promise" of lower prices at which foreign companies will sell the gas exploited to the Romanian state is uncertain. After the market will be liberalized and the pipelines interconnection with Western Europe will be completed, nothing will stop producing companies to sell the gas, elsewhere than in Romania, if they cannot obtain a higher and very profitable price.

Although until a few years ago, it was assumed that a competitive market of gas, with a multitude of operators will not occur easily in any one region of Europe because of the reduced opportunities of accessing and exploiting new sources of gas that could be brought to the market, nowadays, the paradigm of absolute domination and dependence on Russian gas (that some German policymakers are considering it quite unavoidable) begins to be threatened, at least in south European basin, by a variety of potential sources: shale gas in Poland - Romania -Ukraine, the gas discovered in the Black Sea; Azerbaijani gas delivered through the Trans-Adriatic pipeline (TAP), which replaced the Nabucco project; the huge gas discoveries in the eastern Mediterranean basin (Israel,Cyprus); the resumption of ties between the U.S. and Iran, which could lead to its re-entry on world gas market, alongside with another high potential producer/exporter- Iraq; a number of projects included in the Eastern route, Gas East, where Romania was involved, at least in theory, to compensate for the cancellation of Nabucco .Only under these conditions, inter-fuel competition could begin to act

effectively on the price of imported gas from Russia (in the sense of changing its base) and weaken the link with oil prices, finally going up to a possible decoupling of the oil price.

6. Conclusions

A high level of royalties is usually imposed by oil-exporting countries. Instead, in those states aiming at attracting foreign investments, royalties shares have been established in recent years at around 12-13%.

The concession agreements are the most common way to exploit the natural resources. The owner state grants a concession to private companies, for which they are receiving a fee. The fee can be applied to different tax bases or on profits or income, as it is the case in Romania. Quotas can be fixed, regardless of the type of the deposit or variable, depending on the type and size of deposits.

High crude oil prices stimulate policies of "resource nationalism", because they increase the benefits/rent that the state can extract from resources ownership.

On the basis of concession contracts, Romania's benefits come only from royalties and taxes.

The concession system where the royalty rate is applied to profits, not to the income (Romania's case) can be adjusted by a deductions' tax system, although the complexity of tax regime administration makes it more appropriate in countries with a large concentration of resources (large deposits and reduced fragmentation).

The leeway in negotiating fees is extremely sensitive and requires a system to find a balance between the interest of the state to collect higher revenues to the budget and the investors' desire to look for attractive fiscal conditions for such operations. Environmental protection is very important in this process, as well as the social impact.

Although the production sharing agreements could be a solution for the state to reap the benefits from the newly discovered resources, such a variant is difficult to apply in Romania, because large companies are reluctant to become engaged in such agreements, except in very large resources case, which could be able to provide significant commercial production in the long term and a fast rate of depreciation.

Romania will benefit from certain advantages, in its future negotiations for changing the petroleum fiscal regime: the Black Sea newly discovered offshore reserves and the potential shale gas reserves; the liberalization of domestic price of gas, in the future years, which will ensure a significant increase of extractive companies gains, but will be also a reason for taxing foreign companies revenues benefiting from this "undeserved gift "; a long tradition in the oil extraction industry with long technical expertise both in oil and gas industry that can be used in the form of service contracts ;the existence of an institutional framework and national rules adapted to European resource management; the completion in the near future of interconnections with pipelines in Western Europe and neighboring countries.

On the other side, Romania will be faced with some relative disadvantages: the lack of national capital for investment; the lack of democratic consultation in the field of exploitation projects and of applied negotiation; the fact that the tax regime in the hydrocarbon renegotiation takes place in a time when there is no clear information about the actual amount of gas discoverie neither in the Black Sea nor in shale deposits.

Taking into account the local specificities and the recent trends worldwide, Romania's negotiating pattern in establishing a new fiscal regime for oil and gas exploitation should be nuanced according to some features:

-It will be necessary to determine, with some degree of certainty, the amount of reserves Current estimates are quite elusive. An exploratory well will be drilled in 2014 and other 10 deep wells by 2018;

-The technological and logistical costs of deep offshore drilling (at about 1000 m) are much higher than the land costs ; they are also higher in The Black Sea area, than in other parts of the world,because of drilling equipment shortage and a small number of service providers of deepwater drilling;

- Finally, there are problems related to some deficiencies of onshore infrastructures (the existence of a transport infrastructure covering almost all the territory, but, physically worn and not calibrated for interconnection to the European network) and to certain legislative ambiguities that will take time and investment to be remedied.

Starting from these findings we consider the following guidelines in establishing the new oil fiscal regime in Romania:

a. Maintaining a differentiated system of royalties rates according to the:

-deposits' yield, as a way to encourage the development of marginal fields , with small production;

-the hydrocarbon type (oil or gas);

-the location of reserves - onshore and offshore , respectively existing proved reserves, and the new ones in the continental shelf of the Black Sea .

b. In accordance with the worldwide trend of imposing higher taxes for new hydrocarbon resources, the Romanian state should consider a relatively substantial increase of fees for large deposits, while developing a new system of taxes for the new deposits discovered in Black Sea;

c. The Romanian state should take into account the possibility to levy an additional (windfall) profit tax on the revenues that the companies will collect in the next years following the liberalization of gas prices.

Without falling into the trap of a hard nationalism of resources, Romania will have to follow the examples of countries that have successfully capitalized oil and gas resources and to act upon the principle that international companies are designed to provide the financial and technical support to turn into account the natural resources but in the end, the oil belongs to the nation. We mention that in Norway, the revenues from oil taxes and royalties represent 30 % of GDP,while in Romania, during the 10 years ending in 2014, the fees collected from oil extraction represented only 1% of GDP.At the same time, the foreign operating company profits were very high, even in times of crisis .

It is obvious that multinational companies'policy is aiming at maximizing profits, by tax evasion practices, through transfer pricing, and finally, the tax burden is falling mainly on SMEs and middle class. Moreover, it is an obvious connection between Exxon operations in the Black Sea and U.S. geopolitical interests in the region and between Chevron operations in Romania and the strategic partnership with the U.S.A. The U.S. administration supports and promotes the interests of major U.S. oil companies through strategic partnerships with the allied nations but it is not the one that imposes

disadvantageous conditions to these states. Owing to their superior capabilities (advanced technologies, superior project management skills, flexible supply chains, easy access to capital in global financial markets) and also to some internal factors (lack of expertise of professional negotiations, national political concessions, and more recently, increased geopolitical risks in the Black Sea) the multinational companies can impose their tough conditions to the national oil companies .

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