

Croatia's Energy Position in the European Union with Special Reference to the Croatian-Hungarian Relation

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Abstract

Original Research Article

This review paper will present the strategic position of the Republic of Croatia within the European political-energy context. The modern model of economic progress is based on constant increase in energy usage at acceptable prices. Intensive energy usage is a prerequisite for the development of the Croatian economy. Croatia has accepted the European Energy Charter as part of its international obligations in the process of approaching the EU. Croatia and its energy companies will have to adapt their energy policies to European energy trends, especially in the southern part of the continent. The paper presents SWOT analyses of the Croatian energy sector, as well as the development of the Croatian energy infrastructure. Additionally, the Croatian-Hungarian energy problems and strategic conflicts are also highlighted.

Keywords: Energy, Republic of Croatia, Hungary, SWOT analysis.

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1. INTRODUCTION

The modern model of economic progress is based on the constant increase in the use of energy at acceptable prices. Intensive use of energy is a prerequisite for the development of the Croatian economy. Croatia has accepted the European Energy Charter as part of international obligations in the process of approaching the EU. The strategic goals of the development of the energy sector of the Republic of Croatia are based on ensuring a high-quality, safe and affordable energy supply with a gradual reduction of greenhouse gas emissions in accordance with EU goals.

The main strategic goals of the energy development of the Republic of Croatia are (Strategy 2020):

- Growing, flexible and sustainable energy production through reducing dependence on energy imports by stopping the decline of domestic production, optimal use of existing production capacities and investments in new production (ensuring an adequate energy mix with lower greenhouse gas emissions),
- Development of energy infrastructure and new energy supply routes,
- Higher energy efficiency.

In order to achieve strategic goals, it is necessary to strengthen the energy market as a supporting component of the development of the energy sector, integrate the energy market into the international energy market, base development on commercially available technologies, and direct financial support to the development of the bioeconomy, research and implementation of new technologies for production and energy storage. Taking into account the Croatian growth of total factor productivity (eng. total factor productivity - TFP), and the capital equipment of work as in European projections, the growth and development of the energy sector of the Republic of Croatia is expected. Total energy consumption in the Republic of Croatia in the period from 2012 to 2017 grew at an average annual rate of 0.4%, while the structure of the energy used is changing. Liquid fuels and natural gas take the largest shares in total consumption. Electricity consumption has been at approximately the same level in recent years, but its share in total consumption is growing slightly. The share of energy from renewable sources in total consumption is also increasing. The goal of this paper is a strategic analysis of the Croatian energy sector, as well as the development of the Croatian energy infrastructure. Also, the paper aims to update Croatian-Hungarian energy problems and strategic conflicts.

1.1 METHODOLOGY

In this paper, we use SWOT analysis as a methodological approach to the analysis of Croatia's energy position in the EU. The basis for creating SWOT analysis is the internet source of the Croatian Government (www.vlada.hr) and the Croatian Chamber of Commerce (www.hgk.hr).

2. ANALYSIS OF STRENGTHS AND WEAKNESSES, OPPORTUNITIES AND THREATS OF THE CROATIAN ENERGY SECTOR (swot analysis)

SWOT analysis derives its ideological and linguistic origin from the American climate: it is a strategic planning tool that consists of an analysis of strengths, weaknesses, opportunities and threats, and is used for positioning and developing the company's or organization's strategy. The most important external and internal factors for the future of the company are called strategic factors and are summarized in a SWOT analysis. The internal environment consists of strengths and weaknesses, while the external environment consists of opportunities and threats. Strengths and weaknesses are identified in the internal environment. Strengths refer to the company's resources, which can be used as a basis for developing a competitive advantage, while weaknesses refer to a lack of strength.

The external environment consists of opportunities and threats that are external to the company and are usually not within the short-term control of management. These variables form the context within which the company operates. Opportunities are part of the analysis of the company's external environment, which indicates the existence of new opportunities for growth and profit. Threats are an unfavorable factor for the growth and development of a company and its survival on the market. However, to adopt an appropriate strategy, it is not enough to analyze only the strengths and weaknesses of the company. The core of the strategy lies in the decision about which strengths will be combined with which opportunities, i.e. which strengths will be used to realize certain opportunities. Along with determining the measures, it is necessary to determine the budget and the numbers that will signal progress and success in the implementation of the measures. In addition to such combinations of opportunities and strengths, it is often necessary to use a strategy of transformation, i.e. neutralization. It is about turning weaknesses into strengths and threats into opportunities, i.e. neutralizing threats and weaknesses (Šarić, M., and Šprem, B. (2017)).

Taking into account the overall development of the Croatian energy sector, with regard to the natural potentials and strategic position of the Republic of Croatia on international energy markets, one of the strategic goals of Croatian national economic and social growth and the strengthening of Croatian state independence is the successful organization and

management of Croatian energy policy. In this sense, a SWOT analysis of the most important energy segments was carried out, namely:

- Oil and oil derivatives,
- Gas business,
- Production and transmission of electricity,
- Geopolitical and transport position of the Republic of Croatia in Central Europe.

2.1. SWOT ANALYSIS OF OIL AND OIL DERIVATIVES

STRENGTHS (S)

- Excellent Croatian traffic position,
- Existence of infrastructure for production, transport and distribution,
- High share of liquid fuels in energy consumption,
- Human resources, technological knowledge and scientific potential for research.

WEAKNESSES (W)

- Possible supply problems due to the war in Ukraine,
- Excessive political influence on the Croatian energy industry,
- Corporate and political problems in the Croatia-Hungary relationship due to the corrupt INA-MOL management contract from 2009-2014,
- Exhaustion of domestic reserves.

OPPORTUNITIES (O)

- Strengthening the strategic position of the Republic of Croatia by joining the Eurozone and Schengen,
- Development of trade and tourism based on the increase in the transport of goods and people,
- Potential unexplored areas of the Croatian part of the Pannonian plain and the Croatian part of the Dinaric mountain area.

THREATS (T)

- Delay IN TECHNOLOGICAL RENOVATION OF CROATIAN REFINERIES,
- Delay in compliance with European regulations,
- Technical risks in oil production and processing.

2.2. SWOT ANALYSIS OF THE GAS BUSINESS

STRENGTHS (S)

- Increasing the share of natural gas in total energy consumption,
- Increase in infrastructure capacity,
- Domestic production and service companies,
- Exploitation of gas fields in the Croatian part of the Adriatic.

WEAKNESSES (W)

- LACK OF UNDERGROUND GAS STORAGE CAPACITY,
- High production costs,
- Lack of exploration concessions,
- Reduction of production in Croatian gas fields.

OPPORTUNITIES (O)

- Positioning the LNG terminal on the Croatian island of Krk as a regional center for Eastern and Central Europe,
- New supply lines,
- New gas storages,
- Growth in consumption and expansion of gas business.

THREATS (T)

- Restrictions on environmental protection and the increase in environmental costs,
- Increase in the price of gas on the domestic market,
- Excessive political influence.

2.3. SWOT ANALYSIS OF ELECTRICITY PRODUCTION AND TRANSMISSION**STRENGTHS (S)**

- Well-developed transmission and distribution network,
- Over 60 percent of domestic electricity production,
- Excellent scientific research centers,
- Domestic companies for production and service.

WEAKNESSES (W)

- High cost of building hydroelectric power plants,
- Unwillingness to build own small nuclear power plants,
- Lack of development, weak investment cycle of the Croatian electricity industry.

OPPORTUNITIES (O)

- The existence of an energy community in Southeast Europe,
- Growth in consumption due to growth in the productivity of the Croatian economy.

THREATS (T)

- Excessive political influence,
- Limitations of environmental protection,
- Delay in harmonizing EU regulations.

2.4. SWOT analysis of Croatia's geographical and transport position in Central Europe in function of fitting into European energy infrastructures**STRENGTHS (S)**

- Excellent traffic and political position of the Republic of Croatia,

- EXISTENCE OF ENERGY AND TRAFFIC infrastructure (gas, roads, oil, electricity),
- Existence of interconnections for energy transmission.

WEAKNESSES (W)

- Insufficient capacities for oil and gas production,
- Import of energy for the needs of the Croatian economy (AROUND 40 PERCENT),
- Dislike of the public towards energy sources (extremist pressure from associations, communities and individuals who are financed from non-transparent sources from countries that are not members of the EU and NATO).

OPPORTUNITIES (O)

- POSSIBILITY of developing energy markets and building new interconnections,
- The development of trade and tourism based on the increase in the transport of goods and services,
- Strategic position in the Region after joining the EU, NATO, EUROZONE AND SHENGREN.

THREATS (T)

- Croatian-Hungarian Energy and political problems (transmission, storage capacities),
- Excessive political influence on the Croatian energy system,
- Slow alignment with EU regulations.

3. CROATIAN-HUNGARIAN ENERGY PROBLEMS AND STRATEGIC CONFLICTS

In terms of energy, political Budapest is the biggest rival of the Republic of Croatia since it controls the largest energy company in Croatia, INA. The entire process of INA's privatization was carried out in a shady manner, as evidenced by the fact that the Investigative Commission for the Privatization of INA was established, that former Prime Minister Sanader was arrested and tried for accepting bribes from MOL, and that the Republic of Croatia filed an arbitration claim against MOL (Hungarian Oil Company). It has been proven that MOL damaged the Croatian side by 6.2 billion dollars, which is why the position that the takeover of INA had a positive effect on the Croatian economy cannot be accepted. This data is a study by the American consulting company AT & KARNEY and Oil & Gas Consulting, which proved the effect of MOL's takeover of INA (Benceric D.2019).

Before buying a stake in INA, the Hungarian company did not have a single gas station in Southeast Europe, Hungary's total proven hydrocarbon reserves were less than Croatia's, and oil and gas production at the time was slightly higher than Croatia's (www.mol.hu). Today's ownership structure shows that the share of MOL is 49.08%, the share of the

Government of the Republic of Croatia is 44.84%, and the share of institutional and private investors is 6.08%. INA Group consists of several subsidiaries wholly or partially owned by INA, d.d. The headquarters of the Group is located in Zagreb, Croatia. The total number of employees in the INA Group as of December 31, 2021 was 9,655 (www.ina.hr, 2.3.2023.).

Today, MOL is the main geo-economic sword of the Hungarian state from the Baltic to the Adriatic. Hungarian oil and gas group MOL announced financial results for the fourth quarter and 2021. In a very unstable external environment, MOL achieved net CCS EBITDA of 947 million dollars in the fourth quarter. It thus reached a record amount of approximately 3.5 billion dollars on an annual basis, which is above the updated guidelines.

The Croatian government demands that the negotiating positions be returned to the state before the highly corrupt, anti-state and extremely anti-Croatian activities of former Prime Minister Ivo Sanader,

Budapest refuses this, bringing official Zagreb to a completely subordinate position in which Hungarian politics has a completely illegal influence on all energy processes in the Republic of Croatia.

In this sense, it is particularly interesting to note that the Croatian government was guided by the criterion of economy of scale, when merging INA and MOL, even the largest in Central and Eastern Europe, which will be able to survive and develop in the ever-increasing competition on the open market (Šarić 2020.). MOL Group is a leading integrated oil and gas corporation in Central and Eastern Europe, headquartered in Budapest, Hungary. It operates in more than 30 countries and employs 25,000 people worldwide. MOL's exploration and production activities are backed by 80 years of experience in the hydrocarbon field. In November 2022, MOL concluded the acquisition of 410 gas stations in Poland as part of a contract worth USD 610 million with PKN Orlen and Grupa Lotos (www.mol.hu 12.12.2022).

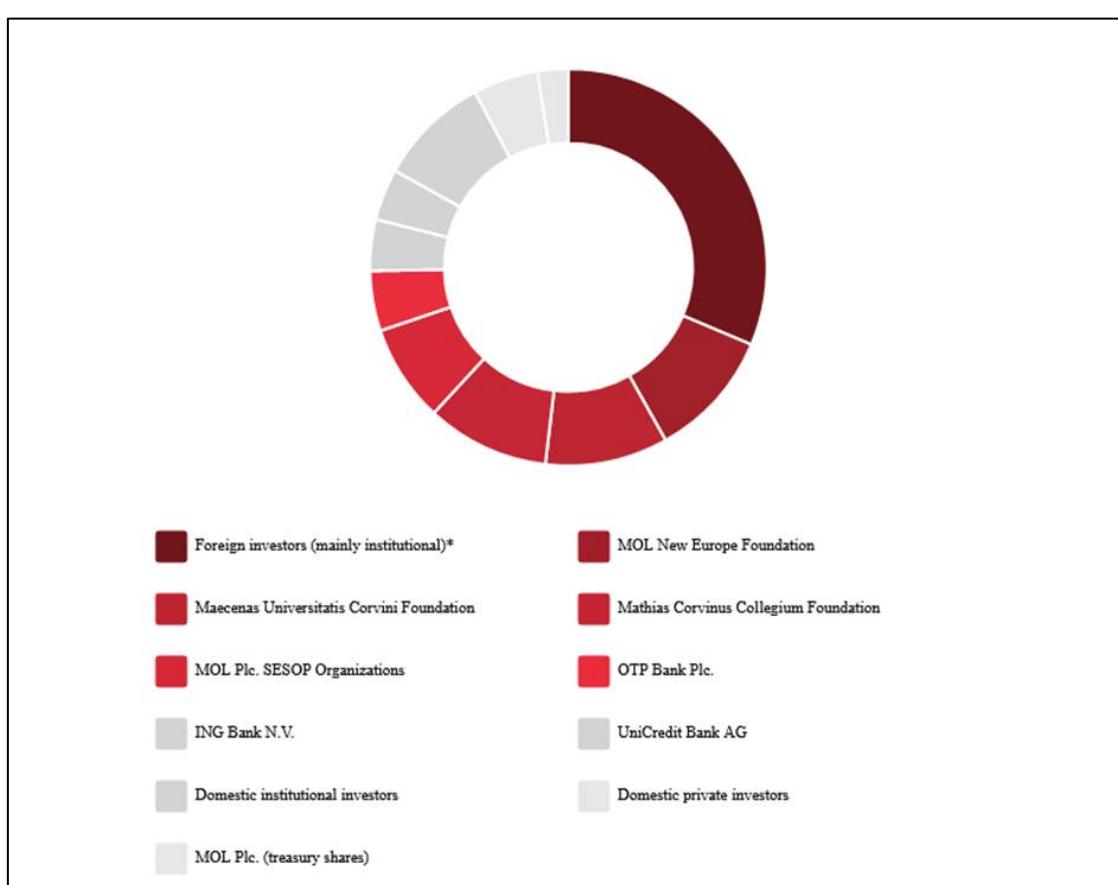


Figure 1: Overview of Foreign Investors
Source: MOL GROUP website, BUDAPEST. 11.3.2023.

In all business processes, MOL presented itself as a strategic investor, not a financial investor, and as such it does not think only about the return of the investment, but also about other synergistic effects, partnership, potential logistics and geographical overlapping of areas of interest (Šarić M.2018).

MOL spent 1.5 billion US dollars for its 49.08 percent of shares in INA, and in return received as a gift Croatian oil and gas reserves and a de facto monopoly on the Croatian oil derivatives market. MOL successfully managed to turn INA into a small sub-regional company, which has no capacity to protect

Croatian strategic economic interests. It is especially important to emphasize that INA not only did not return 193 gas stations in Serbia to its ownership, but also directly and willingly left the market of the former Yugoslav republics to its "strategic" partner and one of its owners, causing direct damage to all other co-owners (Šarić 2020).

Today, energy is a matter of national security and is very important like never before. The importance of the energy sector is unquestionable for the economic and economic development of every country, including Croatia. Energy costs affect not only the entire industrial sector, but also the cost of living of citizens, especially due to the impact of energy prices on transport costs and heating.

The fifth round of negotiations between the Government and MOL ended without results, and a new controversy broke out after the CROATIAN media published the transcript of that negotiation round, from which, among other things, it is evident that Croatia's negotiating position is clear: that the INA management model is the result of a corrupt act - based on the final court verdict on Sanader - and considers the new INA management model, proposed by the company's board of directors, unacceptable.

According to the transcripts, MOL is willing to negotiate changes to the inter-shareholder agreement, but not to recognize its nullity and wants to keep the position of strategic management in INA (www.poslovnidnevnik.hr. 24.12.2018).

The Croatian company JANAF d.o.o. (Adriatic oil pipeline) is important for energy stability and independence. JANAF has become an indispensable company in Southeast Europe when it comes to the security of the supply of oil and oil derivatives.

The European Union will need another half a million cubic meters of storage capacity and it is possible that it will be willing to invest in such an investment. The Czech Republic, Hungary and Slovakia can be supplied from Croatia. Janaf has an installed transport capacity of 24 million tons, 2.1 million tons of storage capacity for crude oil and 243,000 cubic meters for oil derivatives. All storage capacities were sold out by the end of the decade. The company has enabled partners to enter oil of different parameters, and the currently free 11 million tons of free transport capacity can be increased by up to 25% by injecting polymers that reduce friction, so we could speak of up to 15 million tons of annual transport capacity for MOL's needs. NIS, Slovnafta (www.janaf.hr. 15.3.2023).

Very challenging geopolitical and market conditions, a move away from Russian oil and, more recently, Russian diesel, have positioned the EU geopolitical map differently since the end of 2022 and

forced companies to work on diversifying supply routes and raw material procurement. Although the Hungarian state is not the majority owner, it has an indirect and very strong political influence on the MOL company. Hungary needs the Republic of Croatia more than ever because of energy, but it does not want to mediate in the MOL-Government relationship, due to its geo-economic interests.

MOL emphasized that the entire continent is paying a heavy price for the Russian-Ukrainian war, which is higher than before, and the situation with the supply of oil and derivatives is more tense than before and could remain so. That company expects greater price volatility, because after all, "the Ukrainian pot is not the only one that is currently boiling" (<https://www.energetika-net.com/> 13.3.2023).

The Hungarian company is planning its diversification of supply through Janaf (other routes practically do not exist) and in this sense the broader context of resolving the INA-MOL conflict should be considered. The strategic question of Croatian-Hungarian relations arises, namely:

1. Under what conditions can exploitation of supply lines be allowed?
2. Should JANAF use its strategic energy position to correct the Croatian-Hungarian strategic conflict?

Croatia's geostrategic position is the best in the last 150 years, Croatia's position in the EU and NATO is extremely strong and valued, but insufficiently used.

The maneuvering space of the Republic of Croatia in terms of issuing orders on increased gas production or prohibition of gas exports or correction of gas prices provides answers to the above-mentioned questions.

We can state that Croatia, perhaps for the first time in 30 years, through a combination of circumstances, reached an extremely favorable energy and geo-economic position from a strategic point of view, thanks to the fact that, even before the acquisition of Croatian state independence, it had greater capacities for energy transport, production and storage than were Croatian national needs.

In the conditions of brutal Russian aggression against Ukraine and energy shortages, Croatia thus found itself in a position to condition its cooperation with strategic allies, first of all with Hungary, on other grounds that include equal treatment of Croatian and Hungarian national and geo-economic interests.

Croatia's strategic position is strengthened by the Croatian LNG terminal at Omišalj, which has a capacity equal to Croatia's annual needs, with plans to double it. Croatia is definitely a strategic energy, geo-

economic, security and political point for the central and southern part of Europe and a partner that the EU, USA and NATO can rely on (<https://lrg.hr/terminal/3.3.2023.>).

4. CONCLUSION

Croatia's energy goals in the EU should be:

- Accelerated modernization of refineries,
- Encouraging and facilitating exploration of own oil and natural gas deposits,
- Participation in international projects such as the Omišalj LNG terminal,
- Rapid development of the transport and distribution network.

The valorization of one's own economic and geographical position in international energy and economic relations implies an analysis of the international environment, adaptation of one's own economic development to development trends in the EU, as well as a strategy of industry incentives that enables the maximization of financial and development effects for economic progress.

Croatia's geopolitical position by joining the EU, NATO, EUROZONE and SCHENGEN is better than ever before in Croatia's past. Croatia has the opportunity to strengthen its energy position and become an active factor in the European energy market, primarily through:

1. Doubling the capacity of the Croatian LNG terminal at Omišlja (construction of the ZLOBIN-BOSILJEVO gas pipeline), increasing the LNG capacity to 6.1 BILLION CUBIC METERS OF GAS PER YEAR.
2. Immediate termination of the contract between MOL and INA. (The contract on the management of INA does not comply with the Law on Companies. The Croatian members of the Management Board of INA were deprived of the authority to manage the company according to the Law on Companies. This called into question the legality of all decisions in the corporate management of INA, as well as the consequences that arose from such decisions. The sentence against the former criminal Croatian Prime Minister Ivo Sanader in Croatia is final, and it proves that a corrupt criminal offense was committed, the illegal transfer of management rights to a Hungarian partner. Based on these facts, the government can claim that the contract on the management of INA is null and void, and all decisions were not legal).

Strategy, structure and state management in the global economy is the Croatian national interest. Strategy by itself is not enough. States must have an organizational structure that can effectively implement the strategy. Mismatch between strategy and structure

or worse the absence of institutions is a prelude to a subordinate position and certain economic decline. Strategy and structure must always correspond to a specific context, both internal and external.

When comparing the Croatian and Hungarian strategy, structure and state management, key differences detrimental to Croatian interests can be seen, namely:

Croatian Strategy: The Republic of Croatia has an energy strategy, which has changed frequently, due to political instability and due to the very limited room for maneuver after the illegal takeover of INA by MOL. The position has significantly improved with the entry into the EU, NATO, SCHENGEN AND EURO-ZONE.

Hungarian Strategy: Hungary's energy and geo-economic strategy is very clear, and it is described in the words of Hungarian Prime Minister Viktor Orbán: "If anyone questions the integrity of MOL's employees, we will always respond. However, whoever makes an alliance with MOL is also making a strong strategic alliance with the Hungarian people" (Šarić 2018). Hungary's energy goal is to dominate central and southern Europe (takeover of Croatian and Slovak oil companies, gas business in Romania, takeover of Polish oil company, etc.)

Croatian Structure: The political structures in Croatia as well as the state institutions are relatively stable, but they depend on the current mood of the minority partners in the government, they are tactical in nature, strategic decisions are made only with the help of the EU and the US.

Hungarian Structure: The Hungarian national-political structure is clearly vertically integrated, all factors in society and the state are focused on national interests, above all on the Hungarian energy company MOL. OTP bank (fully financially supports MOL's projects, as well as investments in other lucrative national industries (agriculture, automobile and chemical industry) (www.otp.hu, 15.3.2023.). Viktor Orban has ruled the country for 13 years and is very inflexible towards all his neighbors, regardless to their interests.

Croatian Public Administration: Croatia has several good public institutions that do not have much influence on strategic decision-making, but it does not have adequate faculties, institutes and institutes that can educate the economic and political elite for top-level state management. Numerous crypto-communist public officials slow down scientific and state excellence.

Hungarian Public Administration: Hungary has several top colleges and universities, first of all Corvinus University from Budapest, which is the leading educational institution in Hungary in the fields of economics, business management and social sciences, but also has a dedication to the Hungarian state-building and geo-economic strategy.

Every state is responsible for implementing

energy policy, which is an implicit or explicit result of economic policies. The influence of the state, including the Republic of Croatia, depends on ownership, security, quality of infrastructure services, and the banking system. When strategy and structure match each other, when key resources are expanded and used efficiently, and match the domestic and international context, then the Republic of Croatia will become a very successful and respected country.

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