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# Rising tensions between Croatia and Hungary against the backdrop of energy dispute

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Recently, the Croatian government has taken a series of measures against Hungarian companies operating in Croatia or planning to enter the Croatian market. According to the information from the Croatian *Nacional* daily, the government of Andrej Plenković intends to prevent Russia's Sberbank from selling off 43% of the shares in Croatia's largest food company, Fortenova, to the Hungarian investment fund Indotek (in April a letter of intent was signed regarding this transaction).

On 7 September there were management reshuffles in INA, Croatia's largest company in which the conflict between the Croatian ministry of the state treasury (which holds 44.8% shares) and Hungary's MOL (49.1% shares and managerial control) had been escalating for several months. The president of INA's management board, Sándor Fasimon (a Hungarian citizen) resigned over a corruption scandal in the company (though he was not personally suspected of it). The Croatian Office for the Suppression of Corruption and Organised Crime (USKOK) accused five people of illegal speculation in gas trade, which supposedly cost INA approximately 140 million euros in losses. Damir Škugor - Director of Gas and Power at INA, Josip Šurjak – the president of the Croatian Chamber of Lawyers, and Marija Ratkić – President of Plinara Istočne Slavonije were arrested. Plinara Istočne Slavonije is recognised as one of the main sponsors of Croatia's ruling HDZ party.

On 14 September, the Croatian minister of the economy, Davor Filipović, decided that INA should increase gas production by 10% as he gauged that MOL was unable to block this decision. He also claimed that all production from the country's resources (0.7 bcm per year) should be distributed by the state-owned company HEP to recipients within Croatia.

**Commentary**

• These recent events are part of a decade-long dispute between Croatia and Hungary, mainly over INA's status and direction of development. The Croatian government has accused MOL of neglecting investment-related commitments with regard to this strategically important company. MOL responded to these accusations by pointing to the lack of promised liberalisation of the gas market in Croatia. According to consecutive verdicts from Croatian courts, MOL took over managerial control of INA in 2009 following corruption practices. Croatia's former prime minister, Ivon Sanader, was convicted of accepting a bribe from MOL, and a long-time president of MOL Zsolt Hernádi is wanted on an international arrest warrant (Hungary has not agreed to release him to the Croatian police). On the other hand, MOL and the Hungarian government have been contesting the

verdicts of Croatian courts and winning further cases in arbitration. In July the International Centre for Settlement of Investment Disputes in Washington ruled that Croatia should pay damages worth US$ 236 million (including US$ 52 million in interest) to MOL, stating that Croatia did not prove that corruption practices were involved during the purchase of shares in INA.

• In his charge that the current scandal is further proof of MOL's bad management of INA , Prime Minister Plenković seems to be attempting to divert public attention from the fact that several people close to HDZ are implicated in it. The Croatian management of INA and people involved in the scandal are closely linked to the ruling party in Croatia or are even members of it. In the face of an unprecedented spike in gas and energy prices, the embezzlement scandal at INA presents an important risk for the stability of a government which the opposition has accused of poorly managing the company. The second Plenković government (in office since July 2020) is a minority government and is forced each time to try to secure the support of smaller-sized parties and single members of parliament.

• The corruption scandal at INA, one of the largest scandals of this kind in contemporary Croatia, is a pretext for the HDZ government to adopt a tougher position towards Hungary. The Croatian government has realised that politically it has a stronger hand than Hungary and will try to secure more advantageous terms and conditions of cooperation between INA and MOL. For Hungary, Croatia is the main partner for sourcing resources (through the gas and oil terminals on the island of Krk) alternative to those from Russia. The Hungarian government is seeking to maintain the best possible relations with Russia and Russian oil and gas are still being supplied to Hungary. However, due to increasing related risks, Croatian high-capacity gas and oil pipes are of key importance to diversifying sources of energy imports to Hungary.

• The Hungarian government has been cautious in responding to Croatia toughening the course with regard to Hungarian companies and has not been commenting on it publicly. This likely stems from Hungary wishing to avoid making a further enemy given the difficult position in its foreign relations, caused by the country's isolation in the region; this in turn is due to Hungary's stance on Russia's invasion of Ukraine. Apart from maintaining Croatia's critical importance in diversifying energy sources, the Hungarian government is also interested in MOL holding its shares and managerial control of INA since the company owns two refineries and large oil and gas fields in Croatia and the Adriatic Sea. Furthermore, Hungary is hoping to acquire further shares in Croatian companies, even though the latest measures undertaken by the Croatian government seem to challenge these plans.

• The possibility of blocking the expansion of the Hungarian investment fund into the Croatian food market is a direct blow to the business base of the government of Viktor Orbán. Indotek is owned by Dániel Jellinek (in 2021 the sixth wealthiest Hungarian) who operates mainly in the area of real estate and whose career has rapidly developed under the rule of Fidesz (Indotek also has real estate investments in Poland)). Jellinek has been involved in a host of joint projects with István Tiborcz, Orbán's son-in-law. In 2020 Indotek was granted a loan for one of the company's largest investments (the construction of a five-star hotel by Lake Balaton) by the Russian International Investment Bank, with an office in Budapest.

• The measures taken by the Croatian government indicate that the regional expansion of Hungarian companies, in majority state-owned companies or those with links to the ruling party, is being met with increasing opposition from the government and public opinion in the neighbouring countries. Recently, similar concerns regarding the purchase of local companies have been shared by Slovakia (the attempt to buy shares in Stredoslovenská energetika by the Hungarian state-owned MVM failed) and Slovenia (an attempt to purchase shares in the port of Koper and in tourism). The countries in the region are afraid of a possible increase in the political influence of Hungary and, indirectly, of Russia. Hungary's close relations with Russia are visible not only in the energy industry but also in transactions of companies from other sectors – one of the examples being an attempt made by the Hungarian investment fund to acquire the Sberbank shares held by Croatia's Fortenova.