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Energy & Natural Resources - Croatia



Working towards a free gas market

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Introduction

With the sale of most of the shares in Croatia's national oil and gas company (INA dd) to its Hungarian counterpart MOL in 2006 (for further details please see "[MOL offer to purchase INA shares raises concerns for energy sector](#)"), and the passage of the new Energy Act (for further details please see "[Preparing the energy market for EU accession](#)"), which provides that gas prices are now set by the Croatian Energy Regulatory Agency (HERA), the government has lost control of the gas market. In response to this changing landscape, Croatia's strategic plan for its national gas market is based on two goals:

- ensuring a free market (an obligation under the EU Third Energy Package); and
- developing a network that would facilitate this.

The distribution system has been developed through the national gas transmission system operator, Plinacro. Over the past two years, Plinacro has added over 400 kilometres (km) to the transmission system, with approximately 300km still being built in order to reach the most southern parts of Croatia and achieve the target total of 2,775km (for further details please see "[Prospects for the natural gas market](#)" and "[Latest news from the natural gas market](#)").

Gas market liberalisation

Formal liberalisation of the market occurred on August 1 2008; however, since then no suppliers have used the transmission system apart from Prirodni Plin doo, INA dd's subsidiary. As the price of gas was previously set by the government, pricing was a political and social issue. With the new Energy Act and its implementing laws and regulations, HERA will set the prices and the liberalisation process should be complete. Prices for end users should rise to match the EU average prices, making the Croatian market more attractive to foreign gas companies.

Kutina Petrokemija dd, an exporting producer of fertiliser, is the first Croatian company to buy gas on the open market. On January 15 2013 it concluded a contract with Gazprom Schwiez for the supply of 130 million cubic metres of gas.

Diversity and stability of supply (for further details please see "[Prospects for the natural gas market](#)") should also be guaranteed by:

- the new Donji Miholjac-Dravaszerdahely interconnection, a bi-directional interconnection with Hungary built at the end of 2010 in order to allow Croatia to become an exporter of gas;
- exploration of the new storage field in Grubiško Polje; and
- the Ionian Adriatic Pipeline (connected to the Trans-Adriatic Pipeline) – Plinacro received a grant of €3.5 million for the relevant feasibility survey.

LNG terminal

A liquefied natural gas (LNG) terminal on the island of Krk, in north Croatia, has been planned since 2007, when Adria LNG was founded by E.ON Ruhrgas, Total, OMV and Geoplina. However, the joint venture was postponed until 2017 due to changes in the global gas market that forced the investors to reassess the project's feasibility. Although Adria LNG intended to proceed with an interim solution of a floating LNG terminal (for further details please see "[Tender announcement due for new floating LNG terminal](#)"), this idea was also abandoned.

In Summer 2012 the government decided to push the project ahead. It tried to buy the project documentation, but no agreement was reached. National electricity company HEP dd and Plinacro then took over the LNG project. Plinacro was granted €1 million for the feasibility and design study of

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the LNG RV project, and in September 2012 it signed a declaration of intent to build an Adriatic-Baltic gas transport corridor with Polish counterpart Gaz System.

Since Qatar showed interest in the LNG terminal back in 2002, at the end of 2012 the government stepped up diplomatic relations with Qatar. According to the government, Qatar is interested in investing in the project and supply LNG to LNG terminal. This is a key issue for the government, since it wishes to ensure security of supply.

South Stream Croatian branch

Although Gazprom showed interest in having the South Stream pipeline pass through Croatia in 2010 and a cooperation agreement between Croatia and Russia was signed (for further details please see "[Tender for feasibility study for South Stream pipeline](#)"), no developments occurred until January 17 2013, when Plinacro and Gazprom signed a plan of action. According to the plan, they will establish a joint venture to build a South Stream branch through Croatia with a capacity of 2.7 billion cubic metres and an investment of €60 million.

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