

Unlike the Western European market, which has diversified supply routes and developed an infrastructure, South Eastern Europe lacks interconnection with a bi-directional flow and access to the LNG market. National markets are relatively small and transmission networks are not harmonised, from a technical and legal point of view. The entire region also depends on one source of gas — Russia. Realising the set goals under such conditions is a complex and time consuming process.

The liberalisation process in the Croatian gas market began in the second half of the 2000s and it is still in progress. However, again, from a legal standpoint it remained closed in the subsequent years because of a number of factors: lack of secondary legislation, regulated prices and the presence of a single supplier of household and business customers.

This de-facto monopoly situation disappeared when two key requirements were achieved: the construction and commissioning of the second Croatian interconnector with Hungary and the further development of a regulatory framework which removed the existing problems of legal provisions in real situations.

It was our experience that the market deregulation in Croatia allowed competition in the open market, introduced new knowledge, created new jobs, contributed to further business growth, allowed Croatian companies to enter the European energy markets, lowered prices and improved the contractual conditions for customers.

Despite the improvements, the Croatian gas market still faces a series of challenges, such as a lack of daily consumption diagrams and low level of technical development in certain distribution systems, which present a barrier to full market liberalisation. These challenges point to the inevitable question — is the current number of suppliers/distributors sustainable when existing problems in the gas market are already resulting in potential bankruptcies which are leaving the stability of the gas supply vulnerable?

We can state that energy regulations in Croatia, and up to a certain point in the region, did manage to achieve the primary aim — compliance with the Third Energy Package. However, it is essential to appreciate realistic market conditions. The legislative framework should be planned in advance, and should take into account the impacts that the new regulations will have on all the market stakeholders.

It is necessary, now, to invest in distribution systems and natural gas transport (bi-directional flow) in order to develop gas markets in neighbouring countries. It is crucial to enable the sustainability of the market's actors and to regulate and control the realisation of investments in the system.

Gas consumption is steadily decreasing which has led to falling revenues for all the market's subjects. Poor economic conditions and the adverse financial situation of businesses

inevitably lead to illiquidity. In addition, an unfavourable financial environment inhibits development making opening the market even harder.

The further development of gas markets, in the neighbouring countries of the Energy Community, will be enhanced when the national virtual trading points become operational and when balancing is established in the energy market.

All stakeholders must invest in software development in order to meet the new standards in service provisioning. New solutions IT systems in these new business conditions is a prerequisite of market development. Additionally, we must engage in planned education and training for all the stakeholders.

Besides these real operative challenges, the Croatian market also suffers from the absence of a strategic national energy framework. Such a framework should manage the shortage of a key infrastructure, as well as the lack of ability to reach the desirable level of a stable gas supply. The necessary stability will be guaranteed and a platform for propulsive development of the energy sector enabled through stronger regional cooperation and the alignment of strategic national energy objectives with regional strategic objectives in all countries and throughout the EU's energy market. The state must undertake a consistent implementation of the Third Energy Package via a timely and balanced regulatory framework and through infrastructure development.

Such an approach in Croatia and its neighbouring countries will create opportunities for intensive development in the private sector and will ultimately provide a stable and economic energy supply for consumers and the business community alike. Croatia can use its experiences as a reliable regional leader, but above all as a partner in the development of a single energy market in the Western Balkans region.

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