

Reverse-flow capability for Hungarian-Croatian gas pipeline interconnector – breaking the deadlock

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On 20th June representatives of the Croatian and Hungarian governments signed a letter of intent regarding the establishment of a permanent interconnector gas pipeline with reverse-flow capability between the two countries. At present the interconnector, with an annual capacity of 7 billion m³, enables gas supplies in only one direction (from Hungary to Croatia). According to the agreed memorandum of understanding, by March 2019 the missing infrastructure in Croatia (including a compressor station) will be built. Eventually, the capacity of the interconnector will be increased after new sources of gas supplies have been made available – the LNG terminal on the island of Krk and the Ionian-Adriatic Pipeline (IAP). The Hungarian-Croatian interconnector is an element of the North-South Gas Corridor which links the existing LNG terminal in Świnoujście and the planned terminal on the Croatian island of Krk.

Commentary

- The signing of the letter of intent has led to a breakthrough in a longstanding impasse regarding the Hungarian-Croatian interconnector. Reverse-flow capability in the interconnector is particularly important for Hungary, which is interested in gas supplies from Croatia and will in the future also be interested in the gas from the LNG terminal. However, Zagreb has previously delayed investments in infrastructure in the country, also because of fears that gas prices on its domestic market will increase (domestic production shifting to produce for exports). For Budapest the prospect of launching reverse-flow capability on the Hungarian-Croatian interconnector (also on the Hungarian-Romanian interconnector) presents a genuine opportunity to diversify its sources of gas supplies. The Hungarian government has described the lack of reverse-flow capability in inter-connectors shared with Romania and Croatia, built respectively in 2010 and 2011, as a 'southern energy blockade' of the country that has 'doomed' Hungary to close gas co-operation with Russia. Optimism that reverse-flow capability may be launched on the interconnector shared with Romania has grown due to Romania's plans to export gas from the Black Sea and to promote the Bulgaria-Romania-Hungary-Austria (BRUA) project by the countries in the region. The project might also enable Azerbaijani gas to be supplied to Central Europe. Securing alternative sources of gas supplies is crucial for Hungary in the context of the negotiations of a new contract regarding the gas supplies contract with Gazprom after 2021. On the other hand, Hungary still pledges its support

for the construction of a route for gas supplies from Russia through the Black Sea (via the Turkish Stream pipeline) which would provide an alternative to the transit through Ukraine.

- The implementation of the letter of intention will depend on Croatia's sustained political support for the project. It was the European Commission and its pressure which played the key role in committing Croatia to making the necessary investments, alongside the work of the High Level Group on Central and South Eastern Europe Gas Connectivity (CESEC). The improvement in relations between Hungary and Croatia, following the ascent to power of a centre right government in Croatia in 2016, has also contributed to the signing of the agreements. When the left-wing government was in power, the dispute about how the Croatian strategic energy company INA should be managed by Hungarian MOL escalated (MOL holds 49.08% of the shares in INA and management rights) and the reverse-flow capability was a 'bargaining chip' for Zagreb in its relations with Budapest. The shift in Croatia's position is also due to progress in preparations for the construction of the LNG terminal on the island of Krk (in February this year the EU decided to provide 102 million euros in funding for the project). When the construction is completed, Croatia may expect revenue from re-exporting gas.