

With so many changes taking place in the Croatian energy sector – and so many opportunities opening up – it is imperative that one stay informed, and on the right side of compliance, of course.

### 1. Onshore instead of offshore

After much of the period between 2012 and 2015 was spent preparing for and promoting governmental tenders for the exploration of oil and gas in the Adriatic, the centre-right government of Croatian Prime Minister Tihomir Oreskovic put a stop to the idea immediately after coming into power in January 2016. The decision was made despite the fact that two licenses had already been awarded, one to the INA oil group—jointly owned by the Croatian state and Hungary's MOL—and one to Italy's ENI and MEDOILGAS. The main reason cited was potential negative impact of drilling on the country's lucrative tourism industry, even though calculations showed that the project could have had an enormous impact on Croatia's economy, increasing its GDP by as much as 3-4%.

Instead, attention was switched to on-shore exploration, and indeed in early June the Government signed contracts with one local firm and one Canadian company that had been awarded onshore oil and gas exploration blocks in the north and east of the country.

Another concession was awarded to Nigeria's Oando Plc, and the exploration period in all instances will last five years and the concession for exploitation will be valid for 25 years in the case of a commercially viable discovery. It is on this occasion, as was reported in the main Croatian media, that the now acting Minister of the Economy Tomislav Panenic restated in very clear terms that 'onshore' is the way Croatia wishes to go, and that "there are no plans for oil exploration in the Adriatic".

However, extraordinary parliamentary elections are scheduled for Sunday September 11, so it remains to be seen if there will be any change in direction. All polls indicate that it will be a close one, but the governing impression is that, amid environmental and other tourism-industry related concerns, even if the Opposition come into power it is likely that they will not change the course taken by the present, now technical, Government.

### 2. Construction of an LNG terminal on the island of Krk

After twenty years since the idea first surfaced and a whole host of abortive attempts to build an LNG terminal on the northern island of Krk, Croatia finally 'might' have a floating LNG import terminal at Krk by 2018. This was stated in late May in Brussels by Mladen Antunovic, Managing Director of the State-run developer LNG Hrvatska, who also noted that his company is looking to sign an initial five-year charter with an option to extend that by five years. Antunovic also said that contacts with FSRU (floating storage and regasification unit) ship-owners have already been made, and that he hopes that the final

investment decision “will be taken in early 2017.” Following a non-binding season LNG Hrvatska intends to sign memos of understanding for binding commitments covering some 5bn m<sup>3</sup>/year to 2024, then 2bn m<sup>3</sup>/year from 2025-40.

The terminal is meant to serve the wider region, and together with seven other infrastructure projects across the Adriatic-Ionian and Danube Basin regions it should have the effect of driving down the price of Russian gas and reducing Europe's dependence on Moscow by shaving off the regional energy bill by as much as €1bn per annum.

Somewhat surprisingly, in July there emerged rumours that the Croatian Ministry of the Economy was thinking about removing the project from its list of strategic investment projects, which, oddly, happened after an apparent consensus on transit-related matters had been reached between the Croatian and Hungarian energy grids. However, the Croatian Minister of the Economy, Tomislav Panenic, was quick to dismiss this hearsay in a formal Government press release issued on 19 July “Claims...that I consider removing the project of LNG terminal from the list of strategic investment projects of the Republic of Croatia are false because the strategic interest of the Republic of Croatia, as well as of the European Union, is to finalise this project as soon as possible. Certain interest groups want to influence the realisation of the LNG terminal on the Island of Krk with these false claims”. In other words, this more than €1bn project is a go, and it only remains to be seen how quickly everything can be realised.

### 3. Creating a more consumer-friendly market

At a Government-sponsored June energy conference organised in Zagreb by Lider, the leading Croatian business weekly, there was indeed no shortage of insight into the transformative nature of the dominant trends in the global energy industry and the effects this will have not only on the key Croatian energy-sector players, but also on consumers. For instance, at last year's G7 event all the member states pledged to reduce Co<sub>2</sub> emissions by as much 70% by 2050, which means that the order of the day is ‘renewables’ and that the role of the regulator will become even more important.

As far as distribution is concerned – both of gas and electricity – it was stressed that most massive state-owned utility companies are struggling with profitability, although that is not the case with the Croatian HEP, although it could be argued that this is on account of the still-monopolistic position of this company. One of HEP's main competitors, the German RWE, is calling for further liberalisation but also consolidation of the market, which are yet to take place. Consumers are still insufficiently well informed, which, if remedied, combined with timely and adequate investments in the distribution network, could potentially drive prices down but also increase the profitability of distributors. In other words, with good

cooperation between all stakeholders, everybody wins.

Naturally, members of the academia in attendance couldn't underscore enough that we are in the middle of an epochal 'energy transition', which means implementing and installing the so called smart energy systems that would link both the needs and interests of centralised production outfits with consumers. The 'Danish' model was mentioned as the most desirable scenario, or a scenario in which an ever growing number of households aims to achieve energy self-sufficiency - mainly through the use of solar panels - which also means selling the produced surplus via the grid. It is also of interest to note that the southern island of Mljet is the first ever completely 'green' island, which means that Croatia is in a good position to truly take its energy policy into the new millennium. There are also enormous opportunities in exploiting biomass, which is four times more efficient than, say, wind.

In the meantime, the Croatian Government's principle directive in the new Energy Strategy can be summed up by the so called 'mixed' approach, meaning that, in addition to the abovesaid, a number of investments in coal-fuelled plants are underway. By way of an example, Hiroshi Tachigami, the CEO of Marubeni Europower, has confirmed his company's dedication to investing €1bn in the Plomin C Thermal plant. Parallel to that, representatives of HEP have plans to invest some €400m Euro in hydro plants by 2023. In other words, there is no shortage of plans and activities, and the key thing for all investors is to do is proper risk assessment and to think long term. There indeed is plenty of opportunity.

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