



PISM

POLSKI INSTYTUT SPRAW MIĘDZYNARODOWYCH
THE POLISH INSTITUTE OF INTERNATIONAL AFFAIRS

BULLETIN

No. 146 (1392), 21 October 2019 © PISM

Editors: Sławomir Dębski • Patrycja Sasnal • Rafał Tarnogórski

Sebastian Płóciennik • Justyna Szczudlik • Daniel Szeligowski • Jolanta Szymańska
Marcin Terlikowski • Karol Wasilewski • Szymon Zaręba • Tomasz Żornaczuk

The Role of Nuclear and Gas in Romania-U.S. Relations

Jakub Pieńkowski

The close alliance between Romania and the U.S. is focused on defence. Their cooperation also extends to energy issues, particularly nuclear energy, gas transit to the Balkans, and extraction from Black Sea deposits. However, Romania's interests in energy security are only partially convergent with the U.S. goals of eliminating China's and Russia's influence in the region and becoming a key gas supplier to Central Europe.

Competition in Nuclear Power Provision in Romania. Since the beginning of 2019, U.S. diplomacy and companies have been seeking closer cooperation with Romania on nuclear energy. The Americans' intention appears to be to limit China's influence in the strategic and technology sectors. In May 2019, the state operator of the only Romanian nuclear power plant—in Cernavodă (CNC), which produces 20% of the country's electricity—signed a preliminary agreement with the China General Nuclear Power Group (CGN) for the construction of two new power units. Negotiations have been ongoing since 2013 when, after the withdrawal of Western bidders, the Romanian government recognised CGN as the only one remaining capable of carrying out the investment. The contract value is estimated at €6-7 billion. /The planned joint venture, in which the Chinese firm would have 51% of the shares, is expected to finance, build, and operate the new units. CGN is also expected to have the capability to deal with a unique technological issue at the CNC—its reactors use rare Canadian technology called CANDU, of which there are only about 40 such devices around the world. The CNC's CANDU reactors use enriched uranium that is mined domestically, making Romania one of the few autonomous countries in the field of nuclear fuel—from uranium ore mining to spent fuel disposal. Two CANDU reactors are in operation in China and CGN has a cooperation agreement with the owner of the CANDU technology—the Canadian firm SNC-Lavalin.

The U.S. wants to persuade Romania to end its cooperation with CGN, appealing to alliance loyalty. U.S. Energy Secretary Rick Perry stated the contract affects U.S. national security, arguing it would give China access not only to advanced technologies but also to the nuclear security systems of allied Romania, which may endanger U.S. soldiers stationed near CNC at the Mihail Kogălniceanu airbase. The perception that CGN is a threat is supported by the arrest of one of its employees in the U.S. in 2016, who is charged with industrial espionage, and the ban on the transfer of technology by American entities to this company since August 2019.

The U.S. is also trying to show that it can replace China as Romania's partner in nuclear energy. In March 2019, U.S.-based company General Electric (GE) signed a \$120 million contract for ongoing maintenance of the CNC for eight years while the firm NuScale signed an agreement with the CNC operator for cooperation on small modular reactor technology (SMR). These could solve Romania's energy supply problems, as coal power plants age and the chances of building a second nuclear power plant in Transylvania diminish. The effectiveness of the U.S. efforts may be confirmed by a joint call by presidents Klaus Iohannis and Donald Trump in August 2019 to the industries of both countries to collaborate on the development of the Romanian nuclear energy sector. One result of this appeal is the memorandum of cooperation signed in September by Prime Minister Viorica Dăncilă and Secretary Perry, also accompanied by talks about GE's

participation in a tender worth about €1.5 billion for the modernisation of the oldest CNC unit, which would extend its lifetime by about 30 years.

According to opinion polls, Romanians prefer CNC to be developed by Western companies. An INCOP survey from September 2019 indicates that 31% of respondents prefer partners from the EU, 28% from the U.S., 17% from Canada, and only 5% from China and 4% from Russia. However, the government of Romania is afraid if it terminates the contract with CGN, it will not find another investor. U.S. companies are not willing to take over a contract in which they need to provide credit. Also, the CANDU reactors are a barrier, as there is no device of this type in the U.S. and the American companies do not have experience with them.

Cooperation and Differences in the Gas Sector. The U.S. is seeking to limit Russia's influence and become a key gas supplier to Central Europe and the Balkans. In this context, Romania is an important partner as a transit country and supplier that can help substitute for Russian gas. Romania is not subject to Russian pressure using energy—out of the 11 billion m³ of gas used annually, it imports only 1 billion m³ from Russia and extracts 10 billion from its own deposits. The BRUA gas pipeline (Bulgaria-Romania-Hungary-Austria) being built on Romanian territory not only will allow gas from the country's offshore production to be exported but also American LNG can pass through it from gas ports in Greece, transited via the Bulgarian-Greek interconnector. The importance of BRUA in the U.S. plans is evidenced by Perry's consistency in demanding Hungarian Prime Minister Viktor Orbán, who has been currying favour with Russia, to stop blocking its construction.

Romania's assessment of Russian gas projects is not fully in line with the U.S. view. Both countries oppose the construction of Nord Stream 2; however, Romania, despite U.S. expectations, has avoided open criticism of an extension of the Russian TurkStream via Bulgaria to the Balkans. This is confirmed by the August declaration by Trump and Iohannis, which mentioned only Nord Stream 2 by name. The omission of TurkStream is probably because of Romania's worry about Russia's planned abandonment of gas transit via Ukraine in the coming years. As a result, Romania would lose money from gas transit to the Balkans as well as the opportunity to buy Russian gas. Therefore, to secure the diversification of supplies, it wants to keep the possibility to join TurkStream in the future.

The U.S.-based company ExxonMobil, in consortium with Austrian firm OMV Petrom, in the last year limited investments and has signalled their intention to abandon the Black Sea gas field *Neptun Deep*. The profitability of this concession was reduced by a law introduced in Romania forcing the producers of gas to sell half of the volume extracted on the domestic market at discount prices and imposing an additional 2% turnover tax on them. Meanwhile, the Romanian authorities consider gas extraction from the sea shelf to be key to the country's energy security—*Neptun Deep* is to generate about 6.3 billion m³ of gas annually. To persuade the consortium to continue its investment, at the beginning of 2019, the Romanian government extended the concession on attractive terms by 15 years, until 2045. In September, a week before the Dăncilă and Perry meeting, a draft law was presented making the terms more favourable for companies extracting gas from the sea shelf. This is probably in reaction to Trump's notice to Iohannis that ExxonMobile would stay in Romania only if the investment climate improved.

Conclusions. Since the beginning of 2019, the U.S. administration and American companies have increased their interest in Romania's nuclear energy sector. This is the result of President Trump's policy of limiting China's economic and technological influence. Its primary purpose is to prevent Chinese companies, such as the one contracted already, from gaining access to Romania's nuclear security systems and mastering CANDU technology. The American companies' reluctance to take over the CNC contract means the Trump administration's main goal is to block Chinese involvement, rather than replace the Chinese firm. In practice, the U.S. pressure may stop the expansion of the CNC for many years. This would have a negative impact on Romania's energy security because, according to plans, by 2035 nuclear power should generate 40% of the country's electricity. This delay would also reduce the competitiveness of the Romanian economy, which—in view of the EU-level policy to reduce CO₂ emissions—would continue to be based more on coal.

In the gas sector, the interests of Romania and the U.S. are only partly convergent. Both countries have declared their willingness to increase Central Europe and Balkan states' energy security by diversifying supply sources, which should reduce the region's dependence on gas from Russia. The construction of the BRUA gas pipeline would allow regional sales of gas produced the Romanian sea shelf as well as gas supplied from the U.S. to Greek gas ports. However, the Romanian authorities—and contrary to U.S. expectations—have not criticized the extension of the TurkStream pipeline via Bulgaria to the Balkans. This shows that Romania, despite its mistrust of Russia, still includes it in its plans as a significant supplier of gas to the region.

From Poland's perspective, U.S. political and capital involvement in the Romanian energy sector would be beneficial. It would promote the development of energy infrastructure within the Three Seas Initiative supported by the U.S. and improve the security of the Southeastern Flank of NATO and the EU. The U.S. also might increase its military presence in Romania and the Black Sea Basin to protect investments by American companies.