

Editorial Team: Beata Surmacz (Director of ICE), Tomasz Stępniewski (Deputy Director of ICE), Agnieszka Zajdel (Editorial Assistant), Aleksandra Kuczyńska-Zonik, Jakub Olchowski, Konrad Pawłowski, Agata Tatarenko

No. 829 (77/2023) | 12.04.2023

ISSN 2657-6996
© IES

Michał Paszkowski

Croatia plans to build a regional gas hub

Keywords: security, Croatia, natural gas, economy

Croatia is taking active steps to increase its participation in ensuring the energy security of Central European countries. A key tool will be the expansion of the LNG terminal on Krk Island, which is expected to eventually supply natural gas to many countries in the region from alternative sources to Russia. Expansion of the terminal and natural gas pipelines is extremely important, given the current political and economic conditions, as well as the interest already demonstrated in increasing the terminals import capacity from Austria, Bosnia and Herzegovina, Germany and Slovenia, among others.

LNG terminal in Croatia. There is only one LNG terminal on the eastern Adriatic coast – in Croatia, on the island of Krk, which allows the import of natural gas to Central European countries. The re-gasification capacity is 2.9 bcm per year, and is adequate to provide for both domestic demand (with consumption falling to 2.5 bcm per year in 2022), and limited exports to neighbouring countries. The establishment of the terminal together with its associated infrastructure, as well as the entire network of natural gas pipelines in the region, has made it possible to build adequate connections for the transport of natural gas on a north-south axis, rather than – as in the past – only from east (Russia) to west. The Russian-Ukrainian war has increased the importance of the terminal, as it can be used to implement the policy of diversifying the sources and directions of natural gas imports to Central European countries. The effect of the activation of the countries of the region is an increase in the level of utilization of the terminal's capacity, which averaged 93% in 2022 compared to 88% in 2021. In the changed geopolitical environment, Croatia has taken steps to expand its import capacity to 6.1 bcm per year. This project should be completed by the end of 2025. The cost of the expansion is estimated at EUR 30-35 million. The goal will be to divert as much natural gas as possible to customers on the continent, with two key aspects. First, the expansion of the pipeline network in order to enable the transportation of natural gas. An important element will be the expansion of natural gas connections in the region, including those linking Croatia with Bosnia and Herzegovina, Slovenia and Hungary. A necessary element will be obtaining finance, including at the EU level, for such projects. Secondly, adequate interest from potential customers in additional re-gasification capacity. In recent months, the issue of expanding the LNG terminal in Croatia has been the subject of discussions at an international level, which led to the signing of a strategic partnership between Croatia, Austria and the Bavarian region of Germany in late November 2022.

Regional gas hub. The construction of a regional natural gas transportation and trading centre (hub) in Croatia will be a long-term process, as it will require the development of infrastructure to make the natural gas system more flexible. At the same time, one important aspect is the construction of as many entrances to the natural gas network as possible (at the moment, Croatia has natural gas connections – and with limited transmission capacity – only with Slovenia and Hungary) to increase the appeal of such a centre. A key factor in these conditions will be raising the funds needed to develop the infrastructure, as well as the LNG terminal itself on Krk Island. According to the declaration of Plinacro (the operator of the natural gas pipeline network in Croatia), the construction of the Zlobin-Bosiljevo pipeline is necessary in this regard, and with a capacity of more than 5 bcm per year, as the terminal will eventually have a re-gasification capacity of 6.1 bcm per year.

In addition to the expansion of Croatia's internal natural gas pipeline network, it is also necessary to connect to the TAP (Trans Adriatic Pipeline), which delivers natural gas to Europe from Azerbaijan. In this context, Croatia is considering intensifying work on the construction of the IAP (Ionian Adriatic Pipeline), the route of which would run from Albania through Bosnia and Herzegovina to Croatia. The pipeline would be reversible, allowing

natural gas to be sent not only from Azerbaijan or LNG terminals in Greece and Turkey to the north, but also from Croatia to southern Europe. An agreement has recently been reached between Croatia and Bosnia and Herzegovina for the construction of an interconnector as part of the IAP gas pipeline, which is expected to become operational in 2024.

A certain element of building a natural gas hub in Croatia would be the construction of a new natural gas pipeline connecting Croatia with Slovenia, which is undertaking diversification efforts on its own. In November 2022, an agreement was reached between companies from Slovenia (Geoplin – an electricity trading company) and Algeria (Sonatrach – the state-owned energy company). The new contract covers the natural gas supply from Algeria at the level of 300 million cubic meters per year to Slovenia via Italy, and is to last for a period of 3 years (the contract is to provide 35% of the country's natural gas needs). Meanwhile, in December 2022, Robert Golob, Prime Minister of Slovenia, indicated that there is a possibility of building a new natural gas pipeline to enable the supply of this commodity to Hungary, a construction project which would take two to three years). In such circumstances, deliveries to Hungary could also be made from Slovenia. However, there is a possibility that the European Commission, as part of the expansion of interconnectors in the region, will decide to finance only certain projects, and taking into account the operation of the LNG terminal on Krk Island, Croatian projects rather than Slovenian ones may be a priority in this respect.

Conclusions

- The LNG terminal on Krk Island will play an increasingly important role in ensuring the energy security of Central European countries, and therefore the issue of expanding its import capacity remains crucial. The intensification of project activities will depend on the level of both political and financial support (mainly from European Union funds). Under these conditions, Croatia's position on the energy map of Europe could strengthen significantly. Nevertheless, the timing of the commissioning of the expanded terminal and associated infrastructure remains a problematic issue, as Slovenia is also trying to play an increasingly important role in this part of Europe.
- An essential element of creating a regional natural gas hub in Croatia will not only be the expansion of the LNG terminal, but also the creation of new natural gas pipelines within the country and interconnectors in the region, because the commodity must come from different directions and from as many suppliers as possible. In this regard, the most critical element in the creation of the hub is the establishment of the IAP pipeline, which would allow the import of natural gas not only from Azerbaijan, but also from LNG terminals in Greece and Turkey. This would, in a way, connect the LNG terminals operating on the Baltic Sea (Poland, Lithuania), the Adriatic Sea (Croatia), the Aegean Sea (Greece, Turkey) and the Sea of Marmara (Turkey) with all the LNG terminals in the region, which would increase the flexibility of the entire energy system in Central and Southern Europe.
- The LNG terminal in Croatia in the coming years could play an important role in ensuring the energy security of Austria and Germany. In this connection, it will be important to cooperate with Slovenia, which is already taking diversification measures and may also take an important place in the security of supply architecture in the years to come (vide the agreement with Sonatrach). Therefore, it will be important for both countries to coordinate their efforts to enable natural gas supplies not only to Hungary, but also to Austria and Germany (vide the November 2022 agreement).
- The expansion of the LNG terminal in Croatia may provide a significant impetus for a change in Hungary's energy policy, which has been making only limited efforts to diversify the sources and directions of natural gas imports ("IEŚ Commentaries, No. 787). While Hungarian companies are currently not active in the direction of expanding the connection with Croatia, under pressure from the European Commission – which is trying to support countries in the region in moving away from Russian natural gas – the situation may change.