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Energy & Natural Resources - Croatia



Authors

Oil and gas exploration update

March 05 2012

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Exploration of oil and gas in northern Croatia

On December 5 2011 the Ministry of Economy, Labour and Entrepreneurship announced a tender⁽¹⁾ for exploration permits in 14 areas in northern Croatia. The tender arose as a direct result of the Mining Act 2009, which introduced the new tendering process for exploration permits, and the Amendments to the Mining Act of April 2011, pursuant to which the government revoked exploration permits from the previous holder (for further details please see "[Mining Act changes help to return control to the state](#)").

The tender documentation was acquired by the national oil and gas company INA, Zarubezhneft (Russian), Vis-Viridis (Italian) and the Central European Oil Company. Shortly after the announcement, the tender was contested by potential bidders which requested its annulment, due mainly to the following issues:

- Short submission period – all tender proposals were to be submitted within 30 days of the announcement (January 5 2012).
- Incomplete tender documentation – the exploration documentation of the previous permit holder was not made available to the ministry and potential bidders. Bidders were required to submit an exploration plan (including all exploration activities by type and extent, along with a budget and a work programme for the first year) and a timeline. Additionally, according to the Regulation on the Exploration of Mineral Raw Materials⁽²⁾ and the Mining Act, in circumstances where an exploration permit is revoked, the incoming exploration permit holder must reimburse the costs of all exploration activities carried out by the previous permit holder. Neither the results nor the costs of previous exploration activities were part of the tender documentation.
- Unrealistic terms – potential bidders were unable to submit proper exploration plans, budgets and a performance bank guarantee (5% of the budget) because these terms were difficult and unlikely to be met without reliable data that should have been made available to the government and any bidders.

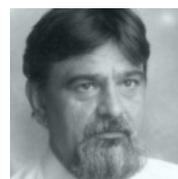
The new government took office on December 23 2011. It annulled the tender on January 4 2012, stating that the tender terms did not facilitate free competition and serious offers for all potential bidders. The date of a new tender is not yet known; however, the government should announce major projects in the energy sector in 2012. The list of projects should be specified by mid-March and therefore tender announcements can be expected later in 2012.

Exploration of oil and gas in central and southern Adriatic

Concessions for the exploration of oil and gas in the central and southern Adriatic were granted to INA in 1998. The concessions were extended for five years in 2002 and 2007 and expired on December 31 2011. To date, few exploration activities have been conducted in the central and southern Adriatic due to high sea levels in the region. Tenders for exploration in this area may also be expected in 2012.

In the northern Adriatic, exploration activities have been conducted over the past 15 years, resulting in the discovery of gas in 12 exploitation fields. Currently there are 19 operational offshore natural gas platforms, of which 17 are operated by INAGIP Ltd (INA dd – Eni SpA incorporated joint venture) and two by ED-INA Ltd (INA dd – Edison SpA incorporated joint venture).

At the end of 2011, Montenegro, a neighbouring state on the south Adriatic, announced tenders for the exploration of oil and gas in the Montenegrin Adriatic. So far Exxon Mobil, Noble Energy and Edison have purchased the tender documentation and INA is expected to do so shortly. INA conducted significant exploration activities in the Montenegrin Adriatic in former Yugoslavia; according to unofficial data, 7 million barrels of oil and 435 million cubic metres of gas lies in this area. In recent years, gas has been found further south in Albania, and the Delvina gas field is the largest of its kind in Southeastern Europe.



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From 2012, the new mining regulations, which have been harmonised with EU law, will open up national oil and gas natural reserves to all interested parties in free market competition for exploration and subsequently for exploitation. The era of privilege for selected companies in the Croatian oil and gas sector has irretrievably come to an end.

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Endnotes

(1) *Official Gazette* 139/11.

(2) *Official Gazette* 125/98.

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