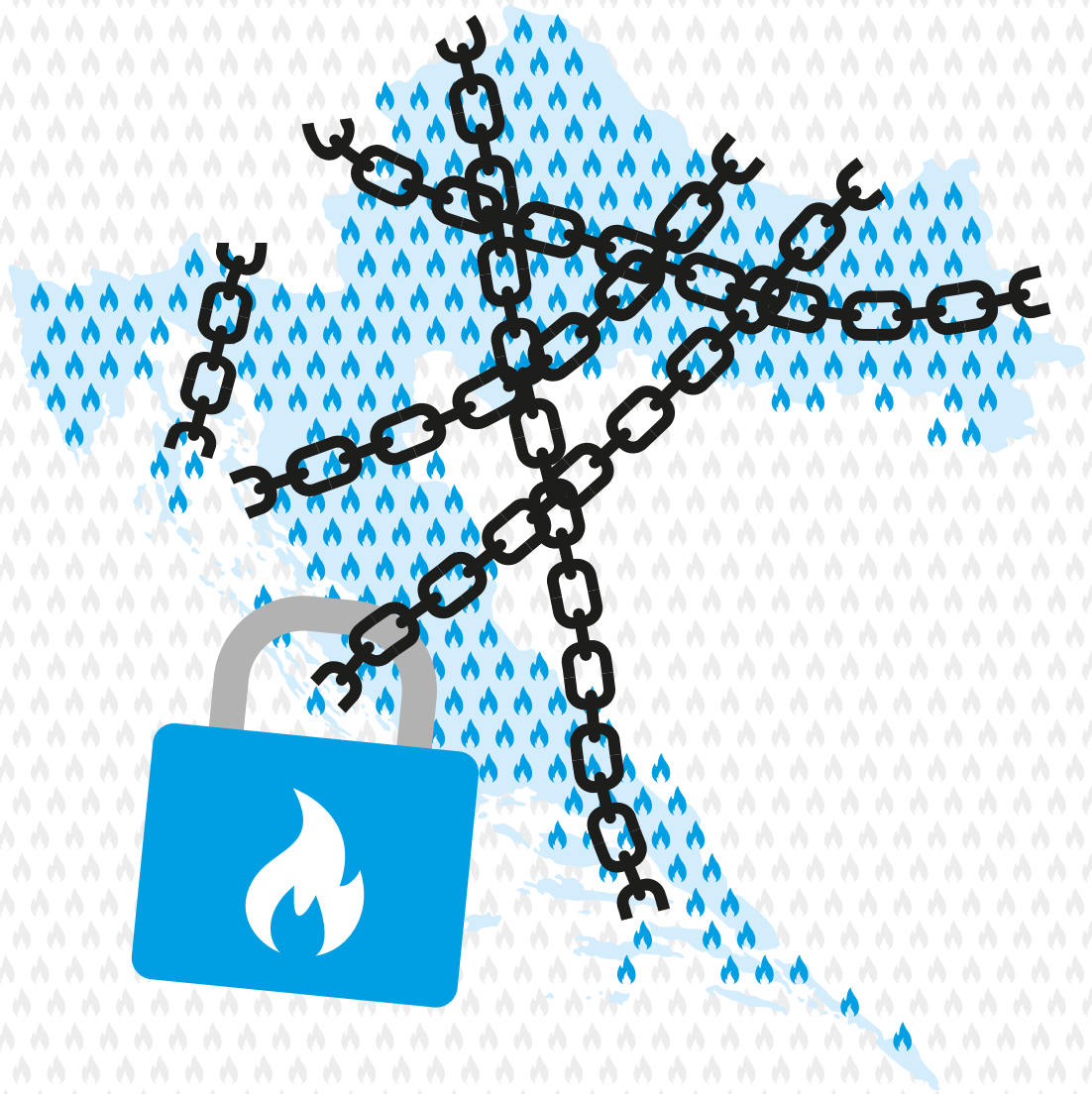
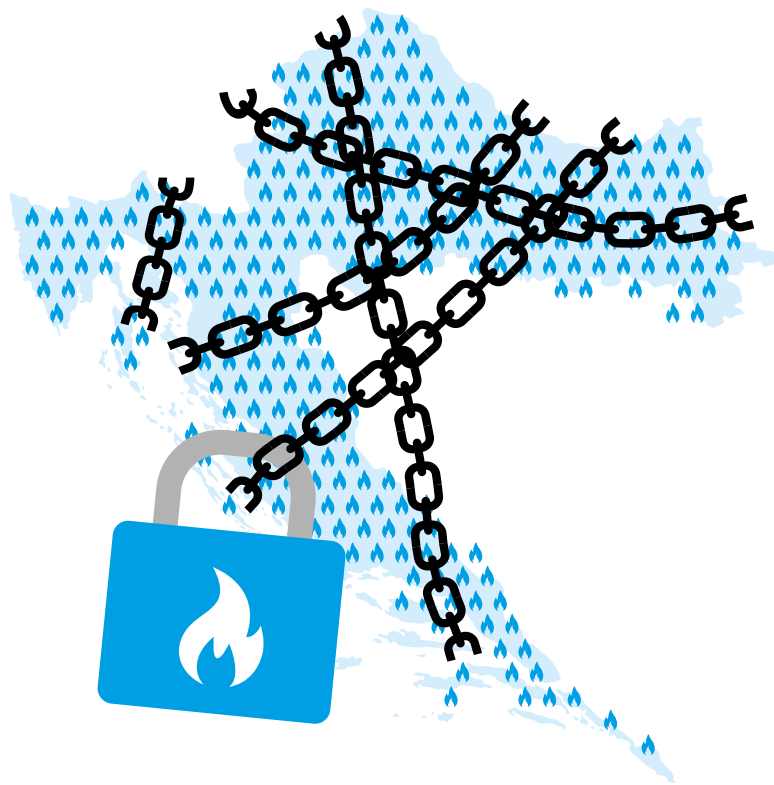


Capture BY GAS

**Research report on studies of public
policy quality and the state of capture
in the energy sector**





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in the energy sector**

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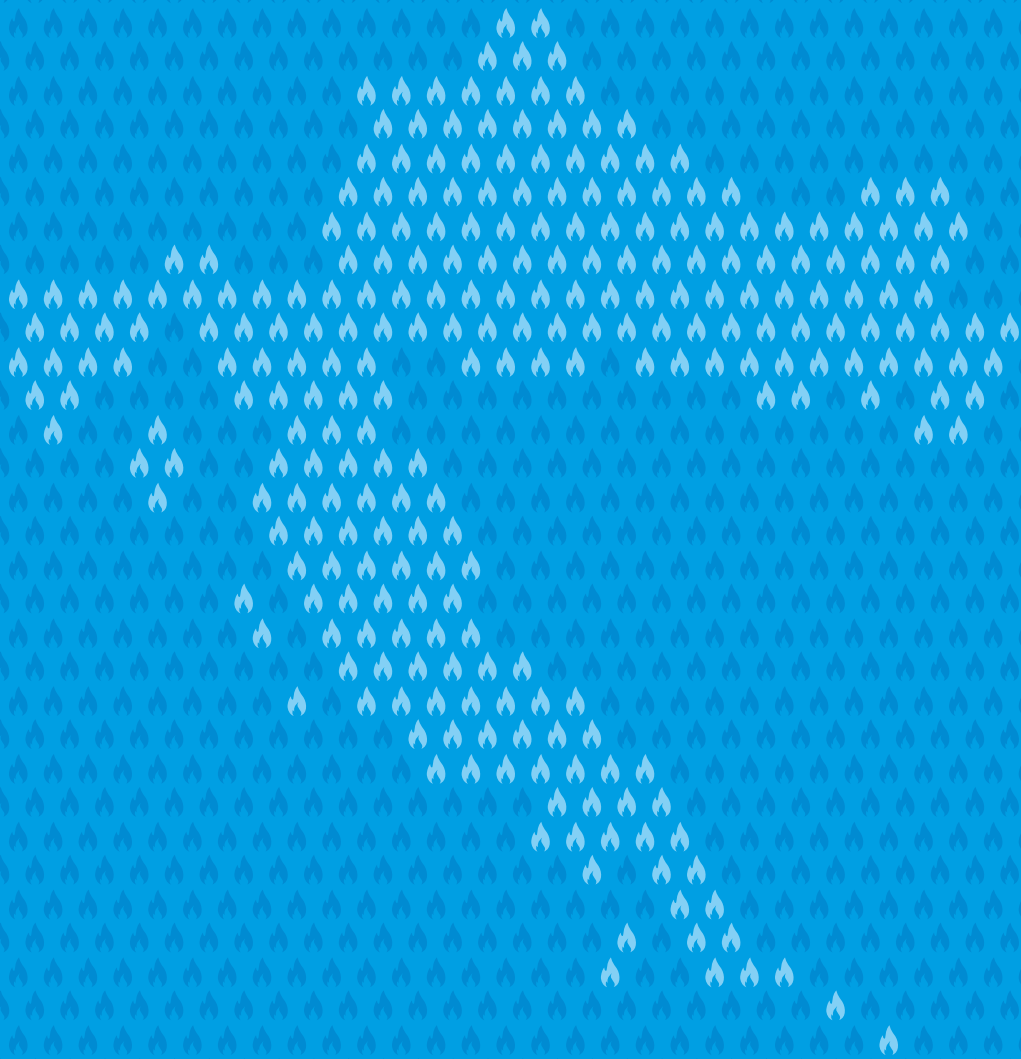
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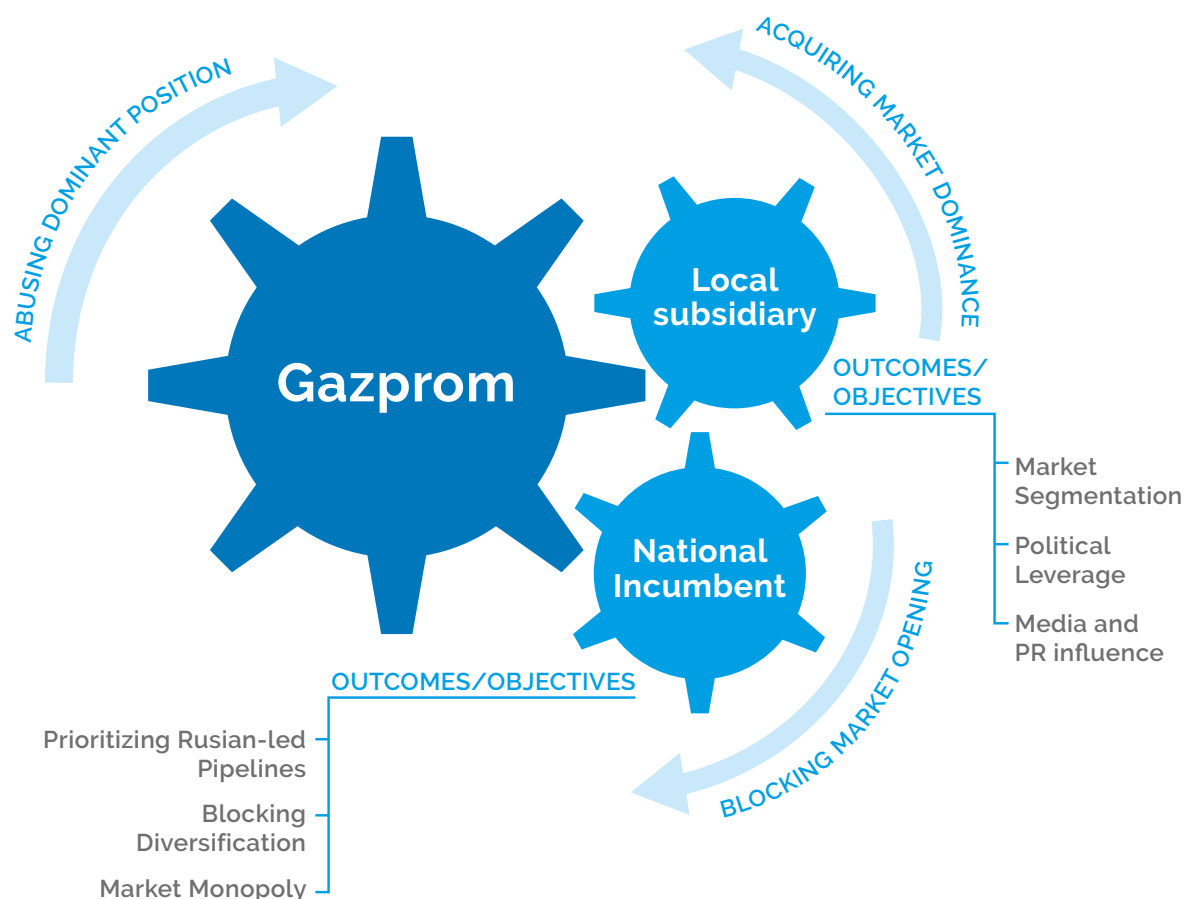


INTRODUCTION



It is an incontrovertible fact that energy is the most important industry in which states recognise their strategic interests. "Energy is to the economy what food is to people", as stressed by a number of respondents interviewed for this research. However, in Croatia, the energy sector is also the scene of dozens of mostly unresolved corruption affairs, behind which networks of special interests loom. The Croatian political system is vulnerable to special and corrupt interests in the best of times, but in the energy sector, this problem is especially pronounced due to the sector's financial intensity: the value of energy projects is frequently expressed in hundreds millions of Euros. Therefore, we designed and conducted a study aiming to establish the quality of governance in the Croatian energy policy, and the level to which it is dominated by hidden, special interests (so-called policy capture). In addition, we wanted to know to what extent the state of energy policy in the Republic of Croatia is a reflection of the external policy goals of the Russian Federation, which is why we put special emphasis on gas sector policy. To wit, natural gas enjoys a status as an important transition fuel in the switch to a post-fossil age, and the main gas supplier for the entire continent of Europe – Croatia included – is the Russian Gazprom, often referred to as Vladimir Putin's powerful geopolitical weapon. The research was conducted by combining the methods of investigative journalism and public policy analysis: in the final quarter of 2018., anonymous in-depth semi-structured interviews with 20 relevant interviewees (experts in the field of energy, members of the academic community and politicians who performed senior roles in the executive government), an analysis of key documents and decisions shaping energy policy was carried out, public media archives were searched, as was publicly available information on the business activities and managing structures of energy firms. This mode of conducting the research enabled us to combine genres, as it were: the research was carried out within a pre-defined methodological framework, but the findings are presented using an investigative journalism-style narrative.

We embarked on this study because of the essential character of energy sector services to the development of states and their economies; the clearly present widespread corruption; and the fact that it is an industry that is highly susceptible to political influence. In addition, we were inspired by the 2016 study, "The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe", which denounced the key instrument of Russian capture: systematic weakening of a local actor in the gas market, so that Gazprom's intermediary firms might achieve a dominant position. Although the study didn't cover Croatia, the authors have identified it as an "especially vivid example", as it appears that, "Russian-influenced networks ... reach the pinnacle of government decision making." We felt it necessary to try to verify the quoted assertion, as "The Kremlin Playbook" study states that an increased presence of Russian capital in local economies in Eastern and Central Europe – which Russia considers its sphere of interest – correlates with sliding towards kleptocratic illiberal democracy. We were especially interested in the effects of the liberalisation of the EU gas market, which in the east of Europe have resulted in the Russian Gazprom attaining a monopoly, as, although liberalisation opened Eastern European markets to various brokers, all the gas being traded comes from the same source.



Source: *The Kremlin Playbook*

There are several reasons why overdependence on Russian gas is considered undesirable. Depending on a single supplier makes gas supply security an instrument of political pressure, which became clear following the Ukrainian gas crisis in 2009.¹ Likewise, the Russian domination of the gas market is conducive to corruption, which accelerates the degradation of the rule of law and calls into question the independence and autonomy of the supervisory institutions. Finally, Europe's dependence on Russian gas slows down the transition towards a low-carbon economy; Eastern European states still largely rely on coal-powered thermal power plants to produce electricity precisely out of fear that if they were to completely switch to gas, they would become even more exposed to Russian blackmail.² The key Russian foreign-policy

goal is to politically draw close Russia and the European continent, something unfortunately not achieved by increasing the level of democracy, transparency and human rights in Russia, but with attempts to politically capture East European countries in order to push them towards the authoritarian model of governance that exists in Putin's Russia. Instead of building a partnership with the EU, Russian actions are directed towards dissolving the unity within the Union. Kleptocratic liberal elites that have carried out this retrograde transition have advocated weakening the influence of EU institutions, enabling Russia to avoid having bilateral relations with the EU, and setting up relations with individual member states. Such an approach has been particularly successful in Russia's conduct towards Hungary, whose prime minister Viktor Orbán is considered Putin's prime ally in the EU and the loudest proponent of the concept of so-called Christian

¹ Russia-Ukraine gas disputes, Wikipedia; https://en.wikipedia.org/wiki/Russia%E2%80%93Ukraine_gas_disputes

² Mapped: The world's coal power plants, Carbon

Brief; <https://www.carbonbrief.org/mapped-worlds-coal-power-plants>

illiberal democracy. During Croatian PM Tihomir Orešković's, and especially PM Andrej Plenković's terms of office, a renewed political closeness between Croatia and Hungary is visible following years of compromised relations. Croatian ruling party HDZ (Croatian Democratic Union) MEPs took the side of the politically isolated Hungary (and Poland) in votes on human rights and rule of law issues, while opposing the formal position of their own political grouping, the European People's Party (EPP).³ Orbán's government has stopped blocking Croatia's accession to the Organisation for Economic Cooperation and Development (OECD). The new Law on privatising INA opens the possibility for the Hungarian MOL to finally officially acquire majority ownership of the Croatian national oil company. Prime Minister Plenković welcomed Orbán in Zagreb for the first time in seven years, and the two Prime Ministers also informally socialised during Orbán's summer holiday in Croatia. All this might not have been concerning had phenomena intrinsic to illiberal democratic systems not been on the rise in Croatia at the time: political intransparency and propensity towards corruption, questionable independence of the media and judiciary, poor performance of supervisory and control institutions, repeated attempts to limit the achieved level of human rights and freedoms.⁴

The results of our study indicate a total absence of strategic governance and deliberation in the energy sector. Croatia had adopted two energy strategies, in 2002. and in 2009., but these were documents of questionable quality, which hadn't been implemented anyway. The level of disregard for the energy sector can be seen in the fact that the strategies haven't been accompanied by operational documents, which would be a key prerequisite for a meaningful evaluation and managing the implementation of the policy itself. Key decisions in the energy sector are adopted outside, and sometimes even despite, the existing strategies, and are susceptible to opaque lobbying influences. The Croatian energy sector can metaphorically be

described as a vacuum, completely exposed to special interests and their advocacy of often harmful energy projects. Anyone can attempt to fill this vacuum with their own project, and the Republic of Croatia won't be able to unambiguously state whether such projects are in its own national interest, because it hasn't even defined them. Ever since gaining independence, the Republic of Croatia has only managed to construct a single energy facility, the small hydroelectric plant Lešće, but even this was conceptually designed when it was still a part of Yugoslavia. The energy sector in Croatia didn't develop, because building energy facilities is an expensive and lengthy endeavour that requires long-term strategic planning.

Moreover, it has been established that the Republic of Croatia already satisfies the bulk of its needs for gas by importing it. It is likely that Croatia's dependence on Russian gas will increase still further: INA's production of gas from Northern Adriatic fields has been declining, and there have been no new finds or explorations; an LNG terminal, as an alternative supply route for gas from Qatar, or the USA, hasn't been built yet, while Croatia's gas storage capacity "for a rainy day" or for market manoeuvres are fairly modest. The results of the research also show that after its management was relinquished to MOL in 2009, INA has lost its dominant position in the gas market, as well as a great deal of its capacities for exploration and exploitation of gas deposits. Weakening the market position of the national oil and gas company, most frequently through corrupt methods, in order to make space for Gazprom's intermediary in the gas market is an important instrument of capture, according to the "The Kremlin Playbook". This study has confirmed that such a process has taken place in Croatia as well. INA's dominant role in the Croatian gas market was assumed by the First Gas Society (PPD),⁵ an intermediary company for importing Gazprom's gas. PPD's influence on the Croatian political space is beyond question. This firm gave a million Euro loan to Tomislav Karamarko's HDZ party whose political activities overflowed with illiberal tendencies: promoting

³ Vote Watch Europe; <https://www.votewatch.eu/>

⁴ The Economist Intelligence Unit, Democracy Index 2018; <https://www.eiu.com/topic/democracy-index>

⁵ "Prvo plinarsko društvo, translator's note.

historical revisionism, advocating criminalising verbal injury, threatening to remove the rights of national and sexual minorities as well as women's reproductive rights, censoring independent journalists' and satirists' voices, dismantling models of independent financing for civil society and film production, labelling critics as national traitors, and contributing to rising hate speech, incendiary speech and political incorrectness. The owner of PPD, Pavao Vujnovac, would also have been able to influence political decisions through his personal relationship with Ivan Vrdoljak, president of the HNS (Croatian Peoples Party) and Minister of the Economy in the Kukuriku coalition government,^{6**} during whose mandate the huge commercial rise of the PPD occurred. However, it is also necessary to stress that the model of capturing the gas market would be impossible to apply without the European policy of gas market liberalisation. It is obvious that in adopting energy liberalisation packages, the European Union did not take enough consideration of the specificities of Eastern and Central European gas markets, which has led to Russian economic and political domination over these regions.

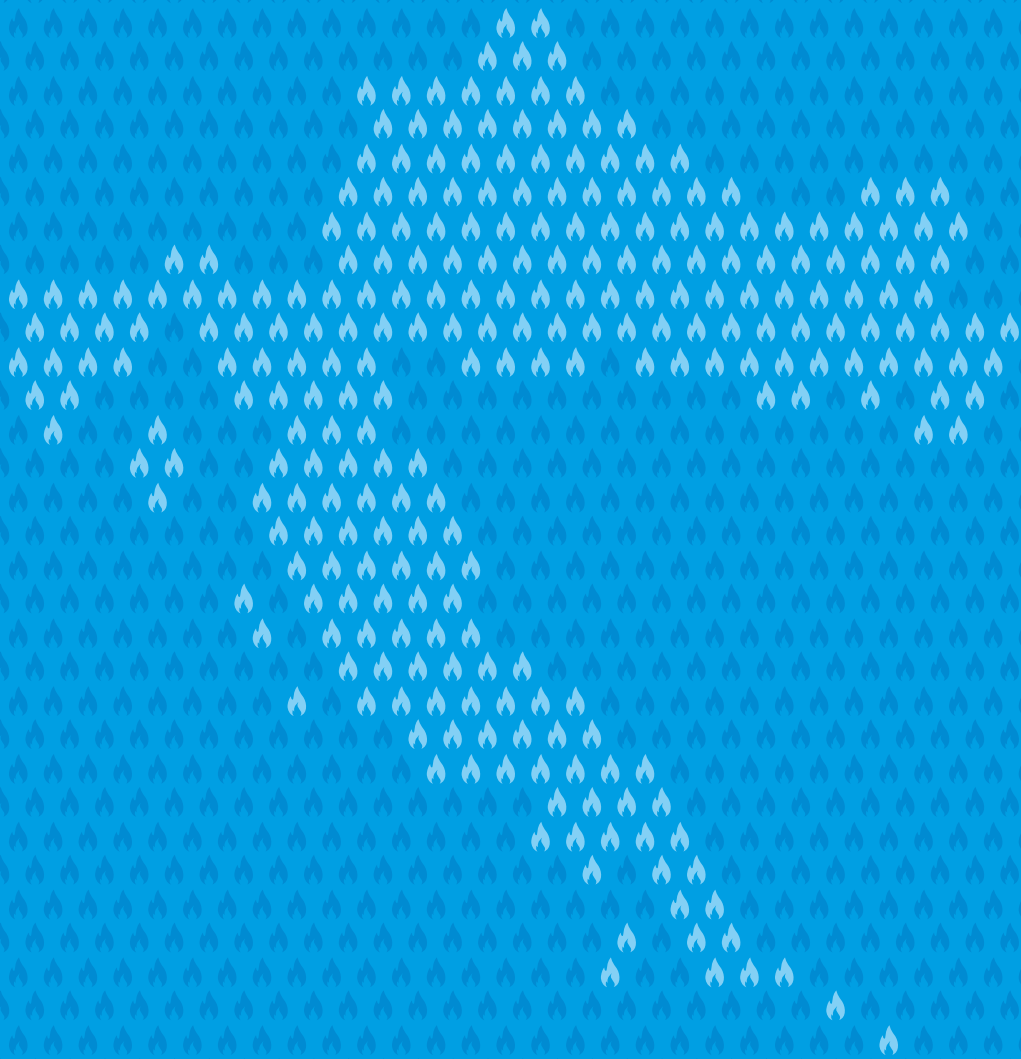
The ultimate objective of such Russian activity is state capture, and it is for this reason that in the coming period, the Republic of Croatia ought to reduce its dependence on natural gas as the primary source of energy for heating and electricity production. The harmfulness of further expansion of the gas distribution network in Croatia may be argued for both political, as well as economic and environmental reasons. Reducing gas dependency from the political angle means the reduction of susceptibility to harmful Russian influence. But considering the recent alarming climate indicators, it is even more important to highlight that natural gas is not an environmentally acceptable energy source. Gas has an important role in the transition towards a low-carbon economy, as it can serve as a replacement for dirtier fossil fuels such as coal, but it nevertheless

contributes to the level of greenhouse gas emissions. And since investing in gas-powered energy plants is less cost-effective than investing in renewable energy sources, the economic logic of responsible management of public funds likewise dictates a stronger turn towards renewable energy sources. As Croatia has to a great extent been deindustrialised through criminal privatisation⁷ during the 1990s, its needs for hydrocarbons are already fairly low. At the same time, Croatia has at its disposal large amounts of unused potential renewable energy sources, primarily solar and wind energy and hydro-power potentials. A sensible energy policy should thus primarily focus on installing micro-solar power systems, which, thanks to technological advances, has become not only the cleanest, but also the cheapest way of producing electrical energy. Moreover, Croatia might satisfy at least part of its needs for gas with renewable biogas obtained from composting organic waste. Investment in renewable energy sources would stimulate the growth of the Croatian economy, development of local communities and the reduction of energy and overall poverty among Croatian citizens. Unfortunately, all the data collected suggest that managing the energy sector in line with the Croatian interests will not come about before the way of doing politics in Croatia is fundamentally transformed. Building a political system, state administration and public sector inhabited by principles of responsibility, transparency, integrity and accountability for one's own work are the precondition for good governance in the energy sector, which demands a high level of expertise, long-term thinking and coordination with other public policies (such as, for instance, the waste management policy, agricultural or transport policy). These are therefore also the preconditions necessary for energy policy to fulfil its fundamental function, which in Croatia has existed on a merely declaratory level – to allow the energy industry to truly become a basic developmental lever for the society and the state.

6 **Centre-left political coalition consisting of the Social Democratic Party, the Croatian People's Party, the Croatian Pensioners' Party and the Istrian Democratic Assembly, that held office from 2011. until 2015, t/n.

7 The Audit of Transition and Privatisation (Revizija pretvorbe i privatizacije), The State Audit Office (Državni ured za reviziju); <http://www.revizija.hr/hr/izvjesca/revizije-pretvorbe-i-privatizacije>

METHODOLOGY



THE MOTIVE FOR THE STUDY

Interest in the phenomenon of state capture, or the capture of specific policy areas in Croatia, has been present in Gong since 2015. The first study carried out into questions of local state capture – *Croatia's Captured Places*⁸ – gave us an opportunity to define the terms of state capture and develop a methodological approach to researching this phenomenon, which was partly applied in this case as well.

Aiming to deepen insights into the phenomenon of public governance and contribute to increasing its quality, we set out to study the phenomenon of capturing certain public policies. Energy policy, with an emphasis on the gas industry policy, was chosen because it is a highly regulated policy, within which since 2009 up until today, decisions have been made under the direction of five different Governments. The market liberalisation process resulted in an oligopoly within which the dominant market position was taken over from public actors (primarily INA d.d.⁹) by private actors¹⁰ (primarily the PPD d.o.o.¹¹) under direct Russian influence, which is significant from the perspective of the geopolitical relations between so-called "great powers" and the related infrastructure projects in the sphere of further development of the energy sector in Croatia.

8 Hoffmann et al., "Croatia's Captured Places: Research Report on Case Studies of the Quality of Local Governance in Croatia," Zagreb: Gong, 2017; https://www.gong.hr/media/uploads/croatia's_captured_places.pdf

9 "Dioničarsko društvo – Croatian equivalent to a joint stock society, t/n.

10 Bajo, A., M. Primorac and D. Jurinec (2016). "Tržište plina u Republici Hrvatskoj – liberalizacija i financijsko poslovanje" [Gas market in the Republic of Croatia – liberalisation and financial operations]. In *Fiscus: razborito i odgovorno upravljanje financijama javnog sektora*. no. 3/2016. Zagreb: Institut za javne financije; <http://www.ijf.hr/upload/files/31.pdf>

11 ** Društvo s ograničenom odgovornošću – Croatian equivalent to a limited liability company, t/n.i

The study was carried out through a somewhat unusual cooperation between public policy analysts, civil society activists and investigative journalists. We addressed the potentials of such cooperation with the aim of maintaining democratic standards in 2016, at Gong's Regional School of Policy Analysis, over the course of which some twenty policy analysts from the civil sector and investigative journalists discussed their own roles and common responsibility to maintain democracy. One of the conclusions of this five-day in-depth discussion was that cooperation between these two professions can be put into effect precisely on complex issues that require long-term engagement, various methods specific to each of the professions, and from various angles. This study therefore also served to verify this conclusion.

From a research perspective, considering the breadth of the terrain it encompasses, as well as the liberalisation of the market, we considered the focus on gas sector policy especially relevant for two reasons. First, on an abstract level, the indispensable nature of energy sector services (electricity, gas, oil and oil products) and delivering them with regularity to the population at large, to entrepreneurs and industry provide an opportunity to actors active within the sector to achieve regular and repeated benefits, and are thus themselves extremely susceptible to capture.¹² The second inspiration for the study was found in the analysis, "The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe".¹³

Therefore, this study's hypothesis is that since 2009 until today, Russian interests were allowed to capture gas sector policy in Croatia

12 OECD (2017). *Preventing Policy Capture: Integrity in Public Decision Making*, OECD Public Governance Reviews, OECD Publishing Paris, p. 14 (available at: <http://dx.doi.org/10.1787/9789264065239-en>)

13 Conley, H et al. (2016). *The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe*, CSIS/Rowman&Littlefield, available at: https://csis-prod.s3.amazonaws.com/s3fs-public/publication/1601017_Conley_KremlinPlaybook_Web.pdf

in the way described in *The Kremlin Playbook* – by systematically weakening the position of the local actor so that Russian companies' branches would achieve a dominant position in the local market. The year 2009 was recognised as a turning point due to actions by Ivo Sanader's government with which the management of the Croatian oil company INA was relinquished to the Hungarian MOL. However, due to the fact that the process of privatising INA began in 2003, as well as the desire to obtain a clearer impression of the events within the energy sector, the study also covered the period from 2000 until today.

CONCEPTS AND TERMS

Public policy capture

Unlike the first study, in which we addressed the somewhat broader concept of state capture, defined as a process and set of effects through which local special interests extract benefits for themselves to the detriment of the public interest at the level of the entire (local) system,¹⁴ this study employs the somewhat more narrow concept of *public policy capture*, which can be defined as the influence of special interests on the process of enacting and implementing a certain public policy,¹⁵ where hidden *networks of power* systematically manipulate this process to their own benefit.¹⁶

Networks of power

Networks of power indicate groups of powerful individuals (elites), competing in gaining control over resources in order to

obtain benefits for the members of their networks. Their networkedness presupposes intermeshed relations among members of various elites from the worlds of politics, business, the justice system, security services, media, and sometimes even organised crime,¹⁷ and, in some cases, also local and state officials, scientists, even members of the civil society.

Seeking to strengthen themselves, power networks build their network capital – a combination of economic, social, cultural and political capital. Like any other capital, network capital is relational – by increasing the number of members, their power and influence also increase, but so does the amount of resources they control.¹⁸ Nevertheless, research at the local level in Croatia suggests that certain networks are smaller and more robust than others, which depends on the amount and value of resources. The greater the value of the resource, and the lesser its availability, the more robust the networks.¹⁹

Members of the networks may hold diverse positions and functions in the business and public sectors, sometimes even simultaneously (e.g. a political position and membership of supervisory or executive boards of public or private companies), or by means of moving from the public to the private sector (revolving door) within the spheres they used to control or regulate while in office.

Furthermore, networks of power operate at different levels – from local and regional, to national, transnational and multinational. Sometimes these levels are connected, and sometimes they are confined to a single one, wholly depending on the value and availability of resources. Indeed, there may be several networks of power active in a single field/sector, competing amongst themselves to gain control over resources. However, it

¹⁴ See *ibid.* p. 14.

¹⁵ OECD (2017). *Preventing Policy Capture: Integrity in Public Decision Making*, OECD Public Governance Reviews, OECD Publishing Paris, p. 19 (available at: <http://dx.doi.org/10.1787/9789264065239-en>)

¹⁶ *Ibid.*, p. 23.

¹⁷ Hoffmann et al., "Croatia's Captured Places: Research Report on Case Studies of the Quality of Local Governance in Croatia," Zagreb: Gong, 2017, p. 16.

¹⁸ *Ibid.*, p. 16.

¹⁹ *Ibid.*, p. 114.

should always be borne in mind that one of the characteristics of power networks is their exceptional flexibility,²⁰ which allows individuals within the networks to switch their fidelity and loyalty from one network to another, under specific circumstances.

Important in the latter context is the role of the so-called intermediaries, working in between networks and in the hybrid spaces²¹ between the public and the private, and at various levels of operation, who "solve things" using their skills and acquaintances, creating new and strengthening existing networks.²²

It is precisely for this reason why identifying powerful individuals and their power networks, as well as describing the specific moves they make, is extremely important in providing an answer to the question how capturing a public policy or system happens in reality. The description of their conduct, especially the "grey zones of ... political activity"²³ that lie between ethics and the law, are interesting from a research perspective, since "abuses are often a matter of pushing legal (...) activities and connections to unacceptable extremes".²⁴ Indeed, their strategies "involve bending formal rules and informal norms, or navigating between such constraints by following some and breaking others, as needs dictate."²⁵

²⁰ See Wedel, Janine (2009), *Shadow Elite: how the world's new power brokers undermine democracy, Government and the free market*, New York: Basic Books.

²¹ Lendvai, Noemi and Paul Stubbs (2009) 'Assemblages, Translation, and Intermediaries in South East Europe: rethinking transnationalism and social policy', *European Societies* 11(5): pp. 673 – 695

²² Newman, Janet (2012). *Working the Spaces of Power: activism, neoliberalism and gendered labour*, London: Bloomsbury Academic.

²³ Baiocchi, Gianpaolo and Brian Connor (2008) 'The Ethnos in the Polis: political ethnography as a mode of enquiry', *Sociology Compass* 2(1): 139-155, page 139.

²⁴ Johnston, M. (2006) in OECD (2017). *Preventing Policy Capture: Integrity in Public Decision Making*, OECD Public Governance Reviews, OECD Publishing Paris, p. 21 (available at: <http://dx.doi.org/10.1787/9789264065239-en>)

²⁵ Ledeneva, Alena (2006), *How Russia Really Works: the informal practices that shaped post-Soviet Politics*

RESEARCH QUESTIONS

Bearing in mind the context of the Croatian energy sector, and in reference to the concepts laid out previously, there are four key research questions we sought to answer:

1. Is the Croatian energy sector governed in a way that corresponds to the public and national interest and the principles of good governance?
2. How, and through what mechanisms, are publicly owned local companies' positions systematically weakened in order to bring about Russian dominance of the gas market?
3. Which actors and networks of actors were involved in these processes?
4. What benefits did the actors and networks of actors garner in their own special interests, at the expense of the public interest of the citizens of the Republic of Croatia?

In seeking an answer to the research questions, it is important to understand and describe the specific context in which the conditions enabling capture have emerged and continued to develop. It was therefore necessary to describe the specific social, political, economic and legal context in the period under research.

In addition to the context, we also looked for some of the warning signs that might indicate capture, especially if they work in synergy,²⁶ such as:

- Public policies, laws and bylaws designed so as to benefit certain companies without benefiting the public interest, including:
 - Legislative changes allowing abuse of the public interest
 - Frequent changes to legislation

and Business, Ithaca: Cornell University Press, p. 22

²⁶ Hoffmann et al., "Croatia's Captured Places: Research Report on Case Studies of the Quality of Local Governance in Croatia," Zagreb: Gong, 2017, p. 23.

resulting in lower quality of governance or oversight

- Discretionary competences outside control mechanisms
 - Lacunae in laws and bylaws / incoherency between laws and bylaws / failure to adopt bylaws necessary to properly implement laws (enabling the status quo).
 - Absence of necessary amendments or adopted policies despite an evident need for changing them
- The ways actors frame policies allowing capture (e.g. public subsidies for projects and the interests disguised in the subsidy).
 - Which bodies and mechanisms are established or harnessed to allow capture? Are these bodies and mechanisms formal or informal, and what is their mutual relationship?
 - The effects of such policies with respect to their defined goals.

In addition to warning signs, there are also possible practices and mechanisms of capture that we paid attention to, such as:

- Financial: preferential loans, subsidies, selective rescue of companies, public and state subsidies under beneficial terms;
- Market competition: protection of rent-seeking relations, protectionist policies, changes to international trade agreements benefiting certain interests, irregularities in procurement processes leading to or resulting in monopolistic positions.
- Contracts: preferential treatment in accessing public procurement, concessions, licences, public-private partnerships, selling publicly owned real estate below market conditions, changes to documents related to spatial planning.
- Regulation and implementation: structuring regulatory oversight so as to preclude effective oversight; absence of political will/means necessary for

implementation; creating relations of dependence in oversight bodies; abuse of state authority in carrying out or avoiding carrying out audits, inspections and investigations.

- The judiciary: pressures on the judiciary;
- Broader control: various tactics of discrediting the opposition, the media and the civil society.

As regards process, we paid attention to:

- Implementing quasi-democratic practices, such as opening false recruitment competition processes used to stack positions with people chosen in advance, carrying out public consultations with stakeholders where all received objections are rejected without appropriate explanations and similar.
- A lack of transparency
- Composition of working groups for drafting policies and legislation – involvement by representatives of certain interest groups
- Using discretionary authorities to benefit interest groups
- Quick changes / resistance to change

In considering the phenomenon of capture, it was certainly necessary to keep in mind the possible strategies of pressure contributing to the creation of a "capture culture", resistant to criticism and change, including:

- Intimidation and harassment
 - Threats to personal health, security, family, property
 - Aggressive harassment by spurious lawsuits
 - Attacks on one's honour and reputation
 - Blackmail
 - Planting evidence on compromising behaviour, situations, or insults in controlled media
- Direct involvement by officials
 - Key political actors, officials, regulators

- and their family and friends with direct interests (ownership, employment before or after performing public office) in affiliated companies
- Offering benefits and producing dependence – including family members and close friends
 - Bribes in cash, gifts “in kind” (houses, land, renovations beneath the market price, travel and holidays)
 - Preferential business relations with firms with ties to the officials and their families and friends
 - Lucrative deals in the private sector, before and after serving in public office
 - Invoking friendship, kinship, common identity characteristics in order to receive preferential treatment
 - Large donations to political campaigns and party financing
 - Direct and indirect political agitation for certain candidates through public appearances, influencing employees, tactical investment and/or donations to certain groups of voters, positive media coverage or slandering opponents through controlled media
 - Recruitment or appointment procedures allowing untrammelled extraction of benefits – who got employed where, whether they are under observation and how, what are the effects of their activities

In seeking answers to the question which actors and networks of actors were involved in these processes, we tried to establish:

- What is the basis of their influence and power;
- Are the actors in the networks of power present in the world of politics, business, the media, with multiple roles and functions simultaneously or successively
- Stability of power networks – repeated interactions create expectations, reciprocity and personal social and

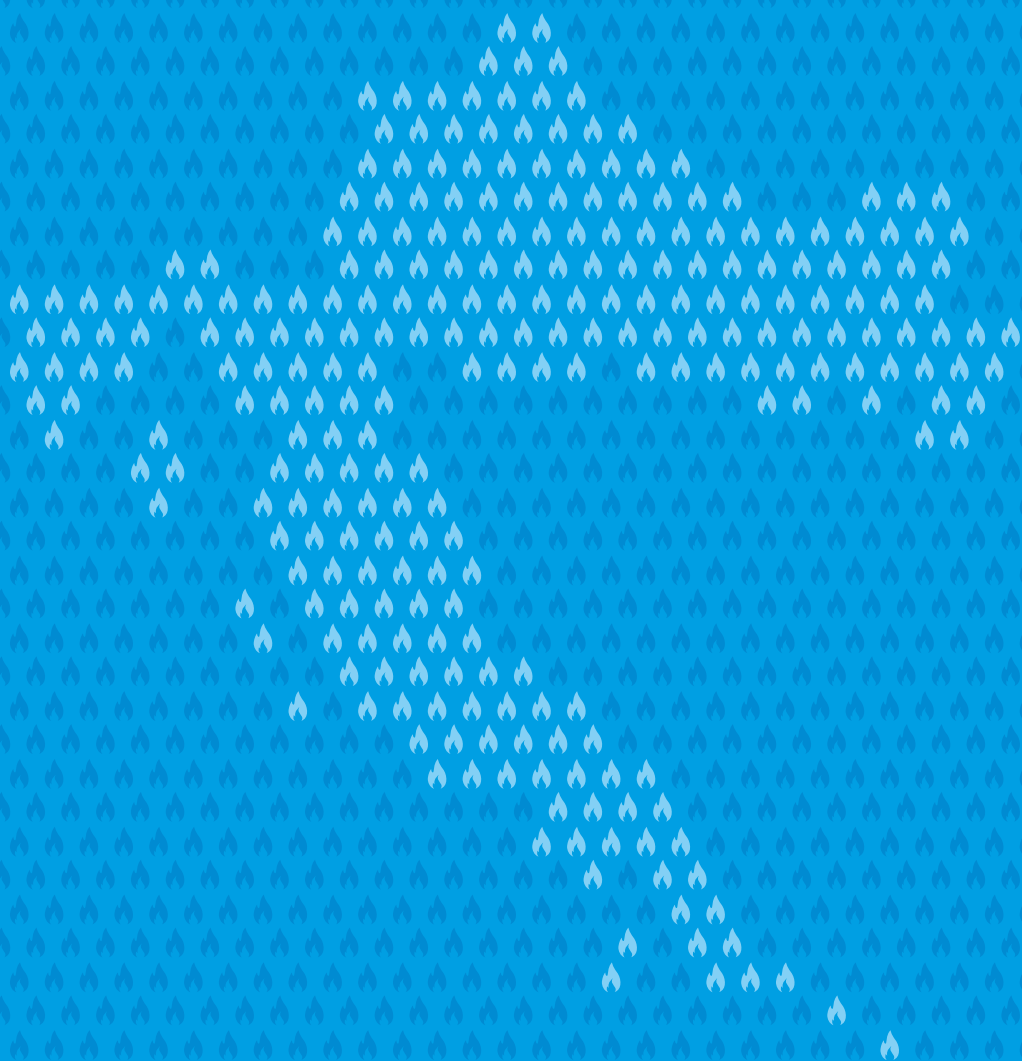
emotional relations

- Are there intermediaries and from which circles do they come
- Who are the losers and who the winners.

In seeking an answer to the question on what benefits are garnered by special interest groups at the expense of the public interest, we tried to describe the benefits drawn by networks of power, taking account of the following possibilities:

- Maintaining the position of power and control over resources
- Financial, material and non-material benefits accrued
- Increasing value and amount of resources they control
- Limiting the principle of pluralism as the foundation for the design and implementation of public policies

SOCIO- POLITICAL CONTEXT



TRANSPARENCY

One of the characteristics of high politics in Croatia is the continuous presence of corruption affairs, to which the energy sector is especially exposed. Bearing in mind their financial weight and the direct and tangible effects they have on citizens' quality of life, energy sector decisions are made at a high political level, marked by intransparency. The lack of transparency in the Government's functioning has opened room for manoeuvre for corruption and immoral arrangements in the energy sector, which has resulted in poor public policies that have long-term negative consequences. Prime Minister Ivo Sanader's government elected in 2003 hid the contents of the Government's closed sessions agenda from the public, breaking the legal provisions that regulate how data are classified.²⁷ During the 2000s, there have been next to no public consultations, which also contributed to increasing the intransparency of the process of formulating public policies and drafting bills. The ability to hide official Government decisions and documents has created a zone of intransparency, where harmful decisions could be hidden from the public. Thus, the contract whereby management of INA was conceded to MOL was consciously and deliberately hidden from the Croatian public, and disclosed only 10 months after it was concluded.²⁸ The level of transparency of the most important executive institutions was only enhanced with the adoption of the Act on the Right of Access to Information in 2013 and the establishment of the autonomous and independent institution of the Information Commissioner. Regularly releasing closed

session agendas, as well as carrying out consultations, only began in earnest with Zoran Milanović's government elected in 2011.²⁹ Despite the increased transparency of the public authorities' work as a result of the adoption of the new Act on the Right of Access to Information, at the highest levels of the executive branch of government, informal contacts, consultations and decision-making processes remain highly present.³⁰ This is due to the fact that the legislative framework allows citizens to access information stored with a public authority, thus failing to cover informal decision-making and consultation processes of which no written account is kept.³¹ No practice of formal and institutional consultation when adopting executive decisions by the Government has evolved either, which can be seen, among other things, in PM Andrej Plenković's government's declaration on purchasing INA, as well as the adoption of the decision on the model of managing the crisis in Agrokor. What kind of analytics are behind these decisions, who are the persons that participated in the analysis, were the potential conflicts of interest of all those involved taken into account, is there a legislative footprint of the changes to the substance of the decision over the entire course of its adoption, are the influences of non-institutional (non-state) actors with related interests transparent – these are all questions to which in both the cited cases we have no answer. The situation in the case of the so-called Lex Agrokor was more bizarre still: that the government is hiding from the public who are the authors of the legislation, which

²⁷ Miošić, Nives, GONG, "Ustavno pravo na informacije u institucionalnoj kulturi tajnosti" [The Constitutional Right to Information in an Institutional Culture of Secrecy] (2012), p. 21; <https://www.gong.hr/media/uploads/dokumenti/20120927Ustavnopravonainformacijeuinstitucionalnojokulturitajnosti-oksisoronilimogunostpolicyanaliza.pdf>

²⁸ I.D., Dnevnik.hr, "Objavljen ugovor INA-e s MOL-om" [INA's contract with MOL published]; <https://dnevnik.hr/vijesti/hrvatska/objavljen-tajni-ugovor-s-mol-om.html>

²⁹ Žapčić, Andreja, *How Open is Croatian Government?*, GONG's Semi-annual report on Croatian Government Transparency in 2012; <https://www.gong.hr/en/good-governance/government/how-open-is-croatian-government-and-why-are-they-i/>

³⁰ The RC Government's response to a request for the right to access information <https://imamopravoznati.org/request/901/response/1375/attach/html/2/GONG%20odgovor.pdf.html>

³¹ Prkut, Duje, *Tko zapravo stoji iza hrvatskih zakona i vladinih odluka?* [Who is really behind Croatian laws and Government decisions?], GONG (2017); <https://www.gong.hr/hr/dobra-vladavina/tko-zapravo-stoji-iza-hrvatskih-zakona-i-vladinih/>

it has claimed will resolve a burning problem of the Croatian society, economy and state, while these very people are submerged in their own conflict of interest, which potentially possesses the characteristics of a criminal offence, if only due to handling of classified information.

"In all European countries, the production of electricity is known by the hour, as well as by production technology. That way you can know how much, for example, wind power there is at any hour for all of Europe. Except for Croatia. We are the least transparent country in Europe when it comes to energy data." - Expert 7

LOBBYING

Transparency of the decision-making process is one of the fundamental democratic principles, and in modern societies perhaps the most important aspect is concerning the transparency of influences on the decision-makers. The Republic of Croatia has no legislative framework regulating lobbying, nor do the Government or the Ministries have rules concerning the obligation to record all draft amendments to legal provisions, executive decisions or strategic documents received from non-institutional (non-state) actors, whether in writing or orally, by telephone or in person, in a meeting. This permanent state of low transparency at the very top of the executive branch, which in the Croatian political system holds the strongest position of power in relation to all other institutions, remains one of the greatest unrectified corruption risks. It was only after the Constitutional Court ruling in the case initiated by the Gong association that the Croatian public was given the right of insight into the records on visitors to the RC Government building.³² A revealing example

³² HRT, "Ustavni sud: Grđani trebaju znati tko dolazi na sastanke u Vladu" [Constitutional Court: citizens should know who comes to meetings at the

of the non-existence of any kind of rules in this area is provided by the after-the-fact disclosure of the secret meetings between the then Croatian PM Ivo Sanader and MOL managing director Zsolt Hernádi, recorded by a restaurant's CCTV cameras.³³ Even the Constitutional Court has a very pronounced problem with informal contacts undermining citizens' trust. The Court has annulled the final verdict convicting Sanader, whilst issuing a series of rulings changing its understanding of its role in the constitutional review of court decisions. Most opprobrium was provoked by the decision by the Constitutional court to undertake the assessment of the quality of the body of evidence.³⁴ Annuling Sanader's conviction has contributed to losing the arbitration proceedings that Croatia initiated against MOL, basing its arguments on the claim that the very takeover of INA was a corrupt act.³⁵

Journalist Slavica Lukić published in Jutarnji List a memo penned by constitutional

Government building]; <https://vijesti.hrt.hr/334397/ustavni-sud-graani-trebaju-znati-tko-dolazi-na-sastanke-u-vladu>

³³ R.A., Index.hr; "VIDEO: Pogledajte snimku iz Marcellina, Hernadi je tvrdio da je Sanaderu na papir napisao telefonski broj" [View the Marcellino recording; Hernádi claims he gave Sanader a telephone number written on a piece of paper]; <https://www.index.hr/vijesti/clanak/video-pogledajte-snimku-iz-marcellina-hernadi-je-tvrdio-da-je-sanaderu-na-papir-napisao-telefonski-broj/1006858.aspx>

³⁴ Ana Raić Knežević, Telegram; "Cijenjena profesorica našla je uznemirujuće propuste u odluci kojom je Ustavni sud srušio Sanaderovu presudu" [Esteemed professor finds alarming omissions in the Constitutional Court ruling annulling Sanader's conviction]; <https://www.telegram.hr/politika-kriminal/cijenjena-profesorica-pronasla-je-uznemirujuce-propuste-u-odluci-kojom-je-ustavni-sud-srusio-sanaderovu-presudu/>

³⁵ Željko Petrušić, Ivanka Toma, Jutarnji list, "ANALIZA OBJAVLJENE PRESUDE ARBITRAŽNOG SUDA U SLUČAJU INA - MOL Pet razloga zašto je MOL pobijedio" [Analysis of the published Arbitration Court ruling in the INA-MOL case – five reasons MOL won]; <https://www.jutarnji.hr/vijesti/hrvatska/analiza-objavljene-presude-arbitraznog-suda-u-slucaju-ina-mol-pet-razloga-zasto-je-mol-pobijedio/6738210/>

judge Ivan Matija that had been included in the decision as part of the minutes, which reveals the highly problematic nature of this Constitutional Court decision.³⁶ Judge Matija quite explicitly states that "lobbying activities" were at work while the decision was being drafted. Although in his memo he distances himself from the substance of the decision, he points out that he will vote to adopt it for collegiate reasons. He expresses the hope that the decision in Sanader's favour will "be a great plus in the continuation of the professional career" of the constitutional judges, "not a minus of any kind", but noting that, as of writing the letter, he was not convinced of such an outcome. Moreover, he highlighted that he was likewise not convinced by his colleagues' views that the Constitutional Court ruling would have no impact on the arbitration process, suggesting that the judges did have in mind the possible consequences of the decision on the arbitration proceedings. This case was the first time that the Constitutional Court has embarked on interpreting the quality of the body of evidence, which was met with negative reactions from the professional community.³⁷ Finally, we highlight judge Matija's view of the decision from the perspective of the fight against corruption: "By the way, if in September this year the Supreme Court too returns the FIMI media case to be

retried (as per the grapevine), then I'll realise that this *judiciaring* of ours is part of a great legal battle for a broader rule of law, when it comes to verdicts and the fight against corruption and crime". The aforementioned verdict was annulled at a Supreme Court sitting that took place in late September 2015.³⁸ This is not the first case that indicates the possibility of inappropriate and untransparent influence on the decisions of the Constitutional Court to rule in accordance with background private interest. A Constitutional Court judge ended up under surveillance measures due to communicating with a person from the close circle of Zdravko Mamić³⁹, football boss and fugitive from the Croatian judiciary, precisely at the time the Constitutional Court was deciding on a request to review the constitutionality of the Sports Act submitted by the Croatian Football Association. Finally, it is necessary to highlight the inability of the Croatian judiciary to prosecute corruption in high politics, as seen in high-profile cases against powerful figures in politics and business. The poor efficacy and questionable independence of the Croatian judiciary remain a permanent and significant unresolved corruption risk.

"In governing the energy sector, governments are all alike, nearly all of them taking the route of favouring certain lobbies. And here we have a kind of policy of continuity, regardless of whether the government is on the left or right, there are no great oscillations." – Politician 5

³⁶ Slavica Lukić, Jutarnji list; "EKSKLUZIVNO: NAJVEĆA AFERA USTAVNOG SUDA Jutarnji u posjedu dopisa koji baca novo svjetlo na ukidanje pravomoćne presude Sanaderu u slučaju INA-MOL" [Exclusive: Biggest Constitutional Court affair. Jutarnji in possession of memo shedding new light on the annulment of final verdict against Sanader in the INA-MOL case!]; <https://www.jutarnji.hr/vijesti/hrvatska/ekskluzivno-najveca-tajna-ustavnog-suda-jutarnji-u-posjedu-dopisa-koji-baca-novo-sv-jetlo-na-ukidanje-pravomocne-presude-sanaderu-u-slucaju-ina-mol/5912344/>

³⁷ Ivanka Toma, Jutarnji list, "NOVI RAT U PRAVO-SUDU Ustavni i Vrhovni sud miniraju stručni skup o ratnom profiterstvu i slučaju INA-MOL" [New battles in the judiciary. Constitutional and Supreme Courts torpedoing expert meeting on war profiteering and the INA-MOL case!]; <https://www.jutarnji.hr/vijesti/hrvatska/novi-rat-u-pravosu-du-ustavni-i-vrhovni-sud-miniraju-strucni-skup-o-ratnom-profiterstvu-i-slucaju-ina-mol/8069498/>

³⁸ RC Supreme Court, ruling number: II Kž 343/15-4; <http://www.vsrh.hr/CustomPages/Static/HRV/Files/Priopcenje-II-Kz-343-15-4.pdf>

³⁹ Igor Alborghetti, Telegram, "Sutkinja Ustavnog suda Mamićevog suradnika zvala 80 puta u dva mjeseca" [Constitutional Court judge phoned Mamić's associate 80 times in two months!]; <https://www.telegram.hr/politika-kriminal/sutkinja-ustav-nog-suda-suradnika-zdravka-mamica-zvala-80-pu-ta-u-2-mjeseca/>

STRATEGIC AND ADMINISTRATIVE FRAMEWORK

The low quality of design and poor implementation of public policies are a persistent problem in the Croatian public administration. The political practice in Croatia has still not moved on from legislation as the key tool in designing and implementing policies. At the same time, strategies and accompanying operative plans are viewed as having no more worth than the paper they are printed on. The current approach to drafting strategic and operational documents has profoundly been shaped by the experience of the European Union accession process. The European Commission has remained unprepared for a situation where it is possible to enact a law or a strategy, and just not to implement them. Partly owing to its experience with Croatia, the European Commission has made significant changes to its approach in conducting negotiations with future candidate countries from the region. Chapter 23 (Judiciary and fundamental rights) is the focal point of the negotiations right from the start; some chapters are concluded over several phases, each of which has clear benchmarks; and stricter monitoring of the implementation of laws, strategies and operative plans whose enactment is mandatory was introduced.⁴⁰ It would seem that the box-ticking syndrome is still present in Croatian politics today; strategies are drafted merely as a formality, rather than being used as a beacon to guide the work of the public administration and the public sector.

"During negotiations with the EU, Croatian politics overall was far more professional, as

everything was under a lens and it was all quite transparent, seeking to meet the objectives we were posed. However, the moment we entered the EU, they took the position, which I personally heard from a politician, that 'now we're in they can't touch us any more'. Which is wrong, because fines will start to come in and we'll have to pay the EU because we didn't implement certain policies." – Expert 7

In 2009, the Republic of Croatia adopted a Strategy of Energy Development, but never enacted the accompanying operational document, the Croatian Energy Development Strategy Implementation Programme, which would contain a clear list of measures and the actors responsible for the activities, sorted by time period, to realise the goals set in the Strategy, as well as indicators to measure their implementation and effects. Therefore, the RC has had no basic framework on which to build public energy policy governance, even though monitoring implementation, designing corrective measures and adapting approaches are key to acting in the public interest, especially for young democracies with an unreformed public administration. Without monitoring the implementation of the operational document there is no possibility of adaptation, as difficulties in implementation go undetected, and are therefore also not removed. At the moment, a new RC energy development strategy is in the process of being drafted. It would represent great progress if it were to avoid unrealistic goals and be accompanied by a more detailed operational document that would allow introducing a more sensible evaluation of the public policy overall. However, the experts and politicians who were interviewed have highlighted that the process of drafting the future strategy has continued to suffer the same ailments: untransparency, exposure to lobbyist influences and disregarding the opinions of the profession. The Croatian energy policy still suffers from childhood maladies: no basic framework for proper formulation and implementation of public policies has been

⁴⁰ Štefan Füle, the Commissioner for Enlargement and European Neighbourhood Policy (2010-2014), The New Federalist, *Croatia's accession to the EU*; <https://www.thenewfederalist.eu/Croatia-s-accession-to-the-EU,05867>

installed; and the broad prevalence of such thinking among the interviewees is cause for alarm.

"It's no different than in other areas. The problem with the energy sector is that everything is done willy-nilly, without planning, continuity, ideas, or governance." – Expert 6

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"Looking at it professionally, scientifically, practically, right now Croatia has no energy strategy whatsoever, it lives from day to day. Strategies are made more in order to satisfy the demand in the political space to create a strategy, rather than to provide a basis to operationally build a Croatian energy system." – Politician 4

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"What worries us the most is that there really is no energy strategy. Unfortunately, all the time it's just a matter of drifting around that sphere, there's no single strategy to clearly state what we want from INA, from HEP,⁴¹ Plinacro, Janaf..." – Expert 5

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"In 28 years we haven't fully implemented – or implemented at all – a single strategy. I was part of a team that worked on the 2009 energy strategy, so I can say that in certain aspects, the strategy was made inexpertly. The then-prime minister Sanader wouldn't even allow for opening up a discussion on the price of oil." – Expert 10

The dominant view among the interviewed experts and politicians was that the substance of energy strategies is highly random, contingent upon all sorts of factors, such as

⁴¹ *HEP – Hrvatska elektroprivreda, Croatian energy company; Plinacro – Croatian gas transmission system operator; Janaf – Croatian oil pipeline and storage management company. T/n

the persuasiveness of individual actors in working meetings where the strategies are drafted, personal views of the current minister or prime minister, public companies' existing plans, lobbying activities or tendency on the part of relevant individuals within the sector to get involved in corrupt activities. Having this in mind, it is unsurprising that, for instance, the ten-year strategy adopted in 2009⁴² predicts the construction of a nuclear power plant, and a total of 15 billion HRK of investments – all unrealised – in the energy sector.

"It was clear to everyone that the nuclear plant wasn't going to happen. But this nuclear lobby did its job well. When the strategy was being drafted in 2009, the only renewables lobby was the wind power one, which I believe failed to stimulate development of the Croatian society. We now have a situation where we put Danish wind farms on Croatian hills, where we gave stimulus to the Danish workforce to produce expensive electricity. This should have been done by a Croatian worker, a Croatian maintenance man, those should have been Croatian windfarms. We missed the chance to have, say, Uljanik⁴³ produce the blades, to have Končar⁴⁴ build the power plants, to give people livelihoods this way. That would make sense. I don't see any sense this way." – Expert 8

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"Two energy strategies were adopted, but not their implementation programmes. This is somehow a classical problem of ours. We adopt a white paper, we define a strategy, but when you have to start acting on this strategy and enact a set of implementation measures and regulations, that doesn't happen. By chance, both strategies had been adopted just before government changed hands. Both

⁴² Energy Development Strategy of the Republic of Croatia (OG 130/2009); https://narodne-novine.nn.hr/clanci/sluzbeni/2009_10_130_3192.html

⁴³ *A shipbuilding company in Pula, Croatia. T/n

⁴⁴ **Croatian electrical, transport and energy company. T/n

times, the new administration forgot about the strategies, failing to adopt their implementation programmes.” – Expert 4

The 2002 energy strategy has proven no more useful.⁴⁵ That strategy did not provide for the construction of an LNG terminal, but as it was adopted ahead of the elections in which government changed hands, so the LNG terminal project, originally envisaged back in the late 1980s, was revived as early as next year. It is not unusual for certain key decisions to not even be discernable in energy development strategies. Such an example is the recent Government proposal to raise cash to buy INA through an initial public offering of HEP shares, which is completely at odds with the 2009 strategy, which does not even countenance the possibility of privatising HEP. Yet, as both the strategies up to that date were recognised by the profession as being of poor quality, the politicians in government did not feel the need to refer to them.

“I was at the presentation of the strategy the last time Polančec⁴⁶ presented it. It was obvious that this was basically a pile of chapters ripped-out from various papers, like you’d do an essay assignment that you know nobody will read anyway. That’s what the strategy looked like.” – Expert 2

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“All this time we have no serious energy policy, we have no strategy. Who’s in charge of energy at the ministry? Which energy expert with an actual name and surname? That person is very difficult to find.” – Politician 8

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⁴⁵ Energy Development Strategy of the Republic of Croatia (OG 38/2002); https://narodne-novine.nn.hr/clanci/sluzbeni/2002_04_38_839.html

⁴⁶ ***Damir Polančec, Minister of the Economy, Labour and Entrepreneurship in the governments of Ivo Sanader and Jadranka Kosor. *T/n*

“Like many other policies, energy policy is not a product of strategic thinking, which should necessarily have to take into consideration the current state of the sector, the obligations the sector has on issues of horizontal interconnections, such as climate needs and similar. For any country that holds itself in any regard as being governed in a systematic manner, this would also entail defining situations, perspectives, interests etc. And Croatian energy policy has just drifted around this area, with no coherent background in terms of such an analysis. We have a Croatian energy policy that moves wherever someone pulls it.” – Politician 6

POLITICAL ELITE AND CORRUPTION

The negative role of politicians and politically appointed staff encompassing publicly-owned companies and other public bodies is particularly prominent. Nearly all those interviewed have highlighted ignorance and lack of interest and expertise as the key negative characteristics of the members of the political elite. The large number of experts moving to foreign firms due to the continuous fall in INA’s volume of operations is often highlighted as an aggravating circumstance. A somewhat smaller, yet nevertheless significant number of interviewees see a large problem in the propensity of people performing public office to get involved in immoral, corrupt activities harmful to Croatian interests. There are several factors that favour such outcomes. As already highlighted, the Croatian political system suffers from intransparency, resulting in a deficit of accountability (personal, political and criminal) and creating a favourable environment for corruption. A significant number of those interviewed find the key reason for susceptibility to private, special interests precisely in the fact that decisions are not rooted in long-term strategic goals. Most decisions on the development of the energy sector are made by the very highest

political authorities, especially when it comes to large infrastructure projects or crucial decisions such as privatizing publicly-owned companies. In the Croatian political system, the Prime Minister holds great political power. Thus, Prime Minister Sanader found it incredibly easy to secure that managerial control over INA is conceded to its Hungarian co-owner, subsequently merely informing his party and the Government on the results of the reached agreement. An additional moment that favours the continued presence of corruption is the fact that energy sector projects and activities are valued in hundreds of millions Euros, which in itself means that the price of corruption in the energy sector is exceptionally high. The windfarm scandal presided over by politicians from HNS and SDP cost the taxpayers tens of millions of Euros.⁴⁷ Although Croatia has committed to creating a Register of beneficial owners of private companies, it is still possible to own hidden stakes in firms through secret partnership agreements. A minority of those interviewed highlighted their suspicions that senior politicians own hidden stakes in companies, some of which are in the energy sector. Such secret ownership on the part of state officials would represent a serious violation of the Act on the Prevention of Conflict of Interest. The majority of those interviewed recognise the harmfulness of some of the significant decisions made in the energy sector, but are sometimes entirely unable to detect the logic of thinking behind such decisions, let alone any expert justifications or explanations that might underpin them.

"It was Sanader who set up this chancellorship model. As they say, power is never given, the power you have is the power you have seized. And he seized quite a lot, while he could. He was a good Prime Minister as far as some decisions

⁴⁷ Dražen Majić, HRT, "Vjetroelektrane prvi dio: Sirotinji mrvice – odabranima milijarde" [Windfarms, part 1: the poor get crumbs – the chosen billions]; <https://vijesti.hrt.hr/328904/sirotinji-mrvice-odabranima-milijarde>

go, unlike certain others. But he snatched too much power without knowing enough about it." – **Politician 8**

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"In such a situation of unclear policies, you have no concept of a vision, a political vision, and you become susceptible to the sway of magic solutions, lobbyists, interest groups, so that in fact, when politics has no foundation on which to base its decisions, it is in effect abandoned to be buffeted by winds from all directions. The greatest challenge for Croatia is Croatian politics. It's not the Europeans, the Russians, or the Chinese that are our problem, it is Croatian politics." – **Politician 4**

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"The problem lies in the fact that the formal decision-makers at the highest level, regardless of whether it is a minister or Prime Minister, are prone to compromise, ignorance and shallow decisions. And someone from the lower levels is steering them this way." – **Politician 3**

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"You have organised groups of people that are skilful, that know how to talk, and whoever doesn't meddle in their affairs will have no problems. So, if you let these groups gain in strength, let them lead politics, then they will serve you, help you in every way. You come in as minister and just let them take it from there. And whatever arises as a necessity, but is against their interests, you deal with it slowly. Meaning, you do nothing." – **Politician 6**

The absence of a strategic framework for the energy sector is another significant corruption risk. As the approach and decisions of the Prime Minister, the ministers, heads of public firms in the energy sector are not bound by a strategic framework, it is difficult to discern whether policies are aimed at achieving public or special interests. The increased scope for discretion available to

politicians making decisions allows action in keeping with the maxim anything goes – or its Balkans version – *APP – ako prođe, prođe*.⁴⁸ Ignorance, disregard for the public interest and susceptibility to corruption have resulted in the adoption of strategies that do not define what type of energy facilities need to be built and where, what kind of energy sources will be used and why, or how do specific projects contribute to the defined objectives of public policies. Instead of public discussion on large interventions in the energy sector leading to defining national interests and needs, it is suffocated by continuous advocacy for turn-key energy projects, which are, owing to the lack of clearly defined strategic goals, frequently designed from within political and business interest groups. It is therefore hardly surprising that projects approved this way do not in fact contribute to public interest, only private – such as the coal power plant Plomin C or the suspicious stimulus measures for windfarm construction. For the same reason, it is not surprising that large energy projects often do not reach the stage of realisation, due to, among other things, the low level of citizens' trust, which falls further still as the interaction between the national authorities and the local communities where these projects are supposed to be realised often boils down to breaking down local resistance. Energy infrastructure facilities cannot be built in a single four-year term, and the absence of a settled national strategy means that there is no obligation to continue the embarked-on projects. Accordingly, each change of government is accompanied by defining the priorities anew, while the previously announced projects fall by the wayside (for instance, the thermal power plant Osijek, which was in the pipeline while Ivan Vrdoljak – who is himself from Osijek – held a position of power within the government). Likewise, it is not surprising that projects whose implementation would be at odds with the national interests continuously appear in the public, which leads to their ultimately being abandoned under pressure from the local or even European community.

⁴⁸ 'If it works, it works. T/n

Thus, during Zoran Milanović's government, Croatia had to give up on building the Ombla hydropower plant due to its harmful environmental impact,⁴⁹ while the European Commission halted Plomin C, as the financial arrangement that was put forward was so harmful to the state that it was treated as a form of prohibited preferential treatment of a private company.⁵⁰ Some of the interviewees see this as an expected development in the absence of a real strategic framework, while others have said that it is a result of the propensity of persons performing public office to push for arrangements where their private interests are involved, as well as the interests of the persons they are connected with.

"I have a feeling that our politics is completely dilettante, and that the strategic interests of the state are completely disregarded. We are guided by short-sighted special interests. The problem is that nobody is looking at the public, strategic interest of the state, it is not recognised that energy is a significant strategic industry. It's only about whose friends will do better, which law firm will profit on some aspect, whether someone will get a commission and be able to buy a flat and a fancy car. I find it truly pathetic. I think that in this sector it can best be seen to what extent we're not a settled democracy, and how predatory the type of capitalism we have here still is." – Politician 5

"Part of the problem lies in the link between politics and interest clans. And it's not only commission, but ownership structures, like secret partners and similar. Part of it is surely

⁴⁹ Study on the main evaluation of the acceptability of the intervention to the ecological network of hydroelectric plant Ombla; https://www.mzoip.hr/doc/28_07_2015_studija_glavne_ocjene_prihvatljivosti_zahvata_-_knjiga_5.pdf

⁵⁰ N.D., Energetika-net.com, "EK: TE Plomin C je državna pomoć" [EC: Thermal plant Plomin C is state assistance]; <http://www.energetika-net.com/vijesti/energetsko-gospodarstvo/ek-te-plomin-c-je-drzavna-pomoc-22853>

corruption. Part of it is ignorance, and part of it total uninterestedness. They're ministers, officials, members of parliament, their terms are ongoing and their positions are all they care about. You never know whose toes you might tread on if you start making waves. So nobody does, as it's the safest way to preserve your political position; by not accidentally getting on the wrong side of their boss or their clan." – **Politician 5**

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"The energy sector is ruled by a clientelist grouping. And as to whether there is crime there, let the institutions examine this. In my opinion, primarily there's harm for citizens. We pay for something we shouldn't need to pay for, while someone enjoys profits beyond belief." – **Politician 6**

SPECIFICITIES OF THE ENERGY SECTOR

The interviewees pointed to another two specificities of the energy sector contributing to the poor quality of governance in the Croatian context. It is emphasised that in this sector, more than others, relying on high-quality and independent expert opinion is exceptionally important. Namely, all the factors necessary for good decision-making in the energy sector can be precisely quantified. It is known what Croatia's energy needs are, as well as what natural and technological resources the country has at its disposal.

"Energy is a sector where you can make projections 50 years in advance with a great level of precision. The consumption structure, which doesn't change quickly, is known in advance. The production structure as well as the availability of natural resources (coal, gas,

oil etc.) is also known. You know what you have, what you don't have, what is your consumption. These bottom lines are pretty specific. Electrical energy and heat are produced in the plants. These plants' ages, capacities, when they are to be decommissioned and which primary energy sources they use are all known. 30 percent of our capacities are to be decommissioned within the next five, six, ten years. So a real energy strategy should know what kind of power plants to build, where to build them and which primary energy sources they'll use." – **Politician 4**

However, Croatia is rapidly losing the knowledge necessary to design and realise large energy projects, and to properly manage the available potentials. The departure of qualified people from the system over the past two decades, appointing unqualified persons to key functions in the energy sector and the questionable quality of the available expert opinions are seen as the key obstacles in elevating the quality of energy sector governance.

"Ahead of the elections in 2015 there was massive employment of HNS members in HEP, that some people said they could no longer work as they feared letting out people who could kill themselves, let alone someone else. It's not so much of a problem that HNS people work in HEP offices, but they also get employed in the facilities. They'll connect the wrong wires and kill someone. They employ their people wherever they can." – **Politician 2**

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"Opportunities were forewent in the energy sector as there is no clear strategy, no sectoral policy. Large parties that have been in government for the past 20 years don't deal with sectoral policies, with lawmaking. They deal more in employing their people in state firms, with arranging who'll be the winners of tenders, public procurement. That's their focus." – **Politician 1**

Once again the necessity of long-term strategic deliberation and action in the energy sector emerges as a problem. Interviewees have pointed out that each Government, each minister behave as if everything starts with them. This problem does not only come to the fore when government changes hands in elections; even a change of minister from within the same party, within the same Government, may lead to a change in public policy, as occurred when Radimir Čačić was replaced by Ivan Vrdoljak in the Ministry of the Economy in 2012.⁵¹ Such discontinuity in energy sector governance has practically resulted in a system-wide paralysis. For instance, the long-term goal of constructing new energy facilities and infrastructure through the accumulation of capital in public companies was regularly neglected because of the needs to fix the holes in the state coffers or maintain a low price of energy due to a short-term focus on winning another term in office by creating an image of a socially sensitive Government.

"The reason for bad governance is ignorance and, I'd dare to say, also lack of interest from Croatian politicians. Especially if certain problems can't be solved during their terms in office." – Expert 8

"We don't implement our legislative framework. There is no continuity anywhere, a new beginning every four and a half years. 'It doesn't concern me what they signed before me.' The government doesn't see the need to implement what previous governments had started. It is enough that someone doesn't like the projects in order for them to be stopped. It doesn't pay to seek consensus in the energy sector, so

⁵¹ Gabrijela Bijelić, Slobodna Dalmacija, "Pao Čačić, pala i 'Ombla': iznenada odgođeno predstavljanje studije o utjecaju na okoliš" [Čačić falls, 'Ombla' falls as well: presentation of environmental impact assessment suddenly postponed]; <https://www.slobodnadalmacija.hr/dalmacija/dubrovnik/clanak/id/186197/pao-cacic-pala-i-ombla-iznenada-odgoeno-predstavljanje-studije-o-utjecaju-na-okolis>

we turn to partial projects. Even when only a minister changes within the same government, even then everything once again starts from the beginning. By its nature, the energy sector demands long-term planning, which doesn't fit in with our mental framework. How do you explain to a minister that they will have to work on a project that they won't get to inaugurate by themselves?" – Expert 6

"An energy sector development cycle is much longer than a term in office. A lack of a serious strategy and plan, having things start anew with each government, is extremely harmful in the energy sector." – Expert 12

LIBERALISATION OF GAS TRADING

During the Croatian EU accession negotiations, member states have made great stride in the continued integration through the Common Market. An ambitious plan to create a single European gas market was adopted, that was to result in competition and reduced prices of gas for citizens and industry, as well as increase the quality of service. The basic goal of the process of liberalisation is to make gas transport infrastructure available under similar circumstances to all market players. Therefore, the process of liberalisation implied splitting up vertically organised companies (such as, for instance, INA or HEP) into separate firms. Splitting up such companies was necessary in order to make gas transport infrastructure available to all, under equal conditions. However, in East and Central European countries, including Croatia, the liberalisation of gas trading has, at best, engendered oligopolies where Gazprom's intermediary firms were always present. The reason for this is that, although the EU gas market has formally been liberalised, almost all the gas arriving to that market comes from a single source – the Russian Federation.

"It's not a problem to depend on Gazprom, it is just a large supplier. But it is necessary to have the possibility of obtaining the goods from someone else if Gazprom were to drop out. Nominally, we can procure from any direction, but the question is how the market is organised. Nominally, you transpose the EU legislative framework, you nominally remove the technical, legislative barriers for other traders to appear. Gas markets in South-East Europe, that is, in the countries of the former Yugoslavia, are extremely specific. For one, these are small markets. Second, they contain a single dominant player. Third, they have limited infrastructure. Fourth, the price of energy is a social category. And then you go and liberalise it. All that you can get in such a situation is a move from a monopoly to an oligopoly." – **Expert 6**

The other factor that allowed the expansion of Russian energy interests in Europe was the lower price of pipeline gas as opposed to LNG. As local gas production in the Northern Adriatic has been falling, and alternative lines of supply have not been built, the Croatian gas market has become increasingly dependent on Russian gas, whose main supplier is the First Gas Society (PPD). In a short period of time, PPD has turned from a regional energy firm into the largest Croatian private company, with an annual income exceeding a billion Euro.⁵² The Republic of Croatia has embarked on this sensitive process of liberalising the market parallel to conducting the complex process of gradual privatisation of INA. When the first 25% of INA shares were being sold, MOL was chosen as the strategic partner. It would seem that when this decision was being made, as well as the decision to continue selling shares, the fact that MOL's interests in the regional market are directly contrary to those of INA was disregarded. It was easy

⁵² Goran Litvan, Lider, "Lider predstavlja listu 1000 najvećih kompanija" [Lider presents a list of 1000 largest companies]; <https://lider.media/aktualno/tvrtke-i-trzista/poslovna-scena/lider-predstavlja-listu-1000-najvecih-kompanija/>

to assume that MOL's primary interest was to take over INA's market, not to invest in the research and processing capacities of a competing company in a neighbouring state. None of those interviewed could offer a rational explanation of, or any coherent logic in, the decision relinquishing management of INA to MOL. Ever since the Hungarian state became the largest MOL shareholder thanks to Prime Minister Viktor Orbán, the Hungarian oil company can be considered to be within the Russian sphere of influence, taking into account the breadth of the cooperation with Russian energy companies and individuals close to the Kremlin. From the perspective of energy supply (primarily gas) security, as well as from the perspective of geopolitical relations, increasing the level of dependence on Russian gas, and consequently on Russian interests, can be considered extremely unfavourable for Croatia.

The European Union, which dreams of transitioning to a low carbon economy, has turned into a battlefield between American and Russian gas interests. Recent technological innovations have enabled more efficient extraction of gas from shale, permitting the USA to become an exporter of liquefied natural gas (LNG). The American administration has conducted an active campaign towards the EU and individual member states to build LNG terminals around Europe, in order to allow storing the imported American liquefied gas.⁵³ Constructing LNG terminals in Europe is therefore also a geostrategic goal of American foreign policy, as they have clearly formulated this as a desirable way of reducing Europe's dependence on Russian gas. However, in parallel to constructing LNG terminals in Europe, cooperation between Russia and certain EU member states on energy projects has continued. Certainly the most important among them is the Nord Stream 2, a gas pipeline that would double

⁵³ Vanessa Dezem, William Wilkes, World Oil, "Germany to buy more US LNG as Trump promotes commodity in Europe"; <https://www.worldoil.com/news/2018/11/29/germany-to-buy-more-us-lng-as-trump-promotes-commodity-in-europe>

the existing capacities for delivering Russian gas to Germany to 110 billion cubic metres per year. It is a project that has met with strong resistance from within the EU.⁵⁴ At the same time, Germany (like Croatia) has been planning to construct LNG terminals, although most European terminals already built function at a fifth to a third of their capacities, and although LNG is more expensive than pipeline gas.⁵⁵ However, a number of those interviewed during the research have pointed out that supply security always comes at a price; in the long term, it is more expensive to depend on a sole source of gas than to invest in diversifying.

"In my opinion, it is very important that these steps towards liberalisation are carried out so as not to grant anyone a monopoly. It doesn't really help to have an open gas market if you have a single line of supply that someone's sitting on. A market would mean having opportunities, allowing other traders equal chances. Then the market would benefit the society. If this is not so, then monopolies are created to the detriment of all users." – Politician 6

GEOPOLITICS

"In every book on the energy industry, they'll tell you that oil is not just an energy source, but a geopolitical instrument. The same goes for everything related to oil." – Politician 4

⁵⁴ MEPs commend Ukraine's reform efforts and denounce Russian aggression, European Parliament; <http://www.europarl.europa.eu/news/en/press-room/20181205IPR20940/meps-commend-ukraine-s-reform-efforts-and-denounce-russian-aggression>

⁵⁵ Marija Mileta, Antoine Simon (2018), *Plinske iluzije: Razbijanje mitova o krčkom LNG terminalu* [Gas illusions: breaking the myths about the Krk LNG terminal], Zelena akcija; https://zelena-akcija.hr/hr/programi/energetika_i_klimatske_promjene/novi_izvjestaj_plinske_iluzije_zelena_akcija_razbila_mitove_o_krckom_lng_terminalu

Energy was always understood as an instrument of geopolitics. This has been especially true of Russian gas over the past two decades. On the one hand, misgivings over overdependence on Russian gas are an echo of the Cold War division of the world, with Russia as the eternal bad guy. On the other hand, Russia's current unfavourable international position is a direct result of its foreign policy. In spite of the numerous difficulties in the relations between the European Union and Russia (the Russian annexation of Crimea, as well as killings of journalists, politicians and intelligence operatives backed by the Russian state), there is mutual willingness to cooperate and form partnerships on energy projects (such as the Nord Stream 2 and TurkStream pipelines).

"The Russians are building two large pipelines that neither they nor Europe need, because they have perfectly sufficient capacities to supply Europe with gas from old Soviet pipelines. Some say that the only reason to build them is corruption, to finance Putin's friendly firms. I'm not so sure about that, I think the main reason is geopolitical, because pushing gas further towards the West gives Russia a chance to attain a monopoly position there as well, while, on the other hand, it fully ensures its position in Eastern Europe, completely surrounding it this way." – Expert 7

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"The Russians utilise the huge mark-up rates to construct new pipelines even though the price of gas in Europe could be much lower. If that was the case, the Russians wouldn't be able to build new pipelines, they couldn't effectively dismantle the European Union by inciting conflict within the EU. Coal would have been replaced back in the 2000s. The Russians would still be exporting the same amounts of gas, maybe even larger amounts of gas to Europe. European CO₂ emissions would fall significantly. The entire transition would have happened much quicker." – Expert 7

Russia has certainly viewed cooperation with European Union member states as a constitutive element in reinforcing its position in the global order, but it does likewise represent a simple economic interest. Russia's economy is based on exporting energy sources, with fossil fuel sales accounting for 60 percent of Russian exports and half the budget revenues.⁵⁶ Russian gas exports to Europe are a key segment of Russian energy and foreign policy. The market liberalisation process, coupled with the existing gas transport lines, as well as the affordable price of Russian gas, allowed Russian energy companies to penetrate deep into the European market.⁵⁷ Gas has consequently become a geopolitical instrument for Russia, as direct cooperation with the political elite in individual EU member states has allowed it to avoid cooperation through the Union's institutional framework, thus creating a polycentric map of Europe that opened up a far broader room for manoeuvre than the monolithic, politically coherent and united European Union would have allowed.

"Already following the two oil crises in the Seventies, anyone with any brains could realise that stories of supply and demand as the force regulating the world market are children's fairytales. And that actually, it's geopolitics and geopolitical energy interests coupled with economic strength that makes a superpower. But what's important is economic, not military strength." – Expert 10

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"Everybody swears that it's all just a market matter, but let's not be under any illusion. Just like the Russian state looks after Gazprom's interests, the American state similarly or equally looks after the interests of Exxon or Chevron,

⁵⁶ World Bank; <https://wits.worldbank.org/CountryProfile/en/Country/RUS/Year/2016/TradeFlow/Export/Partner/WLD/Product/all-groups>

⁵⁷ Frédéric Simon, Euractiv.com, "Gas market liberalisation: An unsung EU success story?"; <https://www.euractiv.com/section/energy/news/gas-market-liberalisation-an-unsung-eu-success-story/>

and let's not assume the Chinese government ever did anything that wasn't to Sinochem and Sinopec's taste, just like the German government never adopted a measure that would have directly harmed VW or Siemens. We must be aware of that." – Expert 4

Latterly, even the USA began to mark the European Union as an undesirable actor on the global political scene, almost an enemy. Asked who are America's greatest foes, President Donald Trump answered – the European Union. Trump tried to convince British Prime Minister Theresa May to carry out Brexit post haste, promising quick conclusion of a trade agreement between the USA and the United Kingdom. President Trump's administration downgraded the European Union's diplomatic status from that of a state to that of an international organisation. Trump even offered Germany to conclude a *separate* trade agreement with the U.S. The USA and Russia have conducted an active policy of obstructing the European Union's functioning as a unified actor on the global political scene. Just like Trump's administration, Russia has clearly communicated its desire not to develop a bilateral relationship with the European Union as a whole, instead preferring individual relations with its member states.

"Geopolitics influence the decisions made in the Croatian energy sector, and the outcomes depend on how prepared you are for these conversations, whether you have mastered the substance and whether you can define your interests. When a larger energy company arrives, an army of diplomats arrive along with it. The public service abroad champion the interests of their companies, whether they are public or private. This can't happen in Croatia, as such economic diplomacy would immediately find itself in the context of conflicts of interest or preferential treatment, which is the wrong context. I find it perfectly fine for attachés and ambassadors to call, to ask around what is being planned, to represent firms from their

countries etc. These aren't pressures, it is a legal struggle where everyone represents their own interest." – **Expert 6**

ILLIBERAL TENDENCIES

The role currently played by Russian gas in Europe, including Croatia, would not be considered problematic on its own if the political influence realised by Russia by means of its gas business in, e.g., Hungary, were not visible as well. The situation additionally calls for concern if the totality of Russia's activities directed towards the European Union, member states and other countries it does not view as friendly is taken into account. Russian energy firms, Russian banks and firms owned by Russian oligarchs often do not function according to market principles, but are used as powerful geopolitical tools. After Bulgaria withdrew from the construction of South Stream under pressure from the European Union, the penalty came in the shape of causing an economic and political crisis by destabilising the Corporate Commercial Bank, the work of actors connected to Russian interests and the Russian VTB bank.⁵⁸ Russia was not loath to exploit the weaknesses of European democratic systems: politicians prone to corruption; non-transparent electoral processes; abuse of freedom of speech, expression and information; unregulated Internet hate speech; lack of regulation of the dissemination of false news and disinformation on the Internet; non-transparent political advertising on social networks; the anonymity of the digital public space; lack of regulation of processing private data; non-transparent media and private firm ownership. Locating weaknesses in the foundations of European democracies, Russia embarked on a so-called

information war through propaganda that media organisations and Internet actors in their sphere of influence disseminate by conducting digital campaigns aimed at shifting the dominant attitudes within society and inciting radicalisation by means of deepening the existing social divides.⁵⁹ Moreover, Russian money finances radical social, civic and political actors openly advocating the establishment of undemocratic, illiberal systems, and promising to tear down the rights of national minorities, migrants, women and the LGBT community.⁶⁰ The influence Russia wields through Russian firms is made more complex by the influence Russia exercises directly on the political and electoral processes in member states. Financial links, as well as other forms of support for radical political actors, have also been uncovered. Most attention was given to the relations with the German AfD,⁶¹ the French National Rally (previously known as the National Front)⁶² and the Italian Lega⁶³ (previously the Northern League). At the same time, an international coalition of radical social conservatives is being formed, turning into a unitary movement against political correctness, women's reproductive rights, the rights of national and sexual minorities, of migrants, against imaginary constructs

⁵⁸ Margarita Assenova, *South Stream Brings Down Bulgaria's Government*, Eurasia Daily Monitor Volume: 11 Issue: 112 (2014); <https://jamestown.org/program/south-stream-brings-down-bulgarias-government/>

⁵⁹ BBC, "Theresa May accuses Vladimir Putin of election meddling"; <https://www.bbc.com/news/uk-politics-41973043>

⁶⁰ Petar Vidov, Faktograf.hr, "Hrvatske ekstremiste podržava i moćni ruski oligarh" [Croatian extremists have the support of a powerful Russian oligarch]; <https://faktograf.hr/2018/04/03/hrvatske-ekstremiste-podrzava-i-mocni-ruski-oligarh/>

⁶¹ Jean-Michel Hauteville, Handelsblatt, "Russia trip exposes AfD ties to Moscow"; <https://www.handelsblatt.com/today/politics/russian-collusion-russia-trip-exposes-afd-ties-to-moscow/23582296.html>

⁶² Paul Sonne, The Washington Post, "A Russian bank gave Marine Le Pen party a loan. Then weird things started happening"; <https://www.washingtonpost.com/world/national-security/a-russian-bank-gave-marine-le-pens-party-a-loan-then-weird-things-began-happening/>

⁶³ Max Seddon, James Politi, The Financial Times, "Putin's party signs deal with Italy's far-right Lega Nord"; <https://www.ft.com/content/0d33d22c-0280-11e7-ace0-1ce02ef0defg>

such as so-called gender ideology⁶⁴ and so-called cultural Marxism.⁶⁵ The goal of such movements is to establish a so-called natural order⁶⁶ and so-called illiberal Christian democracies, following the model of Russia and Hungary. Russian actors have played a substantial role in supporting this global network, which opens the path to radical-right political parties, which have achieved electoral breakthroughs across Europe, by introducing radical opinions into European societies. There are many European Union member states where there is a relevant and radical political option that advocates the dissolution of the European Union, closer relations with Russia and rejecting the liberal elements of democracy by enforcing an identitarian ideology.⁶⁷ If these political options were to achieve too great a breakthrough in the forthcoming European elections, this might lead to a paralysis in the European institutions' key decision-making processes and functioning. It seems as if Russia has carried out successful operations to influence the recent electoral cycles in the USA and the referendum on Great Britain's exit from the European Union, while in the latter, some American non-state actors, though also supported by Russian capital, have also taken part.⁶⁸ The rejection of the

so-called Marrakesh agreement in certain EU member states, which occurred following an orchestrated campaign on social networks, shows the extent to which the global radical right is internetworked, and the extent to which its interests are complementary to those of the Russian state.⁶⁹ The European Union is at a crossroads, and after the forthcoming elections must take a clear tactical approach with respect to the deterioration of the rule of law in member states, especially Hungary and Poland, but also to the vision of an illiberal, Christian and white Europe offered by radical political and civic actors. This will be a difficult task, as it is expected that there will be a surge in radical voices in the European Parliament, as-yet unrecorded electoral success for actors connected by radicalism, nativism, extremism, illiberalism, revisionism and Euroscepticism.⁷⁰

RUSSIA AND CROATIA

Russian state and non-state actors operate in Croatia as well. Former HDZ president Tomislav Karamarko was indirectly connected to the Finnish nuclear plant project that was supposed to be backed by Russian capital, with an attempt to conceal its source by means of firms established in Croatia.⁷¹ HDZ's

⁶⁴ Michelle Gallo, Open Society Foundations, "Gender Ideology' Is a Fiction That Could Do Real Harm"; <https://www.opensocietyfoundations.org/voices/gender-ideology-fiction-could-do-real-harm>

⁶⁵ Jason Wilson, The Guardian, "Cultural Marxism': a uniting theory for rightwingers who love to play the victim"; <https://www.theguardian.com/commentisfree/2015/jan/19/cultural-marxism-a-uniting-theory-for-rightwingers-who-love-to-play-the-victim>

⁶⁶ Sanja Despot, Faktograf.hr, "Objavljujemo nove dokaze o međusobnoj umreženosti i tajnim planovima europskih obiteljaša" [We are publishing new evidence on the mutual connections between European *Obiteljjaši* /Christian social conservative movement, focused on 'protecting the family' and 'family values' – t/n/ and their secret plans"; <https://faktograf.hr/2018/03/30/zeljka-markic-agenda-europe-obiljelasi-istanbulska/>

⁶⁷ BBC, "Europe and nationalism: A country-by-country guide"; <https://www.bbc.com/news/world-europe-36130006>

⁶⁸ Peter Geoghegan, Adam Ramsay,

Opendemocracy.net, "Is there a link between Cambridge Analytica and the DUP's secret Brexit donors?"; <https://www.opendemocracy.net/David-Burnside-Putin-Russia-DUP-Brexit-Donaldson-Vincent-Tchenguz>

⁶⁹ Laurens Cerulus, Politico.eu, "The man who broke Belgium's government"; <https://www.politico.eu/article/theo-franckenthe-man-who-broke-belgium-government/>

⁷⁰ Laurens Cerulus, Politico.eu, "Europe's most hackable election"; <https://www.politico.eu/article/europe-most-hackable-election-voter-security-catalonia-european-parliament-disinformation/>

⁷¹ Petar Vidov, Faktograf.hr, "Donirala HDZ ruskim novcem, a sad bi mogla postati nova šefica Agrokora" [She donated Russian money to the HDZ, now she might become the new boss of Agrokor]; <https://faktograf.hr/2018/06/06/oksana-dvinskykh-hdz-rusija-agrokor/>

Croatian Statehood Foundation received a Russian donation that was only revealed after Karamarko's political fall.⁷² The First Gas Society gave the HDZ a multi-million loan when the party could not get a loan from the banks on favourable terms, and while criminal proceedings were being pursued against it.⁷³ The fastest-growing opposition party, Human Shield [HS], has also been recognised as representing Russian interests.⁷⁴ Information on MP Pernar's Russian travels are readily available,⁷⁵ as well as accusations of the party's suspicious financing methods.⁷⁶ Croatian radical civil associations pursuing an identitarian ideology are part of a global network that enjoys support from powerful Russian oligarchs well-connected to the

Kremlin.^{77,78} Such actors use radicalising public campaigns and referendum initiatives to introduce disruptions into the social tissue of so-called Western democracies.⁷⁹ It is a matter of national security and national interests to fully reduce foreign-policy relations with Russia to transparent diplomatic relations, and to preclude hidden influence on decision-making processes and forcefully react to attempts at manipulation through propaganda campaigns on social networks and inappropriate interventions in the electoral process.⁸⁰ Theodore Karasik, from the American conservative think tank the Lexington Institute, published a comment on the Euronews portal under the title "If Croatia enters the Eurozone, Russia will get its most powerful weapon in Europe". Karasik claims that Russia has used corruption entrenched in Croatia in order to expand its influence.⁸¹

⁷² Nacional, "EKSKLUZIVNO Afera Nova pokoljenja: HDZ ruskom donacijom platio Ifo institut 2,6 milijun kuna" [Exclusive: New Generations Affair: the HDZ used a Russian donation to pay the IFO institute 2.6 million Kuna]; <https://www.nacional.hr/ekskluzivno-afere-nova-pokoljenja-hdz-ruskom-donacijom-platio-ifo-institut-26-milijun-kuna/>

⁷³ Petar Vidov, Novosti, "Stranka na plinski pogon" [A gas-powered party]; <https://www.portalnovosti.com/stranka-na-plinski-pogon>

⁷⁴ Iva Boban Valečić, Večernji list, "Živi zid otkrio vladu u sjeni: Hrvatska treba izići iz EU i NATO-a" [Human Shield reveals shadow government: Croatia must leave EU and NATO]; <https://www.vecernji.hr/vijesti/zivi-zid-u-lisinskom-okupio-1500-ljudi-necemo-dopustiti-da-se-hrvatska-pretvori-u-koloniju-1242305>

⁷⁵ R.I., Index.hr, "Pernar je u Rusiji, druži se s Putinovom mladeži" [Pernar is in Russia, hanging out with Putin's youth]; <https://www.index.hr/vijesti/clanak/pernar-je-u-rusiji-druzi-se-s-putinovom-mladezi/2031177.aspx>

⁷⁶ Godeč, Željka, Jutarnji list, "VIDIO SAM PUKIM SLUČAJEM ONO ŠTO NISAM TREBAO Supredsjednik Živog Zida iznosi detalje o žutim kuvertama punim novca i navodnoj Lovrinovićevoj ponudi" [By pure accident I saw what I wasn't supposed to. Human Shield co-president describes the details on yellow envelopes stuffed with cash and the alleged proposal by Lovrinović]; <https://www.jutarnji.hr/vijesti/hrvatska/vidio-sam-pukim-slucajem-ono-sto-nisam-trebao-supredsjednik-zivog-zida-iznosi-detalle-o-zutim-kuvertama-punim-novca-i-navodnoj-lovrinovicevoj-ponudi/4705259/>

⁷⁷ Petar Vidov, Faktograf.hr, "Hrvatske ekstremiste podržava i moćni ruski oligarh" [Croatian extremists supported among others by a powerful Russian oligarch] <https://faktograf.hr/2018/04/03/hrvatske-ekstremiste-podrzava-i-mocni-ruski-oligarh/>

⁷⁸ Sanja Despot, Faktograf.hr, "Objavljujemo nove dokaze o međusobnoj umreženosti i tajnim planovima europskih obiteljiša" [We are publishing new evidence on the interconnections and secret plans of European *obiteljiši*]; <https://faktograf.hr/2018/03/30/zeljka-markic-agenda-europe-obiteljasi-istanbulska/>

⁷⁹ BBC, "Theresa May accuses Vladimir Putin of election meddling"; <https://www.bbc.com/news/uk-politics-41973043>

⁸⁰ Laurens Cerulus, Politico.eu, "Europe's most hackable elections"; <https://www.politico.eu/article/europe-most-hackable-election-voter-security-catalonia-european-parliament-disinformation/>

⁸¹ Theodore Karasik, Euronews.com, "If Croatia joins the Eurozone, it would give Russia its greatest weapon in Europe | View"; <https://www.euronews.com/2019/01/22/if-croatia-joins-the-eurozone-it-would-give-russia-its-greatest-weapon-in-europe-view>

CLIMATE CHANGE

In late 2015, the global Paris Agreement was adopted,⁸² setting an ambitious goal of halting the rise of the global temperature at 1.5 °C, up to 2 °C at most, above the preindustrial level. The Agreement also foresees the establishment of financing mechanisms that should increase the capacity to adapt to climate change and spur the transition to a low-emissions development. The European Union has committed to reduce its greenhouse gas emissions, increase the share of renewable energy sources and increase energy efficiency. The EU has planned a 20% reduction by 2020, 40% by 2040 (in relation to 1990). Meanwhile, new scientific insights have been published, increasing the state of urgency. In December 2018, the UN has published a report⁸³ predicting that warming of 1.5 °C will occur as early as by 2030,⁸⁴ while the year 2018 was record-breaking in terms of emissions (globally and in the USA). As many as 17 out of 18 hottest years since measurement began have all taken place in the 21st century.⁸⁵ For that reason, 14 European Union member states have begun an initiative to set more ambitious goals for emissions reductions.⁸⁶ The Republic of Croatia has already met its emissions reduction targets for

2020 in 2015, which allows us to assume that the goals for 2030 will also be met. Croatia's low carbon footprint is primarily the result of the hydropotentials whose exploitation began back in the SFRY, and the deindustrialisation of the society. Such a way of fulfilling the greenhouse gas reductions obligations has resulted in the Croatian energy sector focusing too little on renewable energy sources. In spite of the alarming scientific insights, neither of the two scenarios featured in the Green Paper (that ought to serve as the analytical foundation for drafting the future Energy Sector Development Strategy by 2030) involve a radical transformation of the society and the economy towards low emissions.⁸⁷ Both scenarios remain inside the framework set by the current European climate goals, although there are already initiatives to make these goals more stringent. Such a scenario would have numerous positive effects. For a start, it would be considered economically desirable, as solar panels give the cheapest electrical energy.⁸⁸ Moreover, by relying on its own energy sources, Croatia increases its energy independence and strengthens its position within complex geopolitical relations. In addition to the aforementioned solar panels, Croatia should turn towards further exploitation of hydro- and wind potentials. In such a scenario, energy policy plays a large role with regard to local development policy, agricultural policy, waste management policy, poverty reduction policy and water management policy. Thus, for instance, the possibility of constructing hydroelectric plants ought to be additionally evaluated with respect to the possibility that such facilities may play a role in agricultural irrigation

82 The Paris Agreement; <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

83 The Intergovernmental Panel on Climate Change, *Special Report – Global Warming of 1.5°C*; <https://www.ipcc.ch/sr15/>

84 George Leonard, Ocean Conservancy, *Climate Change and the Ocean: A Stark Message from the IPCC*; https://oceanconservancy.org/blog/2018/10/11/climate-change-ocean-stark-message-ipcc/?ea_tracking.id

85 Carbon Brief; *Analysis: Global CO2 emissions set to rise 2% in 2017 after three-year 'plateau'*; <https://www.carbonbrief.org/analysis-global-co2-emissions-set-to-rise-2-percent-in-2017-following-three-year-plateau>

86 Frédéric Simon, Euractiv, "14 European countries call for stronger EU climate action"; <https://www.euractiv.com/section/climate-environment/news/14-european-countries-call-for-stronger-eu-climate-action/>

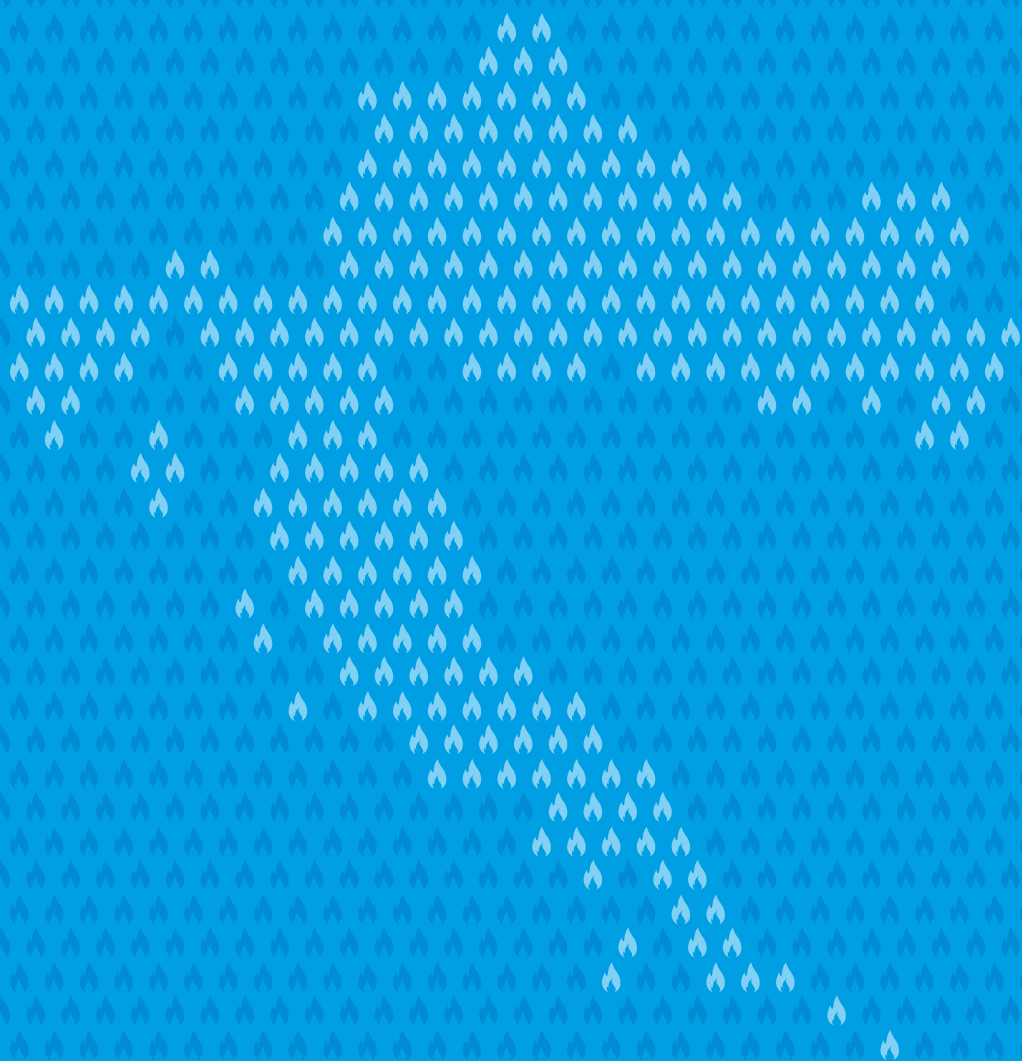
87 Energetski Institut Hrvoje Požar, *Zelena knjiga – Analize i podloga za izradu energetske strategije Republike Hrvatske* [Energy Institute Hrvoje Požar. *Green Paper – Analyses and foundation for designing an energy strategy for the Republic of Croatia*]; https://www.mzoip.hr/doc/analize_i_podloge_za_izradu_energetske_strategije_republike_hrvatske_-_zelena_knjiga_nacrt.pdf

88 Renewable Power Generation Costs in 2017, International Renewable Energy Agency; <https://www.irena.org/publications/2018/Jan/Renewable-power-generation-costs-in-2017>

projects or flood prevention.⁸⁹ Similarly, systematic waste recycling would lead to organised composting of organic waste, which produces renewable biogas, equal in quality to natural gas. Composting can also produce large amounts of natural fertilizer for growing e.g. energy crops, which could at once carry out systematic clearing of soils from pesticides and chemicals. Decentralised local production of biofuels from energy crops might considerably stimulate local and regional development. It is not justified to omit a scenario that would entail a thorough transformation of the Croatian society and economy towards low emissions, if we take into account all the positive impacts such a scenario might have, especially bearing in mind the presumption that in time, the world will take ever more daring steps in this area. Due to its size, low energy needs and abundant availability of renewable energy sources, Croatia has a chance to become a leader in Europe's transition towards green energy, which would also advance its tourist brand. All that's lacking are the political will and vision to do so. A substantial number of those interviewed have pointed to the green transition as a chance for Croatia to remedy the problems that exist in its energy sector.

⁸⁹ Vodnogospodarski potencijal, Zagreb na Savi
[Water management potential, Zagreb on the Sava];
<http://zagrebnasavi.hr/vodnogospodarski/>

CASE STUDY: **INA**



KEY QUESTION

"I cannot comprehend the policy regarding INA, regardless of my being a veteran in the field of energy policy. I have 45 years of experience working in the energy sector. I just do not comprehend it." – Expert 3

At the time when Croatia was gaining independence, INA was the largest and most important state company. Today, nearly three decades on, Croatia has unsuccessfully sought an answer to the question whether it still needs INA. And – if it does – what kind of INA does it need. On Christmas Eve 2016, Prime Minister Andrej Plenković announced the repurchasing of INA shares from the Hungarian MOL company, thus returning the Croatian oil company under the wing of the Croatian state. However, over the past two years, the process of repurchasing INA has barely moved forward. In April 2018, the RC Government adopted a decision on selecting the consultants⁹⁰ that should advise it on the possible repurchase of shares, but the contract has not been signed yet. At the same time, Andrej Plenković's administration has been extremely lenient in its policies towards Viktor Orbán and his Hungary, as well as towards MOL, policies behind which one can glimpse the hidden answer that might involve INA as well.^{91 92} Due to the absence of a clear strategic

⁹⁰ Decision on selecting an investment consultant in the transaction of the possible purchase of shares in INA – Oil Industry d.d., Zagreb, held by Mol Hungarian Oil&Gas PLC, and the possible subsequent sale of bought shares to a strategic partner, and on granting authorisation for negotiations with the chosen investment consultant; <https://vlada.gov.hr/UserDocsImages//Sjednice/2018/04%20travnja/89%20sjednica%20VRH//89%20-%203.pdf>

⁹¹ Ivan Pandžić, Express, "Mađari žele sve u paketu: Dajemo im cijelu Inu, Hernadija..." [The Hungarians want everything packaged: We are giving them the entire Ina, Hernadi...]; <https://www.express.hr/ekonomix/ma-arima-dajemo-cijelu-inu-hernadija-19490>

⁹² Nina Domazet, Energetika-net.com, "Konačno

vision for Croatia's energy development, the RC Government does not know what it wants from INA and hasn't taken a clear position on which segment of INA's business it considers worth saving. Without such a decision, it will be difficult to estimate the effects of returning INA to Croatian state ownership.

"What is missing is for Croatia to define the Croatian national interests in INA. The difference between the national and the private interests lies in time limits. The private want capital as soon as possible, the highest possible profits. The state wants something else: development, environmental protection, business activities, raising the level of technology, education etc. Which reduces profits in the short term, but in the long run, the sum of profits is much greater than if you were immediately to rake in large profits without investing in environmental protection, education... There has never been a proposal from the Croatian side as to what are the national interests they seek to accomplish through INA, through the oil business." – Politician 4

There has likewise been no answer to the question what does Croatia want to do with INA even if it does succeed in becoming its sole or majority owner: will it seek a new strategic partner, or will the state assume responsibility for managing the company? If the RC Government were to decide for the first option, the scope for selecting partners is rather narrow. The American Castleton Commodities International, an investment company specialised for trade in energy commodities, has expressed an interest in entering into a strategic partnership.⁹³ The

imamo politiku o INA-i, ali poražavajuću..." [Finally, we have an INA policy, but it is devastating!]; <http://www.energetika-net.com/u-fokusu/komentar-kratki-spoj/konacno-imamo-politiku-o-ina-i-ali-porazavaju-cu-27907>

⁹³ Marko Biočina, Jutarnji list, "Ekskluzivno saznajemo, Amerikanci žele Inu: 'Spremni smo biti novi strateški partner'" [Exclusive: the Americans

Russian Rosneft⁹⁴ has also expressed an interest in taking over INA, but with the aim of becoming INA's majority owner,⁹⁵ rather than its strategic partner. If the decision ever comes about between relinquishing the share in INA to a Russian state firm or an American private investor, it will be primarily a political rather than a business decision, which is why it cannot be viewed as a guarantee of the further development of INA going in a direction that would be desirable for the RC. An alternative solution, where Croatia were to decide to once again have a state oil company and manage it itself, opens up a number of additional questions. There are three components in the operation of vertically integrated oil companies: upstream (research and development), midstream (refineries), and downstream (distribution and retail). As years have passed, INA's downstream has been turned into a distribution network for selling MOL's oil products, and, as such, is of no substantial strategic importance to the state. At the same time, MOL has neglected other facets of INA's business, in whose revival

want Ina: 'We are ready to be the new strategic partner'; <https://novac.jutarnji.hr/makro-mikro/ekskluzivno-saznajemo-amerikanci-zele-inu-spremni-smo-biti-novi-strateski-partner/7514454/>

⁹⁴ Marko Biočina, Jutarnji list, "GLAVNI DIREKTOR NAJVEĆE SVJETSKE NAFTNE KOMPANIJE 'Želimo ući u Inu. Ako se to dogodi, točno znam i što ćemo s rafinerijama u Sisku i Rijeci!'" [General director of the world's largest oil company: "We want to move into Ina. If it happens, I know exactly what to do with the Sisak and Rijeka refineries!]; <https://www.jutarnji.hr/vijesti/hrvatska/glavni-direktor-najvece-svjetske-naftne-kompanije-zelimo-uci-u-inu-ako-se-to-dogodi-tocno-znam-i-sto-emo-s-rafinerijama-u-sisku-i-rijeci/6692091/>

⁹⁵ Ines Goda, Ilija Radić, RTL, "RTL ekskluzivno doznaje kako se stvara plan da Rusi preuzmu INA-u: Rosnjeft bi postao vlasnik 51 posto dionica, a hrvatska Vlada zadržala kontrolni paket od 25 posto dionica" [RTL has found out exclusively how a plan for the Russians to take over INA was hatched: Rosneft would become the owner of 51 percent of shares, and the Croatian government would keep the control stock of 25 percent of the shares]; <https://vijesti.rtl.hr/novosti/hrvatska/2739237/rtl-ekskluzivno-doznaje-kako-se-stvara-plan-da-rusi-preuzmu-ina-u-rosnjeft-bi-postao-vlasnik-51-posto-dionica-a-hrvatska-vlada-zadrzala-kontrolni-paket-od-25-posto-dionica/>

the RC might have an interest. Upstream is considered the most important segment of oil companies' business; their real value depends on the size of the fossil fuel reserves they have at their disposal to exploit. INA's last substantial field was discovered in Syria, where exploration had begun as far back as the late Nineties. The field had meanwhile been abandoned, by the decision of Zoran Milanović's government.⁹⁶ Ever since MOL became INA's strategic partner, the Croatian oil company has no foreign finds of substance to show. In the meantime, cash was extracted from Croscos, INA's exploration and drilling company, by means of suspicious transactions with firms connected to MOL.⁹⁷ INA's total hydrocarbon reserves for 2017 were down 24 percent on the previous year, from 198 to 150 million barrels of oil equivalents (BOE).⁹⁸

"As far as local explorations are concerned, the reserves had expanded, but they weren't the large reserves of the sort we discovered in 1974 in the Podravina complex – Molve, Kalinovac, these Podravina fields. That was an enormous discovery, these fields are still active, but, needless to say, with a huge drop in production. MOL gradually introduced a certain budget control, in planning and execution. This also meant a restrictive policy, on exploration as well among other things. But when in 2009, the Prime Minister gave them a controlling interest, they changed everything overnight, indeed, exploration was reduced to 2-3 wells a year, and mostly in those areas where geologists had

⁹⁶ Announcement, INA d.d.; <https://www.ina.hr/priopcenje-4015/4015> [a more detailed Notice on "Force majeure" in Syria: https://www.ina.hr/UserDocsImages/arhiva/investitori/objave/2012//Sirija_FM%20EN.pdf]

⁹⁷ Dražen Majić, HRT, "Imaju li Croscove transakcije veze s navodnim mitom pri MOL-ovoj kupnji dijela Ine?" [Are Croscos's transactions linked to alleged bribes that took place when MOL bought a share of Ina?]; <https://vijesti.hrt.hr/375839/imaju-li-croscove-transakcije-veze-s-navodnim-mitom-pri-mol-ovoj-kupnji-dijela-ine>

⁹⁸ Annual Report for 2017, INA, d.d.; <https://www.ina.hr/investors-9847/financial-reports/annual-financial-reports-9925/9925>

logically expected that an existing oil or gas field might be expanded, or to discovering certain pockets for which there had previously been known that there might contain hydrocarbons."

– Expert 10

"Croatia used to have a high share of local production; INA used to exploit hydrocarbons in the global market as well. Now we are in a period where past sins, the lack of investment in renewing reserves, are coming back to haunt us. Renewing reserves is very important, and this exploration has ceased ever since MOL entered INA as a strategic partner. In the gas economy this is a problem that we feel today, and will feel over the following period. Today we are at 40 percent of our gas production. All the rest we import from the Russian Federation."

– Politician 1

"The Croatian gas production is not insignificant, but it is falling and nothing is invested in new sites although there is gas in Croatia. I am no expert on this, but I hear from those who are that it was a deliberate policy, not to invest in Croatian wells."

– Expert 7

Even if it had refineries that were more modernised, INA lacks its own oil to process in them. A logical prerequisite for saving INA's refinery business would therefore have to be expensive and uncertain upstream investments. But even if research, development and hydrocarbon processing were recognised as a strategically important aspect of Croatian energy development, this would not necessarily mean that the RC Government needed to buy back MOL's shares in INA. In that case, it would be more practical to arrange to dissociate the company from the Hungarian co-owner, where based on the shares it already owns, the RC could ask for the segment of INA's business that MOL evidently is not interested in – upstream and midstream – to be separated out. This way, a new national oil firm could be formed, whose core would

comprise INA-Naftaplin and the Rijeka and Sisak refineries, with the Rijeka facility more likely to process oil products, while the Sisak facility could finally be transformed into an oil depot and biorefinery, which was the recommendation of an independent study carried out by Deloitte.⁹⁹ It would be difficult to give an economic justification for two oil refineries in a country the size of Croatia, with low hydrocarbon reserves.

"You have the Sisak refinery, which is a jalopy that's supposed to be making 200 km/h on the motorway. It's fated either to receive an ultra-high investment, or to shut down. And you have a project evaluated by Deloitte, an independent outside company, as the only one that is optimal for the purpose of rescuing the refinery. In Sisak-Moslavina County you have some 63,000 ha of uncultivated agricultural land that lies fallow. You have a project that solves the problem of the refinery, the problem of uncultivated agricultural land, why doesn't the state say it'll go for it and declare it a strategic project?"

– Expert 8

"At the time it was supposed to be renovating our refineries, MOL had a new refinery in Slovakia, a refinery in Hungary, a refinery in Italy. And now the two of ours. Five refineries in such a small area. What were they supposed to produce? Add to this that these two refineries of ours were supposed to be torn down and have new ones built in their place. I know that these people in Sisak are poor, but this refinery wasn't ready to even produce lubricants."

– Expert 9

⁹⁹ Jasmina Trstenjak, Jutarnji list, "KOLIKO JE RE-ALAN POGON BIORAFINERIJE U SISKU? Stajao bi do 220 milijuna dolara, a Ina još nema ni plan, ni partnere, ni sirovinu, ni regulativu..." [How realistic is a biorefinery facility in Sisak? It would cost up to \$220 million, and Ina is still without a plan, partners, raw material or regulations...]; <https://www.jutarnji.hr/biznis/tvrtke/koliko-je-realan-pogon-biorafinerije-u-sisku-stajao-bi-do-220-milijuna-dolara-a-ina-jos-nema-ni-plan-ni-partnere-ni-sirovinu-ni-regulativu/6530913/>

However, establishing a new state oil company carries with it new governance challenges, in a sector notorious for its susceptibility to corruption, special interests and political influence. Therefore, a radical solution to the "INA problem", which is inadequately represented in public discussions, needs to be considered. The Republic of Croatia has the option of entirely abandoning development of the fossil fuels sector, by selling the remaining shares in INA, while the capital gained might be used to initiate an investment cycle focused on renewable energy sources, primarily the neglected potential for the exploitation of solar energy. The Croatian energy company, HEP, would be the logical institution tasked with carrying out such an investment cycle. The decision to sell INA would likely also mean giving up own gas reserves, which are anyway diminishing, which would increase the need to build an LNG terminal in order to diversify the supply routes for natural gas. In that case, Croatia might meet its needs for fossil fuels on the market without fear of shortages due to the availability of LNG, with a strategic decision to discourage hydrocarbon use in the long-term, especially in transport, in order to protect the environment, and, ultimately, to achieve energy independence.

KEY EVENTS

INA – oil industry was established in 1964, by the decision of the Croatian Communist Party merging Naftaplin Zagreb, the Rijeka Oil Refinery and the Sisak Oil Refinery into a single company. That same year, Retail also became part of INA, later to be joined by the Lendava Refinery, Zagreb Oil Refinery, the Mineral Fertilizer Factory in Kutina (today's Petrokemija Kutina), Petronafta Solin, the Opatovac – Bosanski Brod oil pipeline, Inženjering Zagreb and the petrochemical plants OKI Zagreb and DINA Omišalj (that later merged into DIOKI¹⁰⁰). By 1980, INA had grown to become the largest enterprise in the SFRY, which it was to remain

until the Federation's dissolution. In 1990, INA employed 32,000 workers, and its revenues comprised 10 percent of the total Croatian economy.¹⁰¹ Due to its economic strategic importance, but also the strategic importance specific to the energy industry, INA was always subject to political influence.

*"When I worked at INA, there was respect for the profession. Just those at the top were political appointees. Earlier still, in Yugoslavia, only the general manager was a party cadre, the lower-ranked executives were all professionals. As far as I see in the newspapers, this is no longer the case. From the lowest-ranked little engineers upwards, it's all politics." – **Expert 1***

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*"INA served as the source for extracting money, where officials were given cushy jobs, and, under the state's management, this led to it facing bankruptcy in 2009." – **Expert 5***

.....

*"The political class likes to grab profits from INA, because they are know-nothings. If we take the profit, then half of it goes to the Hungarians. If we don't take it, 100 percent of it remains in Croatia. It wasn't the Hungarians who drew profits; they had to because the Croatians did. That's how the assembly decided, to pay the owner a dividend. If you draw money from INA, the budget will gain, but the state will lose. They think it's a solution to the hole in the budget, but it's not. No, no one had any idea what to do with INA. Maybe they had an idea to employ 50 of their people when they come into power." – **Politician 4***

It was in the basement of the executive building of INA Naftaplin in Šubićeva street in the greater centre of Zagreb that on 8 October 1991, the Croatian Parliament session was

¹⁰⁰ DIOKI history: <http://www.dioki.hr/eng/onama/povijest.asp>

¹⁰¹ INA history: <https://www.ina.hr/about-ina-9845/history-9874/9874>

held in which the decision on disassociation from the SFRY was adopted. Today, Croatia marks this date as its Independence Day.¹⁰² Meanwhile, in independent Croatia, the building that used to house Naftaplin, the most important component of INA, which enabled the company to grow and develop, was emptied and abandoned, with speculation that it might be sold having circulated for some time now.¹⁰³ The fact that over the years, the managerial and supervisory functions in INA were performed by four former prime ministers (Hrvoje Šarinić, Nikica Valentić, Franjo Gregurić i Zlatko Mateša), as well as a number of former ministers: Davor Štern, Slavko Linić, Damir Polančec, Ivan Šuker, Božidar Kalmeta, Tomislav Ivić, Slavko Degoricija etc., testifies to the "special relationship" between Croatian politics and INA. Currently heading the Supervisory Board of INA is Damir Vandelić, the Prime Minister that wasn't to be of the interim non-party RC Government President Kolinda Grabar Kitarović had assembled to take over after the 2015 parliamentary elections resulted in stalemate.¹⁰⁴

During the Nineties' war, INA was thoroughly destroyed: under wartime conditions, part of the domestic production had to be discontinued, and the Croatian oil company

also lost part of its property.¹⁰⁵ In Serbia, INA's network of petrol stations and depots ended up in the possession of the Russian Lukoil, which meant a loss of around 200 million Euro for the Croatian oil firm.¹⁰⁶ The government of Zlatko Mateša, the last HDZ Prime Minister before the elections of the 3rd of January 2000, also contributed to INA's unenviable financial situation, by maintaining low fuel prices in the late Nineties despite the rising price of oil in international markets.¹⁰⁷ Ivica Račan's government found INA on the edge of bankruptcy, yet they too engendered within it affairs that were never fully explained.¹⁰⁸ Račan's government considered that the solution to the problem was to be found in the trends of enlarging companies in the oil and gas business,¹⁰⁹ so it was decided that it is key for INA's future development to find it a strategic partner. In the late Nineties, the

¹⁰² The Decision on the Termination of State and Legal Ties with other Republics and Provinces of the Socialist Federative Republic of Yugoslavia; <http://www.sabor.hr/Default.aspx?art=15019> [link broken]

¹⁰³ Nikola Sušec, Tportal, "Kako je zgrada u kojoj je Hrvatska proglasila neovisnost završila u 'hladnom pogonu'" [How the building where Croatia declared independence ended up as a dead asset]; <https://www.tportal.hr/biznis/clanak/kako-je-zgrada-u-kojoj-je-hrvatska-proglasila-neovisnost-završila-u-hladnom-pogonu-foto-20181008/print>

¹⁰⁴ Goran Penić, Jutarnji list, "JUTARNJI PRVI OTKRIVA: OVO JE NEPOZNATA VLADA ŠEFICE DRŽAVE IZ 2015. Pročitajte kompletan popis ljudi koji su pristali biti privremeni ministri" [Jutarnji the first to reveal: This is the Head of State's unknown 2015 government. See the full list of people who had agreed to become temporary ministers]; <https://www.jutarnji.hr/vijesti/hrvatska/jutarnji-prvi-otkriva-ovo-je-nepoznata-vlada-sefice-drzave-iz-2015-procitajte-kompletan-popis-ljudi-koji-su-pristali-biti-privremeni-ministri/7245894/>

¹⁰⁵ Marko Biočina, Večernji list, "Povijest Ine: Nakon epske pobjede u ratu, gubitnici u miru" [The history of Ina: after the epic victory in the war, losers in peace]; <https://www.vecernji.hr/premium/povijest-ine-na-kon-epske-pobjede-u-ratu-gubitnici-u-miru-632841>

¹⁰⁶ M.R., Index.hr, "INA o gubitku imovine u Srbiji: Naša imovina nezakonito je prodana Lukoilu, nastavljamo pravnu bitku" [INA on the loss of its assets in Serbia: Our property was illegally sold to Lukoil; we are continuing the legal battle]; <https://www.index.hr/vijesti/clanak/INA-o-gubitku-imovine-u-Srbiji-Naša-imovina-nezakonito-je-prodana-Lukoilu-nastavljamopravnu-bitku/800232.aspx>

¹⁰⁷ Crude Oil Prices – 70 Year Historical Chart, Macrotrends; <https://www.macrotrends.net/1369/crude-oil-price-history-chart>

¹⁰⁸ Oriana Ivković Novokmet, Tportal.hr, "Ina ne zna pošto je prodala tvrtku Linićevom prijatelju" [INA doesn't know the price for which it sold its company to Linić's friend]; <https://www.tportal.hr/biznis/clanak/ina-ne-zna-posto-je-prodala-tvrtku-linicevom-prijatelju-20131002>

¹⁰⁹ In late 1990s and early 2000s, oil companies had turned towards growth by means of acquisitions and mergers with their competitors: BP bought Amoco and ARCO; Exxon took over Mobil; Chevron became the owner of Texaco; Conoco merged with Phillips before jointly taking over Burlington; the Royal Dutch Petroleum bought Shell; the Norwegian companies Statoil and Norsk Hydro merged into a single company; the Hungarian MOL bought Slovakian Slovnaft; while the Russian gas giant Gazprom unsuccessfully attempted to acquire the state oil firm Rosneft.

ruling HDZ's policy sought to resolve INA's difficulties in a relatively similar way. During 1999, there were serious negotiations on merging INA and MOL into a joint, regional company.¹¹⁰ INA and MOL were supposed to enter the new company as equal partners, which failed to come about owing to a lack of consensus within HDZ. The agreement was not finalised until Tudman's death, after which it fell through. In the meantime, MOL modernised and expanded its business, while INA stagnated over the years that followed due to financial instability. When time came for a stake in INA to be conceded to a strategic partner, the Croatian company was no longer in an equal position to the Hungarian one. The time the Croatian political establishment lost over the late Nineties and early Noughties searching for a solution to save INA, only to come up with nothing better than a partial privatisation, was used by the Hungarians to prepare MOL for doing business in the 21st century.

"In 1998, when negotiations were being held on merging INA and MOL, INA was bigger than MOL. But the political establishment then said they didn't want this, and so MOL went its own way. In 2000 they modernised all its petrol stations, turned to foreign investors, modernised their refineries, and we continued to stand still. This was the turning point. When the decision was made not to go for the merger, MOL turned the page." – Expert 5

¹¹⁰ Ivana Jakelić (VL), Poslovni.hr, "Mol pobio Hanžekovićev nalaz o nezakonitu upravljanju" [Mol refutes Hanžeković's finding on illegal management]; <http://www.poslovni.hr/hrvatska/mol-pobio-hanzekovic-ev-nalaz-o-nezakonitu-upravljanju-203053>

"THE STRATEGIC PARTNER" NOBODY EXPECTED

Preparing INA for a partial privatisation, Račan's coalition government decided to loosen state control over fuel prices. A formula for determining the highest allowed price was introduced, with the key parameters being the dollar exchange rate and the price of oil in the Mediterranean market. The sale of 25 percent plus one INA shares was announced in an international public offering,¹¹¹ with three companies shortlisted for the future part-owners: the Austrian company OMV, the Hungarian MOL and the Russian Rosneft. The Russians eventually failed to send a binding offer; Rosneft was not interested in merely a quarter of the stake in INA, but tried to obtain a guarantee from the Račan government that it would be made possible for them to acquire a majority stake in the Croatian oil company. They did not receive the guarantee, and so only OMV and MOL remained in play to become INA's co-owners. Although in 2003, the opinion that the Austrian company would become INA's co-owner was dominant among the professional community, the Hungarians entered a substantially higher offer in the bidding for the quarter-stake in INA. OMV had offered 420 million USD, which was the upper boundary of the then-estimate of the value of a quarter-stake in INA, while MOL offered 505 million USD. The following day, the OMV management sent a message through their Zagreb lobbyist Marijan Kostrenčić that they too would be willing to pay the same price as MOL, with the justification that when drafting the original offer, they had not been aware of the size of the executive rights the strategic partner would receive over INA. But it was too late. Račan's government would not consider an offer entered after the deadline had passed.¹¹²

¹¹¹ The public offering was announced in the Zagreb-based Vjesnik newspaper and the London-based Financial Times.

¹¹² Marko Biočina, Večernji list, "Konačna istina o

"MOL entered INA in a devious fashion. Because they got what wasn't stipulated in the public offer, which was veto rights. In negotiations, after tendering, they got the right of veto over any decision worth more than 8 million USD. When there's someone with such rights, you can't get anyone to join. Because you can't have two holding veto powers. That is why OMV appealed after the bidding, but everything stayed the same." – Expert 2

Later on, when explaining MOL's unexpectedly high binding offer, the Hungarian company's CEO, Zsolt Hernádi, said he was inspired by 505 candy, a recognised Croatian product that was also sold at INA's petrol stations.¹¹³ However, it is far more likely that during the so-called first privatisation of INA, MOL had access to privileged information, allowing them to know that a higher offer would quickly repay itself. That is to say, the estimates of INA's value in play at the time did not take into account the Syrian fields, where in 2002 INA's experts found oil and gas reserves worth 23 billion Dollars, half of which was to fall to INA, and half to the Syrian state. It remains unknown to this day why INA's find in Syria was kept a secret ahead of the privatisation. Had the potential investors known of the fossil fuel reserves found in Syria, INA's price would have drastically surged literally overnight. The information on the find were only reported to the public in 2004, after the purchase agreement had already been signed with MOL.

prodaji, dar za 50. rođendan Ine" [The ultimate truth on the sale, a gift for INA's 50th birthday]; <https://www.vecernji.hr/premium/konacna-istina-o-prodaji-dar-za-50-rodjendan-ine-634311>

¹¹³ Miho Dobrašin, Večernji list, "Pod tušem sam se sjetio 505 bombona i ponudio 505 mil.\$ za Inu" [I was showering when I thought of 505 candy, so I offered 505 mil. \$ for INA]; <https://www.vecernji.hr/vijesti/pod-tusem-sam-se-sjetio-505-bombona-i-ponudio-505-mil-za-inu-370056>

"Why was the Syrian find kept secret? We found it very hard to explain. Was it so that it could be sold as soon as possible for as little as sufficed? We pointed out that the price was too low, back when the Privatisation Act was being discussed. When the offers came in, when they saw they could get more than 500 million Kuna, you no longer had anyone to talk to. I think this was due to the large hole in the budget." – Expert 5

The RC State Attorney's Office (SAO) also took on the question from whom MOL could have obtained the privileged information on INA's business in Syria,¹¹⁴ but the investigation bore no results. And that in spite of the well known fact that MOL's subsidiary, the Hungarian Geoinform company,¹¹⁵ preformed final electrical well logging on INA's Syrian wells, and therefore had the information on the potentials of the find in question. Who at INA decided to engage Geoinform for its Syrian operations, even though INA's Naftaplin had the capacities to perform the electrical well logging? How much information on the Syrian find did members of the Račan government have, and when did they acquire them? Why was it decided that the information on the discovered oil and gas beds would be hidden from the public, and who made such a decision? More than 15 years have gone by since INA's first privatisation, and these questions are still without an official answer. It would be easiest to assume that the case ended up in one of the notorious "drawers" in the SAO, which open only when such an action is backed by political will. Nevertheless, one cannot discard the possibility that the investigation hit a wall due to the complexity of the case or the SAO's lack of capacities, to which the former State's

¹¹⁴ Ivanka Toma, Miho Dobrašin, Večernji list, "MOL je znao tajnu o sirijskim poljima kad je ulazio u Inu?" [Did MOL know the secret of the Syrian fields when it entered INA?]; <https://www.vecernji.hr/biznis/mol-je-znao-tajnu-o-sirijskim-poljima-kad-je-ulazio-u-inu-368426>

¹¹⁵ Geoinform, General Information; <http://www.geoinform.hu/en/general-information/>

Attorney Dinko Cvitan regularly used to warn in his annual reports.¹¹⁶ It is understandable that investigators find it difficult to keep pace with all the affairs that arise in and around INA as if on an assembly line. At least two important but unanswered questions remain from the period that preceded the so-called first privatisation of INA. The first concerns concession fees, and the other the sale of the Siberian White Nights oil fields.

BILLIONS LOST

The RC lost a huge amount of money on concession fees. According to former economy minister Goranko Fižulić's estimation,¹¹⁷ in the period between 2003 and 2014, the state budget could and should have taken in a little under 1.9 billion USD from concession fees. Concession fees for hydrocarbon exploitation usually amount to between 12 and 20 percent, and it is common for states whose finds are being exploited participate in the profits from the exploitation. But not in Croatia. As for most of its history INA was a socially-owned company, paying serious fees for extracting hydrocarbon reserves – also socially owned – was considered unnecessary. When INA was sold, the concession fees were just five percent. Since 2015, they are 10 percent. These are still exceptionally low amounts; in Hungary, MOL pays 12 percent for concession fees.¹¹⁸ Even if the Račan government did forget the fact that concession fees might need to be increased before a foreign co-owner is introduced into the state oil company, this nevertheless does not exonerate the governments that followed. When a company that was not only private, but also foreign, began to make earnings off Croatian social resources, the concession fees could at least have been brought into line

¹¹⁶ SAO annual reports; <http://www.dorh.hr/Default.aspx?sec=645>

¹¹⁷ Goranko Fižulić, Telegram, "Tko je pravi vlasnik hrvatske nafte i plina" [Who is the real owner of Croatian oil and gas]; <https://www.telegram.hr/politika-kriminal/goranko-fizulic-za-telegram-tko-je-pravi-vlasnik-hrvatske-nafte-i-plina/>

¹¹⁸ Ibid.

with the European average. And especially considering the longstanding poor relations with MOL and the fact that for years, the Hungarian company has demonstrated that it never intended to be INA's strategic partner.

"MOL complained of losses in INA's gas business due to the frozen wholesale price of gas. However, to establish whether MOL is seeing losses, it should first be determined why the concession fee wasn't collected. MOL lost on imported Russian gas, but made huge profits on domestic gas, as you don't pay fees. They hide these data jealously, but by my calculations, they weren't seeing losses, but actually made profits. In late 90s, an analysis of 70 exploitation agreements was made in Oxford,¹¹⁹ which showed that the fees are lower than anywhere else in the world. We actually gave MOL the oil and gas, they paid us lower fees than they pay in Hungary." – Politician 3

RUSSIAN OLIGARCH DEFENDS SANADER

The purchase of the White Nights field in Siberia was supposed to be INA's best foreign investment. It was bought in 1998 for a mere 16 million Dollars thanks to the crisis of the economy that pushed the Russian state into bankruptcy. The Siberian oil and gas fields should have made profits for INA for years, maybe decades on. And then, after the change of government in Croatia in 2000, followed by the replacing of INA's executive, skeletons began tumbling out of the closets. INA's White Nights business first became the target of the

¹¹⁹ Kirsten Bindemann, "Production-Sharing Agreements: An Economic Analysis", Oxford Institute for Energy Studies, 1999; <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2010/11/WPM25-ProductionSharingAgreementsAnEconomicAnalysis-KBindemann-1999.pdf>

Russian authorities' sabotage, hampering the Croatian company's access to an oil pipeline to transport the extracted hydrocarbons and reducing export quotas, due to which the greater part of the White Nights oil had to be sold in Russia, thus diminishing INA's profits. Due to Russian obstruction on the White Nights, INA was faced with an inability to meet the production commitments it had taken on and a possible loss of licence, leading to the decision that it should withdraw from Russia.

"With the White Nights, we were sort of blackmailed by the big Russian companies, whose pipelines we needed to draw the oil from these fields. 'Well, you didn't pay for this, you didn't pay for that...' Clearing up what the deal was, we were taken aback because we hadn't known of any such obligations. And then the management engaged an investigation activity, a private detective agency from London was contracted, and they handed us four side-agreements that weren't public, but were signed, and included commitment to pay certain additional costs of transport, which was grey money for someone who participated in this on the Russian side. Nobody in INA knew a thing about it." – Expert 10

The offer to purchase White Nights was sent by the director of the Russian-Belarusian state company Slavneft, Mikhail Gutseriyev, but the sale on which INA was supposed to earn 120 million USD fell through at the last minute. Slavneft withdrew from the deal when the annexes to the purchase agreement mentioned in the above quotation were uncovered, making it clear that INA was not the sole owner of White Nights. The agreements signed by the previous INA management head Davor Štern transferred a smaller stake in White Nights to the Oilfield Financial Investments Ltd company, whose true owners were never revealed.¹²⁰ And the aforementioned

¹²⁰ Igor Alborghetti, Jutarnji list, "Ina nije bila jedini vlasnik polja u Sibiru, a posrednik je dobio 20 posto

Gutseriyev ultimately did become the owner of White Nights, even if in a roundabout way. Instead of handing the valuable find to the state company to manage, Gutseriyev turned White Nights into the cornerstone of his private energy giant – RussNeft. As it happens, Gutseriyev founded RussNeft in 2002, the same year that the Russian state companies Gazprom and Rosneft bought Slavneft. That same year, INA sold White Nights to PBS, an unknown Geneva firm, for 74 million USD.¹²¹

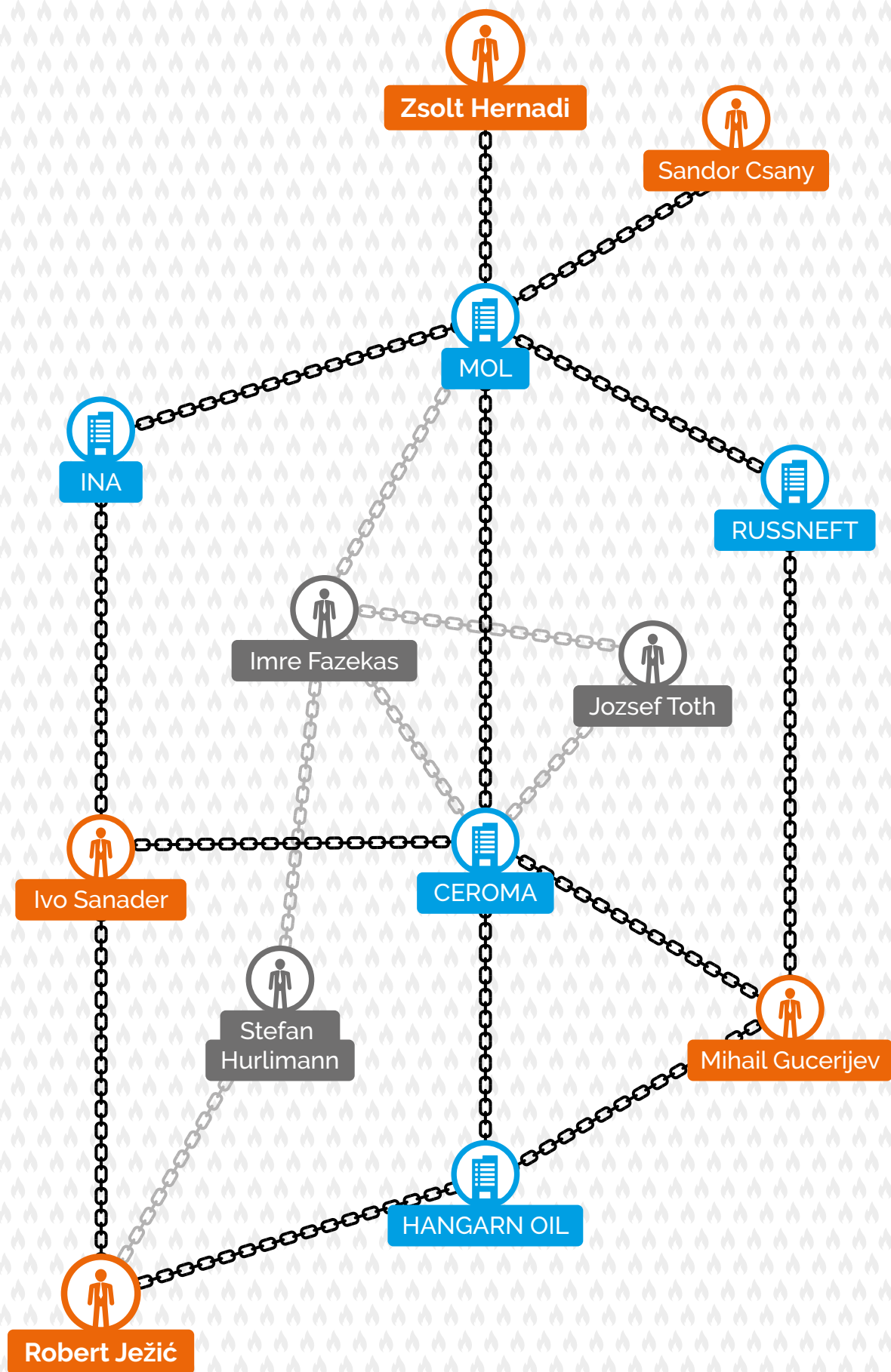
"You cannot do business with Russia without corruption, no chance. I was there when White Nights were being sold, three blokes with machine guns in three black cars came to negotiate. It's total mafia, I was afraid. They sold it for peanuts, at a sixth of the price. When they arrive, you get scared, all in black, bold, Cossacks or whatever mafia they have in Moscow. You have to sell it whether you like it or not." – Expert 1

Only later, when RussNeft officially took over the Siberian fields, would it become clear that the man who stood behind the unknown Swiss company PBS was, in fact, Gutseriyev.¹²² Today, RussNeft is among the largest Russian oil companies. According to the Russian Forbes, Mikhail Gutseriyev – whom the Croatian public

provizije! Potpisnik aneksa koje INA nije ni arhivirala bio je Davor Štern" [INA wasn't the only owner of the Siberian fields, and the intermediary received a 20 percent fee! The person who signed the annexes INA never even filed away was Davor Štern!]; <https://www.jutarnji.hr/vijesti/hrvatska/ina-nije-bila-jedini-vlasnik-polja-u-sibiru-a-posrednik-je-dobio-20-posto-provizije-potpisnik-aneksa-koje-ina-nije-ni-arhivirala-bio-je-davor-sterm/1514301/>

¹²¹ T. Dragičević, S. Kolundžić, M. Proštenik, "Doba promjena u energetici: Lice i naličje privatizacije INE" [The Age of Change in the Energy Sector: the Hidden Face of INA's Privatisation]; Kigen, Zagreb 2007.

¹²² Marko Biočina, Večernji list, "Za Bijele noći dobili 74, a ne 214 milijuna dolara" [74 rather than 214 million Dollars for White Nights!]; <https://www.vecernji.hr/premium/za-bijele-noci-dobili-74-a-ne-214-milijuna-dolara-633839>



would get a chance to meet up close during the trial of Ivo Sanader in the so-called INA-MOL affair – was one of the richest Russian oligarchs in 2017, whose personal wealth runs close to 6.4 billion USD. The Gutseriyev family owns nearly 10 billion USD, making them the richest Russian dynasty.¹²³ A great share of that wealth was acquired thanks to RussNeft, that is, thanks to the finds from which INA had to withdraw. Gutseriyev's business with RussNeft thrived up until 2007, when he fell out of the Kremlin's grace. RussNeft changed hands, and Gutseriyev, fearing criminal prosecution, fled to London. He addressed the public in an open letter, where he claimed that he had to sell RussNeft against his will.¹²⁴ In the same letter, Gutseriyev asserted that he had become a victim of the Russian state policy of seizing energy resources that had been sold off during the Nineties. Unlike Yeltsin's, Putin's regime did not view energy commodities as goods to be traded, but as a powerful geopolitical weapon that should be kept under state control as much as possible. As part of that same policy, to which Gutseriyev had played victim for a short while, a number of foreign energy companies, among them INA, had already previously been pushed out of Russia. Gutseriyev did not stay in international exile for long; already in 2010 he was acquitted of the charges of tax embezzlement, allowing him to return home, soon after which he regained ownership of RussNeft.¹²⁵ It is not known what kind of a deal Gutseriyev made in order to return under Putin's wing. But a year after he returned to Russia and retook ownership over

the firm he had established, Gutseriyev was on a private plane to Hungary.¹²⁶ He set off to Budapest to tell Hungarian investigators that the Croatian oligarch Robert Ježić was lying when he accused PM Ivo Sanader of receiving bribe money from MOL. The money, claimed Gutseriyev, was his and had nothing to do with MOL. He claimed to have paid Ježić millions through his Cypriot firms as part of the lobbying for the Družba Adria project, the idea to connect Janaf [the Adria oil pipeline] and the Russian Družba oil pipeline to the sea port in Omišalj. Later on, Gutseriyev would repeat the same claims at the County Court in Zagreb as a witness for Sanader's defence.¹²⁷ Gutseriyev's statement in court was corroborated by Imre Fazekas, MOL's business partner and director of the Cypriot companies Hangarn Oil and Ceroma, through which, according to the Croatian prosecution's assertions, bribes for Sanader were paid. Fazekas has also claimed that the firms in question did not belong to MOL, but that their owner, Gutseriyev, hired Ježić as a lobbyist.¹²⁸ Gutseriyev was indeed among the owners of Hangarn, along with Fazekas and Jozsef Toth.¹²⁹ Hungarian citizens Fazekas and Toth are the link between MOL

¹²³ Elena Berezanskaja, Forbes.ru, "Rejting Forbes: Bogatejšie semejnije klani Rossii — 2016" [Forbes rating: the richest family clans of Russia], <http://www.forbes.ru/rating-photogallery/326971-rejting-forbes-bogateishie-semeinye-klany-rossii-2016>

¹²⁴ Andrew E. Kramer, The New York Times, "Mikhail Gutseriev, the owner of Russneft, accuses Putin of forcing a sale"; <https://www.nytimes.com/2007/07/30/business/worldbusiness/30iht-ru-ble.4.6903032.html>

¹²⁵ Dmitry Zhdannikov, Reuters, "How one Russian oligarch beat the crisis and made a fortune"; <https://www.reuters.com/article/us-russia-gutseriyev/how-one-russian-oligarch-beat-the-crisis-and-made-a-fortune>

¹²⁶ Mladen Pleše, Jutarnji list, "Руски олигарх Гучеријев: 5 милијуна еура дао сам Жежићу, а не Санадеру. То је било за Друзбу Адрију..." [Russian oligarch Gutseriyev: I gave 5 million Euro to Ježić, not Sanader. That was for Družba Adria...]; <https://www.jutarnji.hr/vijesti/hrvatska/ruski-oligarh-gucerijev-5-milijuna-eura-dao-sam-jezicu-a-ne-sanaderu-to-je-bilo-za-druzbu-adriu.../1738926/>

¹²⁷ Petar Vidov, Index.hr, "Руски тајкун Гучеријев свједочио у корист Санадера: 'Јежић ми је украо новач!'" [Russian oligarch Gutseriyev testifies for Sanader: 'Ježić stole my money!']; <https://www.index.hr/vijesti/clanak/Ruski-tajkun-Gucerijev-svjedocio-u-ko-rist-Sanadera-Jezic-mi-je-ukrao-novac!/615675.aspx>

¹²⁸ Petar Vidov, Index.hr, "Imre Fazekas: Жежићу сам дао пет милијуна еура и рекао му да не смије подмићивати политичаре" [Imre Fazekas: I gave Ježić five million Euro and told him he wasn't allowed to bribe politicians]; <https://www.index.hr/vijesti/clanak/Imre-Fazekas-Jezicu-sam-dao-pet-milijuna-eura-i-rekao-mu-da-ne-smije-podmicivati-politicare/615452.aspx>

¹²⁹ Spirk József, Index.hu, "A szürke eminenciás, akit eltitkoltak a horvát ügyészek elől"; https://index.hu/gazdasag/2014/04/10/a-szurke-eminencias_akit-el-titkoltak_a-horvat-ugyeszek-elol/

and Gutseriyev's RussNeft. Fazekas was the director of the joint MOL and RussNeft firm that exploited the ZMB oil fields¹³⁰ in Russia, which Gutseriyev later bought from MOL.¹³¹ Stefan Hurlimann, Robert Ježić's Swiss business partner in the firm that received the five million Euros allegedly intended for Ivo Sanader, told USKOK¹³² that he met Fazekas as MOL's representative, and that he was the one with whom he arranged to pay out the money.¹³³ Jozsef Toth is a long-standing employee of MOL and a former advisor to MOL's CEO Hernadi. However, Gutseriyev's explanation that he paid Ježić five million Euros for lobbying services does not strike one as particularly sound. The Družba Adria project went under as far back as 2005, after the environmental impact study was rejected.¹³⁴ Moreover, in 2009, when, according to USKOK's indictment, the bribe for Sanader was arranged and paid, Gutseriyev was living in London, cut off from the Russian centres of power and his business empire. When Pál Kara, MOL's director of legal affairs, admitted that Hangarn is one of MOL's suppliers, the Hungarian opposition newspaper Népszabadság reminded that Gutseriyev's RussNeft was among MOL's business partners, and deduced that MOL could easily have transferred Sanader's bribe money to Cyprus by overpaying for Hangarn's

services.¹³⁵ That newspaper was shut down in 2016, after oligarchs close to the Hungarian Prime Minister Orbán assumed ownership over it.¹³⁶

HOW INA WAS LOST

"The key problems lie in governance. INA has been managed in a way that weakens it, not to invest in things that would improve the situation. Year in year out, INA has been losing market share on our own territory. It is evident that INA has been managed so as to benefit certain other interests, which is the result of the fact that those who control INA are practically in our neighbourhood, and that they have other players in our market that they strengthened through their INA policy. That's a bad thing and has to be stopped." – Politician 6

When Ivo Sanader came to power, the Hungarian MOL held a 25 percent plus one stake in INA, while the rest of the company was owned by the Croatian state. When Sanader left Banski Dvori¹³⁷ the Croatian State's stake in INA fell to below 45 percent, while MOL held more than 47 percent of shares and full executive rights over the Croatian oil company. MOL was allowed to enter the Croatian market as INA's competition by buying General Ivan Čermak's Tifon.¹³⁸ These facts on their own

¹³⁰ N. D., Energetika-net.com, "Fazekas tvrdi da je Ježiću plaćao lobiranje za Družba Adriju" [Fazekas claims he paid Ježić to lobby for Družba Adria]; <http://www.energetika-net.com/vijesti/energetsko-gospodarstvo/fazekas-tvrdi-da-je-jezicu-pla-cau-lobiranje-za-druzba-adriju-14462>

¹³¹ MTI, Hgv.hu, "Eladta a Mol az egyik legrégebbi orosz mezőjét"; https://hvg.hu/kkv/20130812_Kiszall-t_a_Mol_az_egyik_legregebbi_olajme

¹³² 'The Office for the Suppression of Organized Crime and Corruption, *t/n*

¹³³ Hina, Poslovni.hr, "Hurlimann treći put odbio svjedočiti na suđenju Sanaderu" [Hurlimann refuses to testify in Sanader's trial for the third time]; <http://www.poslovni.hr/hrvatska/hurlimann-treci-put-odbio-svjedociti-na-suenju-sanaderu-220786>

¹³⁴ Ante Pavić, Nacional, "Odbačena studija o utjecaju na okoliš projekta Družba Adria" [Environmental impact study for the Družba Adria project rejected]; <http://arhiva.nacional.hr/clanak/21203/odbace-na-studija-o-utjecaju-na-okolis-projekta-druzba-adria>

¹³⁵ Marnitz István, NOL.hu, "A Mol mindent tagad"; http://nol.hu/gazdasag/20121123-a_mol_mindent_tagad-1348067

¹³⁶ Krisztián Simon, Tibor Rácz, Heinrich-Böll-Stiftung, "The shutdown of Népszabadság: Orbán comes one step closer to complete media dominance"; <https://www.boell.de/en/2016/10/17/shutdown-nepszabadsag-orban-comes-one-step-closer-complete-media-dominance>

¹³⁷ 'The seat of the Croatian Government.

¹³⁸ Jutarnji.hr, "MOL kupio Tifon" [MOL buys Tifon]; <https://www.jutarnji.hr/arhiva/mol-kupio-tifon/3795993/>

might seem clear enough to accuse the former Prime Minister Sanader of having acted against national interests. Unfortunately, the events in and around INA have not been quite so simple to explain. A significant part of the process through which MOL increased its share in INA was defined before HDZ returned to power in 2003, in the INA Privatisation Act.¹³⁹ Already back then it was stipulated that 7 percent of shares would be transferred free of charge to the Croatian Defenders of the Homeland War and Members of their Families Fund, and that a minimum of 15 percent of shares would be sold to citizens and investors through an initial public offering. Everything happened exactly as announced, with the citizens and interested investors having purchased 16.2 percent of shares, thus reducing the RC's share in INA's ownership to 30 percent. After this, MOL swung into action, offering shareholders in 2008 to repurchase their shares at an above-market price of 2800 Kuna per share. With HDZ's government's blessing,¹⁴⁰ the War Veterans' Fund sold the Hungarians its 7 percent, and an additional 15.15 percent were bought from citizens and INA's workers. Enough to gain a stake greater than that held by Sanader's government, and, pursuant to article 10, paragraph 1 of the INA Privatisation Act, request negotiations on altering the inter-shareholder agreement. Given the fact that the RC's stake in INA had fallen to below 50 percent, the Hungarians reasoned invoking the Act, the original 2003 contract no longer reflected real inter-shareholder relations.¹⁴¹ MOL's right to redefine the relationship between shareholders cannot be disputed, but Sanader's government could have called INA's Hungarian co-owner to

¹³⁹ Zakon o privatizaciji INA – Industrije nafte d.d (OG 32/2002); https://narodne-novine.nn.hr/clanci/sluzbeni/2002_03_32_696.html

¹⁴⁰ Dražen Ciglenečki, Zlatko Crnčec, Novi list, "Šokantno pranje ruku: Kosor optužila branitelje za prodaju Ine MOL-u" [Shocking washing of hands: Kosor accuses defenders of selling INA to MOL]; <http://www.novolist.hr/Vijesti/Hrvatska/Sokantno-pranje-ruku-Kosor-optuzila-branitelje-za-prodaju-Ine-MOL-u>

¹⁴¹ Contract on relationships between shareholders as regards INA-Industrija nafte d.d., 17 July 2003.

account due to the breach of responsibilities accepted to in the original contract: the strategic partner had committed to modernise production in the Rijeka and Sisak refineries, and that MOL would not enter the markets of BH, Serbia, Montenegro, Kosovo and Albania as a competitor to INA. MOL has more or less continued to ignore the accepted obligations to this day. Although it was already clear during Sanader's term that INA's capacities were not being developed as had been agreed in 2003, the then-Prime Minister openly indulged MOL's intentions to take over INA, to the extent that at one point, he even negotiated a share swap with Hungarian Prime Minister Ferenc Gyurcsány.¹⁴²

"MOL has its refineries, they have enough oil products, they needed a market. What does INA do? For the most part, it imports MOL's goods. And on top of that, Sanader allowed MOL to buy Tifon. They have a market here, and INA's development has been stymied. Today or tomorrow, even the petrol stations will become MOL's, as soon as people in Croatia start to forget." – **Politician 7**

.....

"In 2003, Croatia still held all the cards, if we had played them as we should have, if we had embarked on modernising the refineries, as was envisaged in the business plan, today we'd be in a different situation. But since we never had a strategy on what we wanted from INA, the Hungarians, strong as they are, muscled in and are implementing their policies. That's our mistake. If we had taken a real position, if we had governed INA the way it should have been governed, this wouldn't have happened." – **Expert 5**

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"The problem is we have an inter-shareholder agreement that is not being enforced. The RC Government has all the tools at its disposal to

¹⁴² Cable: 08ZAGREB562_a, Wikileaks.org; https://wikileaks.org/plusd/cables/08ZAGREB562_a.html

solve the INA issue in one month. If the situation were the reverse, had INA done this in Hungary, they'd have had us out of there in three months. But in Croatia it works because of the corrupt private interest in the energy sector." – Politician 1

INA's Hungarian "strategic partner" today seeks justification for avoiding the commitments accepted, which, according to a study commissioned by PM Milanović's government, cost Croatia 6.2 billion Dollars¹⁴³. With the amendments to the Contract on relationships between shareholders, Sanader's government conceded to MOL the majority in INA's SB and management, thus handing the "strategic partner" managerial control over the Croatian oil company. With the Gas Business Agreement, Sanader's government conceded to INA's gas business being split away from the company and bought out, as it had been creating losses for INA due to the regulated price of gas. It was agreed that gas storage and trade would be separated out into standalone companies, Podzemno skladište plina d.o.o. [Underground gas storage] and Prirodni plin d.o.o. [Natural gas], which the RC would then repurchase from INA. MOL was also promised that the state gas procurement company would continue to buy INA's gas at market prices for the following 15 years. Part of the agreement was fulfilled when Plinacro took over the Okoli Underground gas storage, but the Natural Gas company never entered state ownership. It folded in 2014. The RC State Attorney's Office considers both agreements to be corrupt, on which there was also a final RC Supreme Court verdict,¹⁴⁴ before the Constitutional Court

annulled it and decided that the case should be retried.¹⁴⁵ Such a Constitutional Court decision can be characterised as controversial for a number of reasons: the media have found that judges were exposed to lobbying,¹⁴⁶ legal experts have claimed that by annulling the verdict, the Constitutional Court has overextended its jurisdiction,¹⁴⁷ the highest legal authorities have sought to preclude an expert discussion being held on the Constitutional Court decision,¹⁴⁸ while the SAO even investigated possible corrupt influences on the constitutional judges, although it did not succeed in finding any evidence thereof.¹⁴⁹ Nevertheless, the Constitutional Court felt the need to publicly distance itself from the speculation that the decision in the Sanader

¹⁴³ Jelena Lovrić, Jutarnji list, "OTKRIVAMO NAJTAJNIJI SPIS U DRŽAVI 'MOL je ošteti Hrvatsku za 6,2 milijarde dolara'" [We reveal the most secret document in the country; 'MOL cost Croatia 6.2 billion Dollars]; <https://www.jutarnji.hr/vijesti/hrvatska/otkrivamo-najtajniji-spis-u-drzavi-mol-je-ostetio-hrvatsku-za-62-milijarde-dolara/799450/>

¹⁴⁴ Republic of Croatia Supreme Court ruling number: I Kž-Us 94/13-10, of 3 April 2014.; http://www.vsrh.hr/CustomPages/Static/HRV/Files/Priopcenje_I-Kz-Us-94-13-10-an.pdf

¹⁴⁵ Republic of Croatia Constitutional Court ruling number: U-III-4149/2014 of 24 July 2015.; https://narodne-novine.nn.hr/clanci/sluzbeni/2015_08_89_1753.html

¹⁴⁶ Slavica Lukić, Jutarnji list, "EKSKLUZIVNO: NAJVEĆA TAJNA USTAVNOG SUDA Jutarnji u posjedu dopisa koji baca novo svjetlo na ukidanje pravomoćne presude Sanaderu u slučaju Ina-MOL" [Exclusive: the Constitutional Court's greatest secret. Jutarnji holds the memo that sheds new light on the annulment of the final verdict to Sanader in the INA-MOL case]; <https://www.jutarnji.hr/vijesti/hrvatska/ekskluzivno-najveca-tajna-ustavnog-suda-jutarnji-u-posjedu-dopisa-koji-baca-novo-sv-jetlo-na-ukidanje-pravomocne-presude-sanaderu-u-slucaju-ina-mol/5912344/>

¹⁴⁷ Ana Raić Knežević, Telegram.hr; "Cijenjena profesorica pronašla je uznemirujuće propuste u odluci Ustavnog suda o Sanaderovom slučaju" [Distinguished professor finds alarming omissions in the Constitutional Court decision on Sanader's case]; <https://www.telegram.hr/politika-kriminal/cijenjena-profesorica-pronasla-je-uznemirujuce-propuste-u-odluci-kojom-je-ustavni-sud-sru-sio-sanaderovu-presudu/>

¹⁴⁸ Ivanka Toma, Jutarnji list, "NOVI RAT U PRAVO-SUDU Ustavni i Vrhovni sud miniraju stručni skup o ratnom profiterstvu i slučaju Ina – MOL" [New war in the judiciary. The Constitutional Court and the Supreme Court undermining an expert meeting on war profiteering and the INA-MOL case]; <https://www.jutarnji.hr/vijesti/hrvatska/novi-rat-u-pravosu-u-ustavni-i-vrhovni-sud-miniraju-strucni-skup-o-ratnom-profitertvu-i-slucaju-ina-mol/8069498/>

¹⁴⁹ USKOK announcement, 12 April 2017; <http://www.dorh.hr/kok12042017>

case was the result of taking bribes.¹⁵⁰ And this is not even the only instance of Croatian courts indirectly aiding the Hungarian MOL's interest by decisions in Sanader's favour. In April 2016, the County Court in Zagreb postponed issuing a ruling to Sanader in the "Planinska affair",¹⁵¹ justifying it with a need to carry out further forensic expertise – although judge Jasna Smiljanić¹⁵² had previously rejected that same expertise as unnecessary. The judge's decision enabled Sanader to travel to London the day after the ruling was postponed.¹⁵³ Had the ruling been issued, and had the former Prime Minister been sentenced to five or more years in prison, he would have been ex lege transferred to custody. Instead, he travelled to England, where he testified for MOL at the international arbitration proceedings, where Croatia subsequently lost.

"We are very exposed to the influence of Hungarian politics in our energy sector, especially through INA, because we allowed MOL to enter the RC energy system without

setting clear criteria, without respecting the inter-shareholder agreement, with the grotesque Constitutional Court decision annulling the verdict against Sanader, which set us back in retaking INA. When you ask me about corruption, there, it reaches to the highest authorities, that are the pillars of the state. The Constitutional Court made a grotesque ruling, I deeply disagree with it, as does the majority of the expert and legal public. The ruling damaged national interests." – **Politician 1**

The arbitration was lost precisely because of the conduct of the Croatian courts. International arbitrators did not accept Croatia's claim that INA was delivered to MOL because of the bribes received by Sanader, explaining that such a claim – thanks to the RC Constitutional Court – does not even have the status of a final judgement in Croatia.¹⁵⁴ The ruling of the United Nations Commission on International Trade Law (UNCITRAL) states that the arbitrators are not claiming that Sanader had not been bribed, only that such an accusation has not been proven. They have also questioned judge Ivan Turudić's impartiality, as well as the credibility of the crown witness, Robert Ježić. After Croatia lost in the international arbitration where it attempted to prove that the contracts the Sanader government had signed with MOL were the result of corrupt conduct, it seems likely that it will also lose in the second arbitration proceedings, in which MOL is seeking damages in the amount of around 6 billion Kunas because Croatia did not take ownership of Natural Gas, INA's daughter company.¹⁵⁵ MOL has claimed that the losses were incurred because INA bought gas at market prices, and sold it at the lower, regulated price. However, drawing a line under the contractual clauses signed

¹⁵⁰ Constitutional Court's public announcement, 9 January 2017; https://www.usud.hr/sites/default/files/dokumenti/Priopcenje_zajavnost_Ustav-nog_suda_RH_vezano_uz_odluku_U-III-4149-2014_u_tzv_slucaju_Sanader.pdf

¹⁵¹ Ana Raić Knežević, Telegram.hr, "Doznajemo pozadinu iznenadne odluke o odgodi presude bivšem premijeru Ivi Sanaderu u slučaju Planinska" [We find out the background of the sudden decision to delay the verdict to former Prime Minister Ivo Sanader in the Planinska case]; <https://www.telegram.hr/politika-kriminal/doznajemo-pozadinu-iznenadne-odluke-o-odgodi-presude-bivsem-premijeru-ivi-sanaderu-u-slucaju-planinska/>

¹⁵² Anamarija Mlačak, Express, "Slatki život sutkinje iz afere Planinska" [The sweet life of the judge in the Planinska affair]; <https://www.express.hr/top-news/slatki-zivot-sutkinje-iz-afere-planinska-6336>

¹⁵³ Marko Biočina, Jutarnji list, "FOTOEKSKLUZIV JUTARNJEG: SANADER OTPUTOVAO U LONDON 'Nisam došao ovdje kao svjedok MOL-a, nego kao svjedok istine'" [Jutarnji's photo exclusive: Sanader travels to London; 'I didn't come here as MOL's witness, but as a witness for truth!']; <https://www.jutarnji.hr/vijesti/hrvatska/fotoekskluziv-jutarnjeg-sanader-otputovao-u-london-nisam-dosao-ovdje-kao-svjedok-istine/4046217/>

¹⁵⁴ UNCITRAL: part of the arbitration ruling in the case of the RC against MOL; <https://www.scribd.com/document/364148223/Mol-Unc-It-Ral-Award>

¹⁵⁵ David Stuckey, CEE Legal Matters, "Dechert Secures Victory for MOL in Corruption Arbitration with Croatian Government"; <https://ceelegalmatters.com/croatia/5642-dechert-secures-victory-for-mol-in-corruption-arbitration-with-croatian-government>

just before Sanader's resignation is nowhere near this simple. It is indisputable that both the Master Gas Business Agreement and the agreement redefining the relationship between INA's shareholders contain provisions that are detrimental to Croatian national interests. Although it is a minority shareholder, MOL gained the majority of votes in INA's Management (three MOL directors got four votes) and Supervisory Board (MOL got five seats in the nine-member SB), and were also allowed a decision-making model that went through the Board of Executive Directors, formed in 2009, thus completely bypassing the Croatian members of the Management. As a result, INA's research, production and refinery capacities were neglected, and INA's market taken over.¹⁵⁶ MOL was allowed to consolidate INA's business in its financial reports, thus increasing its market value. Ultimately, MOL acquired the right to perform lucrative oil procurement work for INA – work that had previously been a focus of anti-corruption investigations.

In late 2008, INA lost 1.5 billion Kunas on deals to procure oil from abroad, which drew the attention of USKOK's investigators.¹⁵⁷ Suspicions were raised primarily by the fact that INA used to procure oil through an intermediary, the Slovenian Salbatriing company. Although it only employed 14 people at the time, Salbatriing, owned by a Slovenian entrepreneur of Kosovar heritage, Hatem Ramadani, increased its revenues by 937 percent – to 611 million Euro in 2008 – thanks to the trade with INA.¹⁵⁸ Later on, information

surfaced in the media that MOL was also bribing Sanader through Ramadani's firm as an intermediary.¹⁵⁹ When the oil purchase from Salbatriing was being negotiated, Josip Petrović was a member of INA's Management Board and director for refining and marketing. According to the media, USKOK's investigators were especially focused on Petrović's role in the affair, as procuring oil was under his authority.¹⁶⁰ It is interesting that it was precisely Petrović who was tasked with such a sensitive aspect of INA's business considering that, prior to his appointment to INA's management by Sanader's political decision, he had no experience managing energy companies. The public was never informed as to the results of the investigations, or of the later investigation which cast suspicions on MOL that it had continued the harmful practice of extracting money from INA through deals to purchase oil products.¹⁶¹ According to unofficial information, USKOK examined allegations that through its sister-companies, MOL overpaid for oil intended for INA by five Dollars per barrel.¹⁶²

naftnog magnata" [From refugee to oil magnate]; <http://arhiva.nacional.hr/clanak/73664/od-izbjeglice-do-naftnog-magnata>

¹⁵⁹ Orhidea Gaura Hodak, Nacional, "EKSKLUZIVNO Švicarska je otkrila glavni kanal mita za Sanadera" [Exclusive: Switzerland discovers the main channel for the bribe for Sanader]; <https://www.nacional.hr/ekskluzivno-svicarska-je-otkrila-glavni-kanal-mita-za-sanadera/>

¹⁶⁰ Marko Knežević, Jutarnji list, "Nafta je BEZ RAZLOGA kupovana preko posrednika: Je li provizija išla u CRNI FOND HDZ-a?" [Oil was bought through intermediaries for no reason: did the fees end up in HDZ's slush fund?]; <https://www.jutarnji.hr/vijesti/hrvatska/nafta-je-bez-razloga-kupovana-preko-posrednika-je-li-provizija-isl-a-u-crni-fond-hdz-a/1524702/>

¹⁶¹ Željko Petrušić, Jutarnji list, "USKOK istražuje transakcije Ine s albanskim kraljem nafte" [USKOK investigating INA's transactions with the Albanian king of oil]; <https://www.jutarnji.hr/vijesti/hrvatska/velike-provizije-uskok-istrazuje-transakcije-ine-s-albanskim-kraljem-nafte/986300/>

¹⁶² Bojana Mrvoš Pavić, Jagoda Marić, Novi list, "Prekupana nafta: Ina oštećena za desetke milijuna dolara godišnje?" [Overpriced oil: INA suffers costs worth tens of millions of Dollars a year?]; http://novilist.hr/novilist_public/Vijesti/Hrvatska/Preskupa-nafta-Ina-os-tecena-za-desetke-milijuna-dolara-godisnje

¹⁵⁶ Marinko Glavan, Novi list, "Može li država spasiti ono što je sama upropastila? Slučaj Ina najbolji je primjer lošeg gospodarenja" [Can the state save what it ruined itself? The case of INA is the best example of poor governance]; <http://www.novilist.hr/Vijesti/Hrvatska/Moze-li-drzava-spasiti-ono-sto-je-sama-upropastila-Slucaj-Ina-najbolji-je-primjer-loseg-gospodarenja>

¹⁵⁷ Marko Biočina, Večernji list, "USKOK u Ini: Zašto je izgubljeno 1,5 milijardi kn na trgovini naftom?" [USKOK at INA: why were 1.5 million HRK lost on oil trading?]; <https://www.vecernji.hr/vijesti/uskok-u-ini-zasto-je-izgubljeno-15-milijardi-kn-na-trgovini-naftom-409544>

¹⁵⁸ Marko Biočina, Nacional, "Od izbjeglice do

thus increasing the profit of its firm, MOL Trade, which in 2009 took over the brokering work in purchasing oil for INA. It is logical then that the Hungarian co-owners did not particularly resent Petrović for his role in impoverishing the firm in whose management he was involved. Petrović managed to remain on sufficiently good terms with MOL leaders to start working as MOL's consultant after leaving INA's management in 2011. Testifying for UNCITRAL, Ilona Fodor, a MOL employee, described the work Petrović was doing for her employer in Croatia as "political intelligence work".¹⁶³ Robert Ježić in turn claimed to the County Court in Zagreb that Petrović was Sanader's intermediary in the talks around MOL's bribes for the former Prime Minister. Branko Radošević, former director of Plinacro, testified that Petrović was also involved in bringing about the deal the Sanader government made with MOL, by pressuring Plinacro to purchase the UGS Okoli from INA as soon as possible. In a separate process Tomislav Štengl, former director of INA's corporate communication, testified that it was at Petrović's request that INA started doing business with Fimi-media, the marketing agency used to fill the HDZ's "slush fund". Because of all this, he was labelled INA's "gray eminence" and Sanader's most trusted man.¹⁶⁴ Already back then, Petrović kept on good terms with Tomislav Karamarko, his colleague on the Board of Zagreb Basketball Club.¹⁶⁵ This friendship would later cost Karamarko his political career; it was Petrović who played the central role in the

"consultant affair" which forced Karamarko to bring down his own government, losing him his position as president of his party.¹⁶⁶ He had to withdraw because of his wife Ana Karamarko's business relations with Petrović's firm Peritus Consulting. It was implied that using Petrović as an intermediary, MOL has been contributing to the Karamarko family's budget in return for possible political influence. Karamarko was reproached for publicly advocating a withdrawal from the arbitration proceedings with MOL through which Croatia had been trying to prove the illegality of conceding executive rights to the Hungarians,¹⁶⁷ and the possibility was also analysed that MOL might have been waiting for Karamarko's HDZ to put together a Government to start negotiations on abandoning the mutually initiated arbitrations.¹⁶⁸

"The energy sector is very capital-intense, and we know it's always easiest to get rich off state money, off investments, especially state investments. The work I did at INA convinced me to what extent there are sharks in this sea around us, who start to circle the moment the newspapers mention a large energy project. And all the projects are large, there's nothing below 100 million, most usually it's a matter of billions. The money swirling around energy is

¹⁶³ Sandra Carić Herceg, Nacional, "EKSKLUZIVNO 'Josip Petrović za Mol u Hrvatskoj RADI POLITIČKU ŠPIJUNAŽU'" [Exclusive: 'Josip Petrović doing political espionage in Croatia for MOL']; <https://www.nacional.hr/ekskluzivno-josipa-petrovica-za-mol-u-hrvatskoj-radi-politicku-spjunazu/>

¹⁶⁴ Marko Biočina, Nacional, "Sanaderov čovjek za deal s MOL-om" [Sanader's man for the deal with MOL]; <http://arhiva.nacional.hr/clanak/116944/sanaderov-covjek-za-deal-s-mol-om>

¹⁶⁵ Ana Benačić, Index.hr, "Kakva ekipa: KK Zagrebom vladaju Hanžeković, Karamarko, Čović, Pavić..." [What a team: Zagreb BC ruled by Hanžeković, Karamarko, Čović, Pavić...]; <https://www.index.hr/vijesti/clanak/kakva-ekipa-kk-zagrebom-vladaju-hanzekovic-karamarko-covic-pavic/406249.aspx>

¹⁶⁶ Petar Vidov, Faktograf.hr, "Što je Karamarku važnije – prijatelj Jozo Petrović ili koalicija s MOST-om?" [What is more important to Karamarko – his friend Jozo Petrović, or the coalition with MOST?]; <https://faktograf.hr/2016/04/21/jozo-petrovic-ina-mol-karamarko/>

¹⁶⁷ Ma. B., Dnevnik.hr, "Karamarko u intervjuu za Novu TV: Branim nacionalne interese i nema prijevremenih izbora" [Karamarko in an interview for Nova TV: I am defending national interests, there will be no early elections]; <https://dnevnik.hr/vijesti/hrvatska/tomislav-karamarko-u-intevjuu-za-novu-tv-o-sukobu-interesa---437540.html>

¹⁶⁸ Goran Penić, Marko Biočina, Jutarnji list, "MOL odbijao odustati od arbitraže sve dok nije formirana Vlada s Karamarkom?" [MOL refusing to abandon arbitration until a Government with Karamarko is in place?]; <https://www.jutarnji.hr/vijesti/hrvatska/mol-odbijao-odustati-od-arbitraze-sve-dok-nije-formirana-vlada-s-karamarkom/4066140/>

huge. Every percent, every per mil is big. That's why they mill around this, that's why there's corruption, that's why there's ignorance. And for these reasons you cannot expect for someone who spent most of their career in a shoe factory, and ended up in a key role in INA because some prime minister wanted it so, that this person can seriously do their job. He really came there to grab the money, for himself or for the party." – Expert 10

THE FAILED ATTEMPT AT A HOSTILE TAKEOVER

All these arbitration predicaments would never have come about had MOL been successful in its earlier intention to carry out a "hostile takeover" of INA by surreptitiously acquiring a majority stake. The first such attempt happened during Sanader's government, when in 2008, through Damir Polančec, the economy minister, a loan to pay off Podravka's debts was arranged with MOL. The agreement stated that Podravka could repay its debt in INA shares, although at the time Podravka held no INA shares whatsoever.¹⁶⁹ Maybe it would have managed to acquire some had investigators not come in to disentangle the "Spice affair", in which MOL's loan was an important element. Two years later, in December 2010, MOL announced its offer to buy INA's small shareholders' shares, at a price of 2800 Kunas per share. At the same time, pension funds began buying shares at a higher price, in agreement with the state, which prevented MOL from gaining a majority stake. After the purchasing period ended in January, MOL continued buying shares in the stock market at a higher price, up to 4000 Kunas

¹⁶⁹ Branka Stipić, Ana Plišić, Jutarnji list, "Polančec Mađarima: Dajemo vam dionice Ine za dug Podravke" [Polančec to the Hungarians: We give you INA shares for Podravka's debt]; <https://www.jutarnji.hr/vijesti/hrvatska/polancec-madarima-dajemo-vam-dionice-ine-za-dug-podravke/2221446/>

per share. In addition, they announced in May 2011 that "1.6% of INA's shares are subject to an option agreement concluded by MOL". Since MOL never made any public announcements as regards their intention to take over the majority of the shares in INA, they drew the attention of the Croatian Financial Services Supervisory Agency (Hanfa). Its investigation in 2011 resulted in criminal charges being filed with the SAO, presenting suspicions that MOL had secretly and illegally attempted to acquire a 51 percent stake in INA, by means of a complicated network of foreign companies.¹⁷⁰ The contentious shares were precisely those 1.6 percent that, according to the Hanfa report, were secretly bought in MOL's name.¹⁷¹ Then-Prime Minister Jadranka Kosor highlighted the importance of the criminal charge at a Government meeting,¹⁷² but the investigation has still not yielded any visible results. However, had MOL subsequently managed to acquire the contentious shares, it would have been a *de facto* admission of a violation of the law, and they would risk losing the illegally acquired shares.

As relations between Croatia and Hungary became still more tense, the Hungarians expressed a willingness to sell their shares in INA. Since it is not easy to find a buyer for a company with small and decreasing hydrocarbon reserves, technologically

¹⁷⁰ Iva Puljić-Šego, Večernji list, "Rat države i MOL-a. Slovački mafijaš tajno kupovao dionice Ine" [War between state and MOL. Slovakian mafioso secretly purchased INA shares]; <https://www.vecernji.hr/vijesti/rat-drzave-i-mol-a-slovacki-mafijas-tajno-kupovao-dionice-ine-272381>

¹⁷¹ Ratko Bošković, Jutarnji list, "JUTARNJI OTKRIVA Kako je MOL pokušao povećati udio u Ini iznad 50 posto" [Jutarnji reveals how MOL tried to increase its stake in INA to above 50 percent!]; <https://www.jutarnji.hr/vijesti/hrvatska/jutarnji-otkriva-kako-je-mol-pokusao-povecati-udio-u-ini-iznad-50-pos-to/926807/>

¹⁷² Hina, Nacional.hr, "Vlada potvrdila: 'Hanfa podnijela kaznenu prijavu DORH-u zbog manipulacija s dionicama Ine'" [Government confirms: 'Hanfa filed criminal charges with the SAO over manipulations with INA shares']; <http://arhiva.nacional.hr/clanak/105067/hanfa-podnijela-kaznenu-prijavu-dorh-u-zbog-manipulacija-s-dionicama-ine>

lagging behind the modern oil business, the only serious interest in taking over INA emerged from Russia.¹⁷³ In 2013, Igor Sechin, the Executive Chairman of Rosneft and one of Putin's closest associates, openly declared Russian energy companies' interest in doing business in Croatia, both for its "exceptional geographical position" and its "approaching accession to the European Union".¹⁷⁴ Representatives of Rosneft and Gazprom Neft, companies majority-owned by the Russian Federation, arrived for negotiations in Zagreb. Both Russian state energy giants were interested in buying INA, but they were not only interested in MOL's minority block. For the purchase to go through, the RC Government had to agree to sell part of its shares so that the Russians could buy 75 percent of INA shares.¹⁷⁵ Rosneft was a step away from carrying through the takeover, in Hungary everything was agreed with MOL, but Prime Minister Milanović refused to do a deal with the Russians, even though certain ministers in his own Government advocated the sale.

"The negotiations between Rosneft and MOL around the sale of INA were concluded. You have to know that MOL is a strange player. Who has the lowest price for Russian gas in Europe? MOL. So, as soon as your price of gas is so low, you won't go around blackmailing Russians

¹⁷³ Mladen Pleše, Jutarnji list, "AKCIJSKI PLAN VLADIMIRA PUTINA 'Želim 75 posto Ine: Evo što vam nudimo zauzvrat'" [Vladimir Putin's action plan: 'I want 75 percent of INA: here is what we offer in return']; <https://www.jutarnji.hr/vijesti/akcijski-plan-vladimira-putina-zelim-75-posto-ine-evo-sto-vam-nudimo-zauzvrat/857407/>

¹⁷⁴ Marko Biočina, Večernji list, "EKSKLUZIVNO Igor Sečin: Hrvati, za energente se nemojte brinuti!" [Exclusive – Igor Sechin: Croatians, don't worry about energy commodities]; <https://www.vecernji.hr/biznis/ekskluzivno-igor-secin-hrvati-za-energente-se-nemojte-brinuti-565469>

¹⁷⁵ Bojana Mrvoš Pavić, Jagoda Marić, Novi list, "Vladimir Putin odlučuje hoće li Gazprom preuzeti Inu" [Vladimir Putin decides whether Gazprom will take over INA]; <http://www.novilist.hr/Vijesti/Gospodarstvo/Vladimir-Putin-odlucuje-hoce-li-Gazprom-preuzeti-Inu>

about the price of INA shares. And they've been blackmailing us every way they could." – Politician 7

Although he was willing to listen to Rosneft director's¹⁷⁶ plans for investment into the Croatian energy sector, Milanović nevertheless refused to allow the Russians into INA. It is one of the reasons why Slavko Linić later accused the SDP Prime Minister of acting under the influence of Siniša Petrović,¹⁷⁷ who was appointed to head INA's Supervisory Board owing to his friendship with Milanović. Milanović received justification for the decision that prolonged the stalemate between Croatia and MOL in the INA game in the publicly announced information that an unnamed American firm was also interested in investing in INA.¹⁷⁸ The story was published in the Hungarian and Croatian media following US Deputy Assistant Secretary of State for energy diplomacy Amos Hochstein's visit to Hungary's capital, where he allegedly put pressure on Orbán to refrain from selling INA to the Russians.¹⁷⁹ The mysterious American investor never turned up, but the deal with the Russians never came through either. As Prime

¹⁷⁶ Jagoda Marić, Novi list, "Čelnici Rosnefta sastali se s Milanovićem" [Rosneft bosses meet with Milanović]; <http://novilist.hr/Vijesti/Hrvatska/Celnici-Rosnefta-sastali-se-s-Milanovicem>

¹⁷⁷ Marko Biočina, Večernji list, "Linić optužio Petrovića da djeluje u korist MOL-a" [Linić accuses Petrović of acting in MOL's favour]; <https://www.vecernji.hr/vijesti/linic-optuzio-petrovica-da-djeluje-u-ko-rist-mol-a-941751>

¹⁷⁸ Bojana Mrvoš Pavić, Novi list, "Nakon Rusa, u pregovorima oko Ine i američka firma?" [After the Russians, an American firm also in negotiations around INA?]; <http://www.novilist.hr/Vijesti/Gospodarstvo/Nakon-Rusa-u-pregovorima-oko-Ine-i-americka-firma>

¹⁷⁹ Mladen Pleše, Jutarnji list, "INA SE NE PRODAJE RUSIMA Mali dioničari i Uprava MOL-a slomili premijera Viktora Orbana" [INA isn't being sold to the Russians. Small shareholders and MOL management broke PM Viktor Orbán's resistance]; <https://www.jutarnji.hr/vijesti/hrvatska/ina-se-ne-prodaje-rusima-mali-dionicari-i-uprava-mol-a-slomili-premijera-viktora-orbana/877117/>

Minister, Milanović was always firmly oriented towards the West,^{180 181} to the extent that in Zagreb he even refused to take a meeting with Gazprom's director Alexei Miller, one of the most powerful people in Russia.¹⁸² The story around INA is still open on both sides: Rosneft's director Sechin is announcing Russian entry into INA, and the USA openly oppose this.¹⁸³

ORBÁN'S RUSSIAN NETWORK

The European Union has recognised Putin's tactic of using energy companies to achieve political influence as a potential threat,¹⁸⁴ the same view as that taken by the United States of America.¹⁸⁵ In this context, it is important to

consider the role Viktor Orbán, the Hungarian state and its oil company MOL played in the Russian attempt to take over INA. To the Hungarian Government, the INA-MOL affair was "an attack on MOL and on the Hungarian state from the beginning," in the words of a "senior government source" reported by the independent Hungarian weekly HVG in 2013, adding that the Hungarian authorities believe that the attack on MOL was part of a "broader European energy jigsaw".¹⁸⁶ Two years previously, in an interview for the same weekly, MOL's CEO Zsolt Hernádi claimed that Croatian politics was taking revenge on MOL for preventing certain interest groups from extracting money from INA.¹⁸⁷ Considering INA's notorious susceptibility to special and corrupt interests, it is likely that part of the public campaign being waged against MOL in Croatia really is the result of a change in the structure of decision-making that ensued when the relationship between the co-owners was redefined in 2009. But to get a more complete image of MOL's conduct towards INA, it is necessary also to reflect on the "broader European energy jigsaw". Important parts of this mosaic were reordered in Hungary at the same time MOL was taking over executive rights in INA.

"Listen, Zsolt, I know MOL has great experience defending from hostile takeovers...", Damir Polančec flattered MOL's boss Zsolt Hernádi when in late 2008, he embarked on the negotiations around the loan for Podravka, according to information that leaked to the media.¹⁸⁸ He was referring to the unexpected

¹⁸⁰ Krešimir Žabec, Adriano Milovan, Jutarnji list, "AMERIKANCI UPOZORAVAJU: 'NE ŽELIMO RUSE U INI!' Milanovića tjeraju na dogovor s Mađarima" [Americans warn: 'We don't want the Russians in INA!' Milanović is being pushed to an agreement with the Hungarians]; <https://www.jutarnji.hr/vijesti/hrvatska/amerikanci-upozoravaju-ne-zelimo-ruse-u-ini-milanovica-tjeraju-na-dogovor-s-madarima/874141/>

¹⁸¹ Krešimir Žabec, Jutarnji list, "ENERGETSKI RAT OBAME I PUTINA ZA HRVATSKU Milanović će ipak primiti Ruse, Inu im neće dati" [Obama and Putin's energy war for Croatia: Milanović will receive the Russians after all, but he won't give them INA!]; <https://www.jutarnji.hr/vijesti/hrvatska/energetski-rat-obame-i-putina-za-hrvatsku-milanovic-ce-ipak-primiti-ruse-inu-im-neece-dati/672553/>

¹⁸² Marko Biočina, Večernji list, "Rusi u čudu: Milanović odbio primiti direktora moćnog Gazproma" [Russians flabbergasted: Milanović refuses to receive director of powerful Gazprom]; <https://www.vecernji.hr/vijesti/rusi-u-cudu-milanovic-odbio-primiti-direktora-mocnog-gazproma-499103>

¹⁸³ Hina, Večernji.hr, "Rusija je remetilački čimbenik, SAD ne želi da Inu kupi njihova kompanija" [Russia is a disruptive factor, the USA don't want INA to be bought by their company]; <https://www.vecernji.hr/vijesti/sad-rusija-ina-veleposlanik-1225903>

¹⁸⁴ Rem Korteweg, European Parliament's Committee on Foreign Affairs, "Energy as a tool of foreign policy of authoritarian states, in particular Russia"; [http://www.europarl.europa.eu/RegData/etudes/STUD/2018/603868/EXPO_STU\(2018\)603868_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2018/603868/EXPO_STU(2018)603868_EN.pdf)

¹⁸⁵ Željko Trkanjec, Jutarnji list, "HRVATSKA USRED

GLOBALNOG RATA ZA ENERGIJU I Obama i Putin šalju izaslanike u Zagreb" [Croatia in the midst of a global war for energy. Both Obama and Putin sending emissaries to Zagreb]; <https://www.jutarnji.hr/vijesti/hrvatska/hrvatska-usred-globalnog-rata-za-energiju-i-obama-i-putin-salju-izaslanike-u-zagreb/815278/>

¹⁸⁶ Hvg.hu, "A kormány szerint meg kell védeni a Mol-vezért"; https://hvg.hu/gazdasag/20130927_Kormany_meg_kell_vedeni_a_Molvezert

¹⁸⁷ Csabai Károly, M. László Ferenc, Hgv.hu, "Exkluzív interjú Hernádi Zsolttal a horvát ügyről: 'sokan zsiros üzletektől estek el'"; https://hvg.hu/gazdasag/20110728_Mol_Hernadi_interju

¹⁸⁸ Ratko Bošković, Jutarnji list, "EKSKLUZIVNO Šef

entrance of the Austrian OMV into MOL's ownership structure, in which the Hungarian authorities at the time saw the influence of the Russian Gazprom.¹⁸⁹ OMV's attempted takeover fell through; they only managed to acquire 21.2 percent of shares, which in 2009 the Austrian firm sold to Surgutneftgas, then the fifth largest firm in Russia. Surgut bought MOL shares for 1.4 billion Euros, paying double the market price. MOL characterised that move too as "hostile", and it was suggested that the Russian company was becoming MOL's largest shareholder, with the intention of sabotaging the Nabucco gas pipeline.¹⁹⁰ As it happens, MOL was part of the consortium to construct the pipeline that was to deliver natural gas from Azerbaijan to Europe. The plan was for the Nabucco to pass through Bulgarian, Romanian and Hungarian territory, making it direct competition to the Russian South Stream. Reducing the European continent's dependence on Russian gas was the main motivation for building the Nabucco gas pipeline.¹⁹¹

Surgutneftgas, the firm that in 2009 became co-owner of MOL, was considered to be directly linked to Vladimir Putin. Russian political analyst Stanislav Belkovsky claimed that Putin's private wealth made him one of the 10 richest people in the world, a portfolio which he believed included 37 percent of Surgutneftgas shares worth around 10 billion Euro.¹⁹² Igor Sechin, Rosneft director and the

then-vice-Premier of Russia, told Zsolt Hernádi that MOL was not only battling against Surgut, but the entire Russian state. He even offered the possibility that another Russian investor might take over MOL shares, if Surgut was not to MOL's liking.¹⁹³ Eventually, Surgut remained in MOL for a little over two years; in 2011, it sold its shares to the Hungarian state for 1.88 billion Euros. Analysing the context in which Hungary bought MOL shares from Surgut, it seems likely that this was a transaction that was part of a broader agreement between Putin and Orbán. At first, Surgut was met with enmity by the MOL leadership in Hungary. In April 2009 they were banned from voting at the MOL General Meeting, with the explanation that only companies whose ownership structure are transparent had the right to vote. At the time, MOL's bosses also received support in their resistance to the aggressive Russian attempts to take over MOL from Viktor Orbán, the leader of the opposition Fidesz party and the favourite to take office at the 2010 elections. Before his win in the 2010 elections, Orbán was known for his fiery anti-Russian rhetoric.¹⁹⁴ Only to, once he was Prime Minister, declare a foreign policy of the "Eastern Opening"¹⁹⁵ and begin building a close relationship with Russian President Putin. Putin's and Orbán's political relationship began with their first meeting in late 2009, just before Orbán was to be elected Prime Minister. Business and oligarch relations were opened several months later, when two of Orbán's associates and friends visited the Moscow headquarters of the FSB, the secret service that succeeded the KGB, and which Putin headed before becoming the President of Russia. Orbán sent the Hungarian oligarch Lajos Simicska, then

razvoja MOL-a: Preko Podravke smo htjeli do dionica INA-e" [Exclusive: MOL's head of development: We wanted to get INA shares through Podravka]; <https://www.jutarnji.hr/vijesti/ekskluzivno-sef-razvoja-mol-a-preko-podravke-smo-htjeli-do-dionica-ina-e/1817445/>

¹⁸⁹ Judy Dempsey, The New York Times, "In Hungary, an energy battle with Russian overtones"; <https://www.nytimes.com/2007/08/09/world/europe/09iht-energy.4.7062215.html>

¹⁹⁰ Euractiv.com, "Russian firm seen as hostile bidder for Nabucco"; <https://www.euractiv.com/section/med-south/news/russian-firm-seen-as-hostile-bidder-for-nabucco/>

¹⁹¹ Nabucco pipeline, Wikipedia.org; https://en.wikipedia.org/wiki/Nabucco_pipeline

¹⁹² Tom Parfitt, The Guardian, "Spy who came in

from the cold"; <https://www.theguardian.com/world/2007/dec/23/russia.tomparfitt>

¹⁹³ Cable: 09BUDAPEST843_a, Wikileaks.org; https://search.wikileaks.org/plusd/cables/09BUDAPEST843_a.html

¹⁹⁴ Darko Janjevic, Dw.com, "Vladimir Putin and Viktor Orban's special relationship"; <https://www.dw.com/en/vladimir-putin-and-viktor-orbans-special-relationship/a-45512712>

¹⁹⁵ Sean Lambert, The Orange Files, "Eastern Opening"; <https://theorangefiles.hu/eastern-opening/>

the biggest funder of Orbán's Fidesz party, to the meeting in Moscow.¹⁹⁶ Relations between Hungary and Russia soon began to thaw, which was particularly pronounced precisely in the energy sector. Orbán began negotiations with Surgut on the purchase of MOL shares, even though previously, as head of the opposition, he had managed to block such negotiations. Orbán used the state's co-ownership of MOL to connect with the business elite of the Hungarian energy, but also financial sectors: he formed alliances with MOL CEO Zsolt Hernádi and OTP Bank CEO Sándor Csányi, the richest man in Hungary.¹⁹⁷ OTP Bank is among MOL's largest shareholders.¹⁹⁸ Thereafter, MOL's attitudes regarding energy projects that are in Russia's interest have also changed: in 2012, the Hungarian firm announced its withdrawal from the construction of the Nabucco pipeline.¹⁹⁹ Without a tendering process, the Russian state firm Rosatom was chosen for the partner on the project of constructing the Paks II nuclear power plant. The value of the investment was estimated to be 12.5 billion Euro,²⁰⁰ part of which was to end up in the accounts of enterprises owned by oligarchs close to Orbán.²⁰¹ The construction will be nearly wholly financed with money

borrowed from Russia.²⁰² But Hungarian analysts have located the key point in Orbán and Putin's growing closeness in the gas business, that is, MOL's daughter-company, the MOL Energy Trade (MET). During Orbán's first term in office as Prime Minister, from 1998 to 2002, Hungary's leading gas trader was Eurobridge, a firm owned by Orbán's nephew Tamás Vitézy.²⁰³ After the 2002 change of government, MOL bosses pushed Eurobridge out of the gas market, buying Gazprom's gas from Emfesz, a company that had previously been completely unknown. Officially, Emfesz's owner was Dmytro Firtash, a controversial Ukrainian oligarch connected to the Russian criminal underground.²⁰⁴ However, there are also clues that the bosses of MOL and OTP, Hernádi and Csányi, were among the hidden owners of Emfesz.²⁰⁵ When Orbán returned to power in 2010, a new player was once again introduced to the gas market. When it was established in 2007, MET was one hundred percent owned by MOL. However, in December 2009, a 50 percent stake in MET was bought by the offshore firm Normeston Trading, MOL's business partner owned by the former Gazprom representative in Hungary, Megdet Rahimkulov. That year, Normeston was paid two million USD by Hangarn, the Cypriot firm accused of acting as the intermediary in the bribing of Ivo Sanader.²⁰⁶ Later on, businessmen connected to MOL and OTP bosses Hernádi and Csányi started

¹⁹⁶ Pethő András, Szabó András, Direkt36.hu, "Orban's game"; <https://www.direkt36.hu/en/orban-jatszmaja/>

¹⁹⁷ Marton Dunai, Reuters, "The banker who knows what's on Hungarian PM's mind"; <https://uk.reuters.com/article/uk-hungary-banker-profile-idUKBRE96LOPR20130723>

¹⁹⁸ Ownership Structure, MOL Group; <https://mol-group.info/en/investor-relations/share-information/ownership-structure>

¹⁹⁹ Reuters, "Hungary MOL ready to sell Nabucco stake if needed"; <https://www.reuters.com/article/mol-nabucco/update-1-hungary-mol-ready-to-sell-nabucco-stake-if-needed-idUSL6E8FQ6XT20120426>

²⁰⁰ MTI, "Paks II Upgrade Price 'Fixed' at EUR 12.5 BN"; <https://dailynewshungary.com/paks-ii-upgrade-price-fixed-at-eur-12-5-bn/>

²⁰¹ István Marnitz, NOL.hu, "Mészáros Familia Zrt.-t játszik Pakson, családi vállalkozásban épülhet az atomerőmű"; <http://nol.hu/gazdasag/meszaros-lorinc-paksi-atomeromu-epitkezes-mag-yarország-1629267>

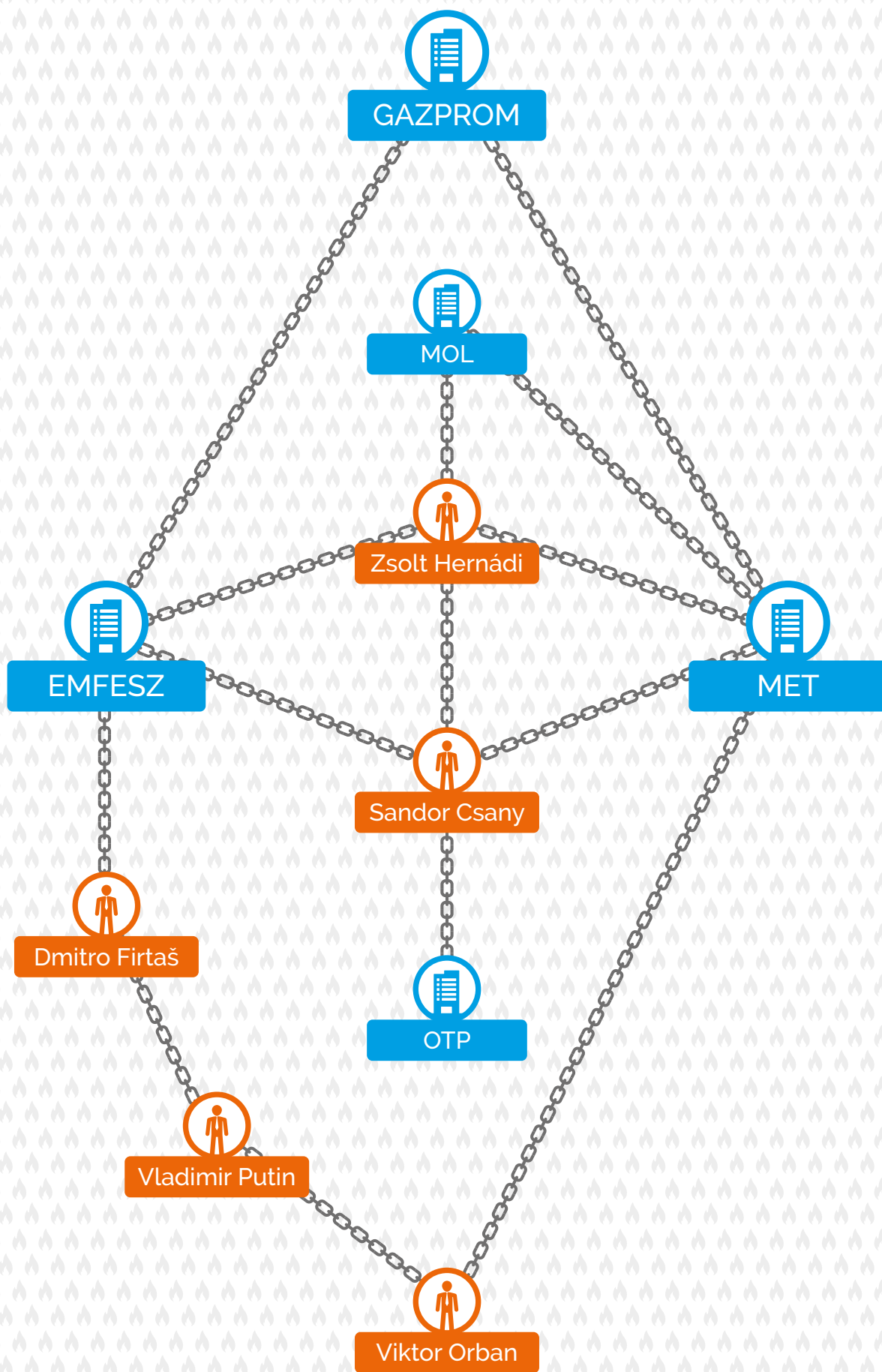
²⁰² Paks 2, "Hungary begins the early repayment of the loan"; <http://www.paks2.hu/en/news/SitePages/newsDetails.aspx?NewsID=254>

²⁰³ Vanja Nežirović, Jutarnji list, "Bratić mađarskog premijera Tamás Vitézy hotele i marine na Jadranu gurnuo u milijunske dugove" [Hungarian PM's nephew Tamás Vitézy pushes Adriatic hotels and marinas into multi-million debts]; <https://www.jutarnji.hr/vijesti/bratic-madarskog-premijera-tam%C3%A1s-vit%C3%A1zy-hotele-i-marine-na-jadranu-gurnuo-u-milijun-ske-dugove/1067732/>

²⁰⁴ Cable: 08KYIV2414_a, Wikileaks.org; https://wikileaks.org/plusd/cables/08KYIV2414_a.html

²⁰⁵ Cable: 09BUDAPEST356_a, Wikileaks.org; https://wikileaks.org/plusd/cables/09BUDAPEST356_a.html

²⁰⁶ Jozef Spir, "Index - Gazdaság - A Szürke Eminenciás, Akit Eltitkoltak a Horvát Ügyészek Elől"; https://index.hu/gazdasag/2014/04/10/a_szurke_eminencias_akit_eltitkoltak_a_horvat_ugyeszek_elol/



to appear among the owners²⁰⁷, and there are speculations that Orbán himself might be among the secret owners of MET.²⁰⁸ There are indications that Orbán's money is actually managed by his friend from his native village, the Hungarian oligarch Lőrinc Mészáros,²⁰⁹ who also does business in Croatia.²¹⁰ Between 2012 and 2016, MET brought around 167 million Euros in profits to its owners,²¹¹ making money twice off the same gas. Under a highly suspect business model, MET first sold gas in Austria to Hungarian state company MVMP, only to repurchase the same gas from them in Hungary and then distribute it on the Hungarian market.

"As long as you're alive, your children and your grandchildren too, no one will sell gas cheaper than the Russians. There they've got enough gas to last 500 years. In White Nights we burnt a billion cubic metre of gas on a flare every day, because they don't know what to do with it. The Russians can always lower the price of gas. They could give it away for free, to whoever might need it." – Expert 1

²⁰⁷ Corruption Research Center Budapest, "Járadékvadászat És a Haveri Rendszer Modelljei a Magyar Energiapiacra, 2011-2015"; http://www.crcb.eu/wp-content/uploads/2018/04/sc_2016_report_180425_.pdf

²⁰⁸ Magyar Péter, 444.hu, "Tudományosan levezették, hogy a MET üzlete korrupció lehetett"; <https://444.hu/2016/10/26/tudomanyosan-levezettek-hogy-a-met-uzlete-korrupcio-lehetett>

²⁰⁹ The Hungarian Spectrum, "Lőrinc Mészáros, friend of Viktor Orban, is a Financial Genius"; <https://hungarianspectrum.wordpress.com/2014/12/14/lorinc-meszaros-friend-of-viktor-orban-is-a-financial-genius/>

²¹⁰ Wirth Zsuzsanna, Direkt36.hu, "He was an interpreter for the Hungarian Prime Minister's friend. Now he is a major player in state-funded railway projects"; <https://www.direkt36.hu/en/meszaros-lorincnek-tol-macsolt-horvatorszagban-most-lecsipett-egy-da-rabot-simicska-birodalmabol/>

²¹¹ Jandó Zoltán, G7.hu, "Nem véletlenül most dobantott Garancsi és a Mol a MET-ből"; <https://g7.hu/piac/20180601/nem-veletlenül-most-dobantott-garancsi-es-a-mol-a-met-bol/>

Orbán's unexpected political siding with Putin is therefore founded upon Hungary's and Russia's financial ties. Part of the big energy deal between Putin and Orbán was almost certainly ownership of INA. Back in 2009, Hungarian sources had suggested that Surgutneftgas, which allegedly has ownership links with Putin, bought a stake in MOL as part of the attempts to buy INA. Such a claim is substantiated by Russia's long-running desire to enter the LNG market through Croatia.²¹² Surgut did indeed make such an offer to MOL, but that was before 2010, when Orbán embarked on building closer political and business ties to Russia. In late 2009, MOL still treated Surgut as an unwanted partner, rejecting the offer to concede their ownership stake in INA to the Russian firm in a share swap.²¹³ Through the Cypriot firms, MOL continued to maintain ties to Gutseriyev, the RussNeft founder who at the time had been out of favour with Putin's regime. Gutseriyev was only allowed to return to Russia after Orbán took power, found a common language with Putin, positioned the state as MOL's largest shareholder and built ties to MOL's oligarchy. After testifying in Sanader's defence in Zagreb, Gutseriyev was allowed to once again become the owner of RussNeft.

PLENKOVIĆ REPEATS SANADER'S MISTAKES

As, due to Orbán's victory, 2010 marked a turning point in the relations between Hungary and Russia, it also brought a deterioration in the relations between Croatia and Hungary

²¹² Jenei András, Méltányosság Politikaelemző Központ, "Orosz Nagyóriás - Magyar Kisóriás 1:1 Első Félidő"; <http://www.meltanyossag.hu/files/meltany/imce/doc/kp-olajharc-091201.pdf>

²¹³ Cable: 09ZAGREB670_a, Wikileaks.org; https://wikileaks.org/plusd/cables/09ZAGREB670_a.html

because of the conflict between INA and MOL. And if long-term business cooperation with a "strategic partner" is impossible, the state is faced with a choice where INA has to be either bought out or sold. And thus on Christmas Eve 2016, following the loss in the arbitration proceedings Croatia had initiated, PM Andrej Plenković announced that the state had decided to buy. No concrete steps in this direction have been taken so far, primarily because of a lack of funds. The Russians in turn do not hide that they are still interested in buying INA, but are only interested in acquiring a majority shareholder stake. They did not manage to gain it through MOL, because the Hungarian plan to secretly buy a majority of INA shares was stymied during Jadranka Kosor's government. If MOL had succeeded in acquiring a 51 percent stake in INA at the time, today the Croatian company would almost certainly have been owned by a Russian firm, probably Rosneft. MOL was willing to sell its shares to Rosneft in 2014, but at the time, Prime Minister Milanović did not agree to the deal according to which the RC would also have to sell part of its stake in INA to the Russians. The same offer was publicly addressed to the current Croatian Prime Minister, Plenković, who has yet to inform the public whether he had made any decisions on the business future of INA, and therefore also on its role in the development of the Croatian energy sector.²¹⁴

Meanwhile, INA has once again become the object of political trade between Croatia

and Hungary,^{215 216} which resulted in the announcement that the Sisak refinery would close. MOL's business logic is unassailable: they simply do not need a refinery in Sisak.²¹⁷ But is shutting down the Sisak refinery also in the best interest of the Republic of Croatia? In Plenković's government they claim that they cannot influence MOL's decision,²¹⁸ but this is not accurate. Even if we were to accept that the RC Government's ownership of over 44 percent of INA does not allow it to participate in decision-making on the future of the Croatian oil company's refining business, Plenković's cabinet has other tools at its disposal that it can use to prevent the closure of oil product processing in Sisak. They come in the shape of the provisions of the Energy Act concerning the management of strategic energy facilities.²¹⁹ However, there is a sense of the possibility that the RC Government might ignore the closure of the Sisak refinery, as a broader deal has been reached with Viktor

²¹⁵ Jurica Körbler, Jutarnji list, "ŠTO ĆE ORBAN TRAŽITI OD PLENKOVIĆA? Mađari pritišću da se postigne kompromis oko Hernádia koji više zbog hrvatske tjalice ne može putovati" [What will Orbán demand from Plenković? The Hungarians are pressing for a compromise around Hernádi, who can no longer travel due to the Croatian arrest warrant!]; <https://www.jutarnji.hr/vijesti/hrvatska/sto-ce-orban-traziti-od-plenkovica-madari-pritiscu-da-se-postigne-kompromis-ok-herndija-koji-vise-zbog-hrvatske-tjeralice-ne-moze-putovati/8124035/>

²¹⁶ Jurica Körbler, Jutarnji list, "IMAM NEKU GORČINU U USTIMA, MORAMO IZVUĆI TAJ TRN IZ NOKTA' Orban je u Zagrebu dao znakovitu izjavu, evo na što se odnosi..." [There's a bitter taste in my mouth, we have to pull this thorn from underneath our nail' Orbán gives telling statement in Zagreb, this is what it referred to...]; <https://www.jutarnji.hr/vijesti/hrvatska/imam-neku-gorcinu-u-ustima-moramo-izvuci-taj-trn-iz-nokta-orban-je-u-zagrebu-dao-znakovitu-izjavu-evo-na-sto-se-odnosi/8132060/>

²¹⁷ Refining Sites, Molgroup.info; <https://molgroup.info/en/our-business/downstream/refining/sites>

²¹⁸ Ivan Pandžić, 24sata, "HDZ se predomislio: "Za Božić su izdali radnike Rafinerije..." [HDZ changes its mind: 'They betrayed the Refinery workers on Christmas!]; <https://www.24sata.hr/news/prenam-jena-pogona-za-bozic-su-izdali-radnike-rafineri-je-605829>

²¹⁹ The Energy Act, consolidated text; <https://www.zakon.hr/z/368/Zakon-o-energiji>

²¹⁴ Marko Biočina, Jutarnji list, "GLAVNI DIREKTOR NAJVEĆE SVJETSKE NAFTNE KOMPANIJE 'Želimo ući u Inu. Ako se to dogodi, točno znam i što ćemo s rafinerijama u Sisku i Rijeci!'" [CEO of world's largest oil company: 'We want to enter INA. If this happens, I know exactly what to do with the Sisak and Rijeka refineries!]; <https://www.jutarnji.hr/vijesti/hrvatska/glavni-direktor-najvece-svjetske-naftne-kompanije-zelimo-uci-u-inu-ako-se-to-dogodi-tocno-znam-i-sto-cemo-s-rafinerijama-u-sisku-i-rijeci/6692091/>

Orbán, and, indirectly, with MOL. In January 2019, the Environmental Protection and Energy Ministry drafted a bill amending the INA Privatisation Act, which the Government has adopted in an expedited procedure. They were in such a hurry that only 15, rather than the legally mandated 30 days were foreseen for public discussions. By amending the Act, Plenković's government gave up the legal instruments that it could have used to prevent a change in INA's ownership or moving its headquarters abroad. Experts read such legal changes as Plenković's intention to finally concede the majority stake in INA to MOL. The trend of growing closeness between Croatia and Hungary had been visible before: in the Croatian EU parliamentarians' siding with Orbán despite the preferences of the European People's Party,²²⁰ in the informal socializing between Plenković and Orbán on the Adriatic,²²¹ in Orbán's visit to Zagreb, in the Hungarian decision to stop blocking Croatia's accession to the OECD,²²² as well as to abandon MOL's action against Croatia...²²³ What else could Croatia receive in return? Maybe Hungary's help entering Schengen and participation in leasing the capacities of the LNG terminal on Krk? A whole decade has passed since behind closed doors, far from

the public's sight, Sanader negotiated with the Hungarians over INA's destiny. It would seem that Plenković learned nothing from all this, and is now making the same mistake.

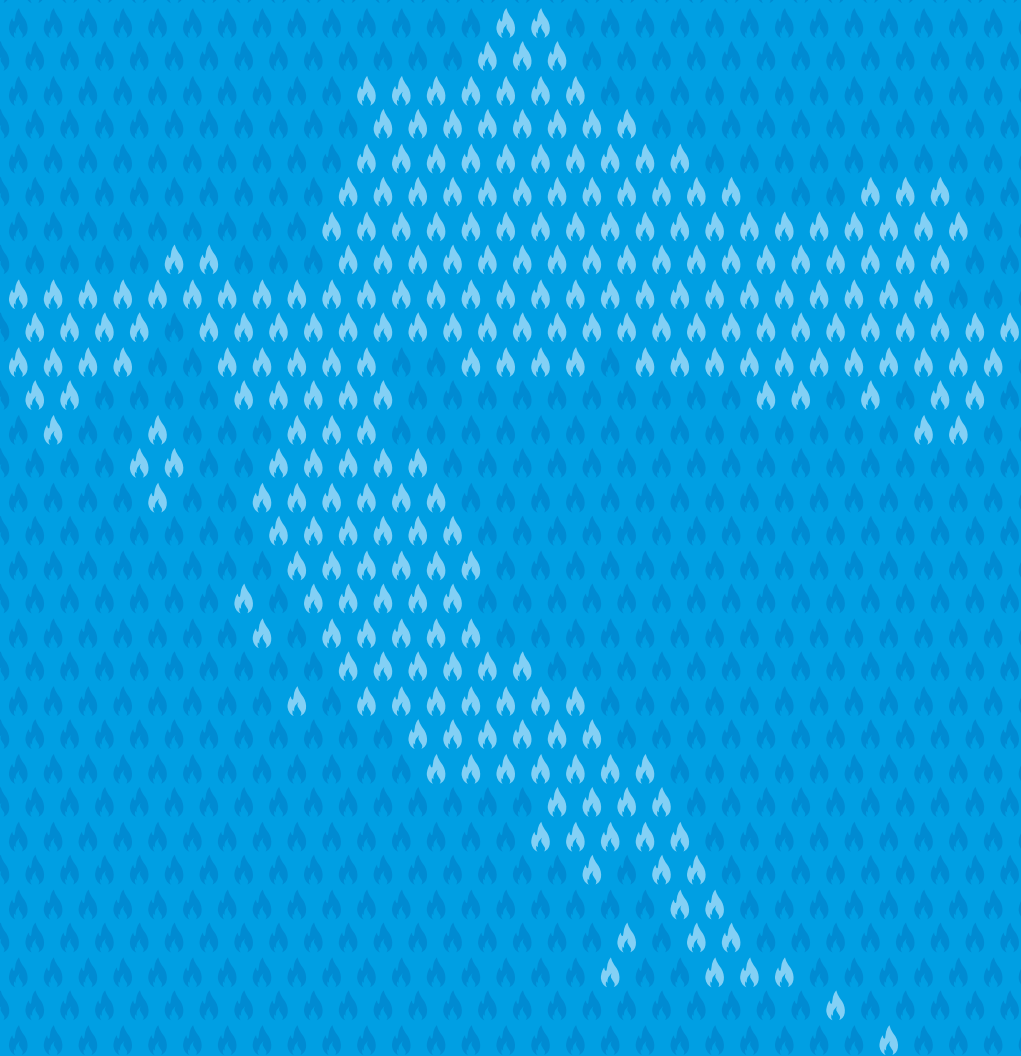
220 Sanja Despot, Faktograf.hr, "HDZ s krajnjom desnicom djeluje protiv europskog mainstreaa" [HDZ with the extreme right against the European mainstream]; <https://faktograf.hr/2018/09/13/hdz-s-krajnjom-desnicom-djeluje-protiv-europskog-mainstreaa/>

221 Sandra Veljković, Večernji list, "Plenković i Orban neformalno se sastali u Opatiji" [Plenković and Orbán meet informally in Opatija]; <https://www.vecernji.hr/vijesti/plenkovic-i-orban-neformalno-se-sastali-u-opatiji-1263848>

222 Sandra Veljković, Večernji list, "Orban stiže u Zagreb, Mađarska povukla blokadu za OECD" [Orbán is coming to Zagreb, Hungary no longer blocking path to OECD]; <https://www.vecernji.hr/vijesti/orban-stize-u-zagreb-madarska-povukla-blokadu-za-oecd-1283259>

223 Sandra Veljković, Večernji list, "Ekskluzivno doznajemo: Mađarski MOL povukao tužbu protiv Hrvatske!" [We find out exclusively: the Hungarian MOL withdraws its suit against Croatia!]; <https://www.vecernji.hr/vijesti/ekskluzivno-doznajemo-maarski-mol-povukao-tuzbu-protiv-hrvatske-1289790>

CASE STUDY: **The LNG terminal**



KEY QUESTION

"The thesis that the LNG would cause us losses is wrong, because we are going to be importing most of our gas, and be dependent on a sole supplier. Every economist or trader knows that this is not a favourable position for negotiations. In order to avoid this, we need to invite tenders for onshore hydrocarbon exploration, the LNG and the Ionian Adriatic Pipeline. In order to increase competitiveness and reduce the price. In my opinion, only an open gas network and global competitiveness, with transports of gas towards third countries, can restrain future gas prices." – Politician 1

Does Croatia need an LNG terminal? From time to time, this question becomes active in public discussions, and the ruling politics regularly answers it in the positive. Nevertheless, despite the proclaimed political will, an LNG terminal has still not been built in Croatia, although the initiative for the project first appeared 30 years ago.²²⁴ There are three main reasons why the first steps of any ambition towards building an LNG terminal were only taken in 2018: the objective political and economic situation, poor political decision-making and a lack of a strategic vision of energy development. The absence of a strategic approach to the energy sector is also the reason why the question whether Croatia needs an LNG terminal cannot be unequivocally answered at all. Because an answer to this question would presume that Croatia has well-founded projections as to what amount of energy it will need over the following years and decades, during which times of the year and in which regions, and what primary energy sources it will use to meet its needs, while respecting the environmental standards it has committed to through its membership in the European Union and international agreements.

²²⁴ Stevo Kolundžić, Andreja Ana Lopac, "Adria LNG - aktualni trenutak" [Adria LNG – Current Status of the Project], Energy and the Environment 2006; <https://www.bib.irb.hr/751059>

"In the former Yugoslavia, the most important document wasn't the budget, but the energy balance sheet. First you put together an energy balance sheet, so that you know what you'll import, how many problems you'll have, how much you have to export, how many works you have to contract in order to compensate for the energy sector. And what do you know about the Croatian energy balance sheet? Nothing. This isn't a document that gets made here. It's a tragedy." – Politician 7

In view of the fact that the main difference between LNG and natural gas from pipelines lies in their physical state – where the state change from gaseous to liquid and vice versa is achieved by changing the temperature – liquefied gas can be used for the same purposes as pipeline gas. LNG is liquefied so that it can be transported in tank ships, tanker trucks or tank wagons, and can be used to obtain thermal and electrical energy, as well as propulsion power, just like pipeline gas. LNG can also be used to produce mineral fertilizers (as for instance in Petrokemija Kutina), but such use cannot be economically justified due to the initial difference in the price of LNG and natural gas from pipelines. This is due to the fact that the price of LNG is increased by the necessity of liquefying it in order to transport it, and regasifying it in order to be able to use it as a primary energy source. Furthermore, the transformation of gas into electrical energy in gas thermal power plants is not a cost-effective process, both from the environmental and the economic perspective. Electricity can be produced from renewable sources that Croatia abounds with – solar and wind energy and hydropotentials – more cheaply than from gas. The efficiency of a gas thermal power plant can be increased only if it is built in an area where there is also a need for the thermal energy (e.g. for heating homes or greenhouses) that is created as byproduct of generating electricity from gas. Adopting a long-term strategic plan that should envisage extending the gas distribution network to

selected regions should be a prerequisite for the political decision on embarking on the construction of such gas thermal power plants. Such decision should also include awareness that increasing Croatia's dependence on natural gas as a primary energy source should presuppose erasing Croatia's carbon footprint by other measures (such as, for instance, increasing the share of energy produced from environmentally acceptable renewable sources, reducing exhaust from cars, reforestation). In case a decision was adopted that resulted in increased consumption of gas in Croatia, the assessment that building an LNG terminal is necessary for the purpose of diversifying, that is, being able to buy this energy commodity from multiple sources, would become more acceptable. In that case, the supply price of gas from pipelines could not rise above the market price of LNG. As Croatia already pays the third highest purchase price of gas in the European Union,²²⁵ alternative lines of supply, combined with the expansion of the local gas market, might result in a lower price of this energy source.

"LNG is not being built in Croatia because it's not cost-effective. I have always followed this from up close, LNG was between 5 and 20% more expensive than natural gas. In order to embark on an LNG project, you have to be willing to pay for security of supply. Security always costs: either you invest in storage facilities or you invest in diversification. Previous examples have definitely taught me that security must be paid for, in whatever shape or form. The LNG itself is a question of security." – Expert 10

²²⁵ Agency for the Cooperation of Energy Regulators, "Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2017", 2018; https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202017%20-%20Gas%20Wholesale%20Markets%20Volume.pdf

Such a strategic decision would open up the space to reconsider what might be the best location for an LNG terminal, as INA's suggestion to set up a floating LNG terminal next to one of the Northern Adriatic platforms²²⁶ was never given serious thought – even though the entire investment might thus be made more cost-effective, whilst also taking into account the discontent of the inhabitants of Omišalj on Krk, where the local community has loudly protested against the construction of the terminal. The gas fields in question have for years been jointly exploited by INA and the Italian ENI, with INA taking full ownership in 2018, although by now they have been nearly wholly depleted. The reserves have increased by around 800 million cubic meters, which is around a third of the Croatian annual consumption of gas.²²⁷ But increased consumption of gas as a primary energy source would still mean that the Croatian energy strategy largely relies on energy it has to import, rather than turning towards the more environmentally and economically acceptable sources it has at its disposal: e.g. a combination of hydroelectric, windfarms and photovoltaic cells, with the option of supplementary purchase of electrical power on the common European market if need arises. In the long run, increased electricity production from renewable sources should result in cheaper electricity and gradual abandonment of gas as a primary energy source.

²²⁶ Sandra Carić Herceg, Nacional, "Vlada se oglasila na plan Ine za LNG terminal u sjevernom Jadranu" [INA's plan for a North Adriatic LNG terminal falls on deaf Government ears]; <https://www.nacional.hr/vlada-se-oglasila-na-plan-ine-za-lng-terminal-u-sjevernom-jadranu/>

²²⁷ Hina, "SAV PLIN OSTAJE U HRVATSKOJ Ina u potpunosti preuzima posao eksploatacije plina u sjevernom Jadranu" [All the gas remains in Croatia: INA takes over the entire Northern Adriatic gas exploitation business]; <https://www.glasistre.hr/pula/ina-preuzima-posao-eksploatacije-plina-u-sjevernom-jadranu-564949>

"We are facing decisions at the European, and even global level to declare certain seas 'blue', prohibiting ships using poor, undefined fuels from sailing there. If this were, say, gas, in terms of emissions, this would mean a huge difference. Sea transport is a big polluter. We might easily come to a consensus with our neighbours and say that the Adriatic is a blue zone. There are many allies on this." – Politician 6

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"In 2020, a new European directive will take effect, on protecting air quality by changing shipping fuel. Here, people don't grasp this, that we should get organised, help the shipping companies to transfer to gas fuels. This will come about, it's only a question of how ready the society will be. Both the society and shipping companies that need to prepare, and the state ought to aid in such transitions, even by means of subsidies." – Expert 10

Arguments in favour of building an LNG terminal are therefore clearest with regard to energy used for transportation. In the context of transport, the technological advances that would reduce dependence on fossil fuels are slowest to occur, which is why LNG is considered the most environmentally acceptable shipping fuel,²²⁸ with possible uses in road and rail transport as well. If, safeguarding its environment, the Republic of Croatia were to limit movement on the Adriatic Sea for large ships using fuels dirtier than LNG, in keeping with the European Commission's announcements,²²⁹ it would have to enable

228 Livanos, George A. and Theotokatos, Gerasimos and Pagonis, Dimitrios-Nikolaos (2014) "Techno-economic investigation of alternative propulsion plants for ferries and RoRo ships". Energy Conversion and Management, 79. pp. 640-651. ISSN 0196-8904; <https://strathprints.strath.ac.uk/47206/>

229 Report from the Commission to the European Parliament and the Council on implementation and compliance with the sulphur standards for marine fuels set out in Directive (EU) 2016/802 relating to a reduction in the sulphur content of certain liquid

them access to a source of supply. But such reasoning too would have to include a relevant assessment of the necessary quantity of liquefied (LNG) or compressed (CNG) gas that can be used as fuel, as well as consider the possibility of using renewable biogas, which can also be produced in Croatia, for which a system of separate collection and composting of biological waste should be set up.

KEY EVENTS

A 30 year old project

The idea of constructing an LNG terminal in Croatia first emerged back in 1989, when the Adria LNG Study Company²³⁰ was founded. But then, Yugoslavia collapsed in the wars of the Nineties, and wartime circumstances did not allow the development of any great projects. Nevertheless, back then it had already been established that the Omišalj municipality might provide the best site for an LNG terminal. Although Ivica Račan's coalition government did not include it in the Energy Strategy of the Republic of Croatia adopted in 2002,²³¹ the project to build an LNG terminal resurfaced in 2003, when the HDZ, led by Ivo Sanader, returned to power. The following year, 2004, an entrepreneur close to Sanader, named Robert Ježić, became owner of DIOKI, a petrochemical firm on whose land the terminal was supposed to be built. According to information that would later be published by German journalists, Sanader was paid a percentage fee from Ježić's purchase of DIOKI.²³² Ježić was lent the money by the

fuels; http://ec.europa.eu/environment/air/pdf/report_sulphur_directive.pdf

230 Stevo Kolundžić, Andreja Ana Lopac, "Adria LNG - aktualni trenutak" [Adria LNG – Current Status of the Project], Energy and the Environment 2006; <https://www.bib.irb.hr/751059>

231 Energy Strategy of the Republic of Croatia; https://narodne-novine.nn.hr/clanci/sluzbeni/full/2002_04_38_839.html

232 Richard Schneider, Die Zeit, "Paten des Balkans"; <https://www.zeit.de/2011/09/A-Bankenskan-dal?page=2>

Austrian Hypo-Alpe-Adria bank, later exposed as a moneylaundering service for corrupt elites throughout the region. Sanader decided that the LNG terminal would be built by an international consortium, through the Adria LNG, d.o.o. company. A 75 percent share in the company was earmarked for international investors, while the Croatian firms, INA and HEP were supposed to secure the remaining 25 percent. Had the project come to fruition, 22.5 percent of shares in the consortium would have been held by the German E.ON, 20 percent by the Austrian OMV and the French Total respectively, 11.5 percent the German RWE, and 1 percent the Slovenian Geoplin. The plan was to have the Krk terminal come into service in 2013, at an annual capacity of 11 billion cubic metres of gas. In the second stage, which was to commence in 2016, the terminal's annual capacity was supposed to have increased to 16.5 billion cubic metres of gas.²³³ A deal was reached with the international partners, in 2007 the Adria LNG company was founded, but the Croatian companies did not manage to raise their share of the money needed for the investment. In 2008, INA lost around 200 million Euros on oil procurement, while HEP's business suffered due to selling electricity at reduced prices to favoured entrepreneurs in Croatia²³⁴ and the region.²³⁵ When the effects of the global financial crisis that erupted in 2008 began to spill over into Croatia, it

²³³ Igor Grozdanić, Gordana Sekulić, "Novi dobavni pravci nafte i plina za i kroz jugoistočnu i srednju Europu te uključenost Republike Hrvatske" [New Oil and Gas Supply Routes for and Through Southeast and Central Europe and Croatian Involvement], 17. Forum: Europa, Regija i Hrvatska 2030. godine, zbornik radova; <http://www.hed.hr/wp-content/uploads/2017/05/17-forum.pdf>

²³⁴ Ana Raić Knežević, Telegram.hr, "Sanader i Ježić oslobođeni za HEP-Dioki" [Sanader and Ježić acquitted in HEP-DIOKI]; <https://www.telegram.hr/politika-kriminal/sanader-i-jezic-oslobodeni-za-aferu-hep-dioki/>

²³⁵ Nina Domazet, Energetika-net.com, "HEP opet srlja u gubitke zbog prodaje struje Aluminiju iz Mostara" [HEP again heading for losses due to the sale of electricity to Aluminij in Mostar]; <http://www.energetika-net.com/u-fokusu/komentar-kratki-spoj/hep-opet-srlja-u-gubitke-zbog-prodaje-struje-aluminiju-iz-mostara-13928>

became clear that the European consortium that was supposed to build the LNG terminal on Krk would come to nothing. The Adria LNG company folded in 2017, although their project to build a large land-based terminal on Krk had fallen through years earlier.

"Then, when in the 2000s the LNG terminal was embarked on, there was political will to initiate something, and then it was stopped. It all happens in connection to international players in the gas market, such as the Russians, Gazprom. Because actually such a terminal does what it did in Poland and the Baltic states, which is that as soon as you come in with another supply route, you're bringing the price down. And that's actually how the investment is justified. Not because the LNG gas will pay off, but because the price of gas on the market will drop." – Politician 2

But things were not going smoothly before the crisis either: there was unnecessary foot-dragging with the final choice of location,²³⁶ Sanader's government did not show itself to be up to the task in the negotiations with the international partners,²³⁷ the local community was worried about the potential harmful impacts on the environment, while the loudest opposition to building an LNG terminal on Krk was shown by environmental activists led by the Eko Kvarner association.²³⁸ It is interesting that both the Kvarner eco-activists and the SDP's Primorje-Gorski Kotar County Prefect Zlatko Komadina then advocated building a floating LNG terminal, and opposed a land-based one. When it was decided

²³⁶ Cable: o8ZAGREB690_a, Wikileaks.org; https://wikileaks.org/plusd/cables/o8ZAGREB690_a.html

²³⁷ Cable: o8ZAGREB91_a, Wikileaks.org; https://wikileaks.org/plusd/cables/o8ZAGREB91_a.html

²³⁸ Responses to the questions, objections and comments from the public discussion on the environmental impact of the LNG terminal on the island of Krk, 2010; https://www2.pgz.hr/doc/graditeljstvo/SUO%20UPP%20terminal_Odgovori%20na%20primjedbe%20s%20javne%20rasprave.pdf

later to actually build a smaller, floating terminal, they changed their opinion.²³⁹ The opponents of Adria LNG's project were given an important platform in the public discussion by the Rijeka-based Novi List newspaper, which adroitly reported on all the goings-on around the announced construction of an LNG terminal in Omišalj. At the time, Novi List was still among the few media not under the HDZ's influence,²⁴⁰ only for the controversial entrepreneur Robert Ježić to become its owner in 2008.²⁴¹ At the time, Ježić enjoyed privileged status as Sanader's confidant. How important controlling Novi List was to the HDZ is evinced by the unofficial information that in 2016, the then-HDZ president Tomislav Karamarko and his trusted man, MOL's lobbyist Josip Petrović, were intermediaries in the sale of the Rijeka newspaper to its current owner, the Slovakian group with ties to the Hungarian MOL.²⁴²

The professional community supported the Adria LNG project,²⁴³ and the USA government provided strong political support, even financing the expert study that concluded that Omišalj was not threatened by any dangers arising from the LNG terminal.²⁴⁴

²³⁹ Ante Srzić, Tportal.hr, "Komadina i ekoborac Piršić zalagali se za plutajući LNG, a danas su protiv" [Komadina and eco-fighter Piršić advocated a floating LNG, today they're against]; <https://www.tportal.hr/vijesti/clanak/komadina-i-ekoborac-pirsic-zalagali-se-za-plutajuci-lng-a-danas-su-protiv-fo-to-20180205>

²⁴⁰ Petar Vidov, Novosti, "Umreženo pranje mozga" [Networked brainwashing]; <https://www.portalnovosti.com/umrezeno-pranje-mozga>

²⁴¹ Ida Balen, Kanal-Ri.hr, "Robert Ježić kupio Novi list" [Robert Ježić buys Novi List]; <http://www.kanal-ri.hr/view.asp?idp=100>

²⁴² Hrvoje Šimičević, Novosti, "Vlasnička glista Novog lista" [The Novi List ownership worm]; <https://www.portalnovosti.com/vlasnika-glista-novog-lista>

²⁴³ Zlatko Kočiš, Ivan Širović, "Prirodni ukapljeni plin (LNG) – ZA, usprkos svemu" [Liquefied Natural Gas (LNG) – FOR, despite everything], Polimeri: časopis za plastiku i gumu, Vol. 26 No. 4, 2005.; <https://hrcak.srce.hr/3141>

²⁴⁴ Marko Biočina, Nacional, "Omišlju ne prijete opasnost od LNG-a" [Omišalj in no danger from the LNG]; <http://arhiva.nacional.hr/clanak/48935/omislju-ne-prijete-opasnost-od-lng-a>

Russia, Europe's main supplier of natural gas from pipelines, opposed the construction of the terminal, in the desire to prevent diversification of gas supply on markets where it has a monopoly position, and thus the power to set prices. In November 2009, a source from Plinacro confided to the American Embassy in Zagreb that Russia has actively been trying to sabotage the construction of an LNG terminal in Croatia.²⁴⁵ Ante Markov, the Janaf boss, revealed to the USA embassy that Russia has offered Croatia potentially lucrative involvement in the South Stream project, on the condition that it allow Russian investment in the Croatian energy sector.²⁴⁶ During Sanader's term, Russia even publicly complained that its companies in Croatia were not treated equally compared to Western investors.²⁴⁷ Sanader himself claimed to the American ambassador in Zagreb that Vladimir Putin tried to convince him that Croatia should give up on building an LNG terminal, implying that Russia might complicate the project for Croatia.²⁴⁸

"America will be a net gas exporter, which is self-evident, as we knew before that they have been turning their import terminals into export terminals. In the meantime, Australia emerged in the global market as a large potential gas producer and exporter. It is self-evident that Australia has geographic advantages, it practically draws a geographic rent from supplying South-East Asia, and over here it's about the same for America, only it probably reckoned it had to conquer the European markets, crowd out Qatar and any other competitors. They started exerting various

²⁴⁵ Cable: 09ZAGREB670_a, Wikileaks.org; https://wikileaks.org/plusd/cables/09ZAGREB670_a.html

²⁴⁶ Ibid.

²⁴⁷ Dalibor Klobučar, Poslovni dnevnik, "Zašto Rusi žele ulaz u hrvatski sektor nafte i plina" [Why do Russians want to enter the Croatian oil and gas sector?]; <http://www.poslovni.hr/trzista/zasto-rusi-zele-ulaz-u-hrvatski-sektor-nafte-i-plina-47476>

²⁴⁸ Cable: 07ZAGREB669_a, Wikileaks.org; https://wikileaks.org/plusd/cables/07ZAGREB669_a.html

pressures, that's my interpretation. They briefed president Kolinda Grabar Kitarović on the Three Seas Initiative, whose geopolitical background lies in the fact that 12 countries on the border of Euroasia get between 100% and 60% of their supplies from Russian gas, that in order to have security of supply there needs to be a shift there, securing the supply of LNG from the West. This should all be clear. However, the president is not at home in the energy sector, she didn't have enough people on her team to draw her pictures or explain some things. So she never spoke, or never wanted to speak of this background of the Three Seas Initiative. And I say that this is not a silly idea, not silly at all, not going into the fact that the two conflicted interests are big, but starting from the point that we have an interest in this. If two or three terminals up in the Baltics are connected to this one of ours, then the existing networks might be used to deliver this LNG to all these countries, and we'd benefit from it, not only by using the full capacity of the terminal, but by using the full capacity of the existing network." – **Expert 10**

On 1 July 2009, Sanader unexpectedly resigned, thus surprising even his closest associates. Later on, through WikiLeaks and their publication of the paraintelligence company Stratfor's emails, unconfirmed information would surface linking Sanader's resignation with the LNG terminal project.²⁴⁹ Referring to an unnamed Swedish Euro-parliamentarian close to Carl Bildt, Stratfor's analyst Marko Papić wrote that when Sanader resigned, he was under pressure from the organised criminal underground, threatening to kill members of his family. The same email mentions the supposed deal that cost Sanader his political career, stating his resignation had something to do with the Luka Ploče harbour, which was considered as an alternative location for building the LNG terminal. Luka Ploče would later be chosen as the site for the oil products and liquefied natural gas terminal built with private capital, through a partnership between

²⁴⁹ Re: INSIGHT BATCH 1, The Global Intelligence Files, Wikileaks.org; https://wikileaks.org/gifiles/docs/16/1683919_re-insight-batch-1.html

the local Energia Naturalis (ENNA) company and the Swiss Vitol, that is, their subsidiary VTTI. ENNA owns the First Gas Society (PPD), and also owns a 25 percent stake in Luka Ploče d.d.

"The gas business can't be left to these players dragging this way and that, swooping in like some kinds of intermediaries, make billions in a couple of years, turning into mega-players; it has to be a part of state policy. Is an LNG terminal our strategic interest or not? I think that it can be argued that it is, and that it has to be made to happen." – **Politician 6**

The problem of the land on Krk

If Russia did indeed attempt to block the construction of the Krk LNG terminal, that might explain the subsequent events linked to the ownership of the land earmarked for the construction of the terminal. Although the formal decision on the location where the terminal was to be built was adopted in 2008, interested investors knew in advance that the terminal was going to be built on land belonging to DIOKI, owned by Sanader's friend Robert Ježić. The German E.ON already made an option agreement with Ježić to buy the land in question as early as 2006.²⁵⁰ And then Sanader resigned, the LNG was put on ice, and Ježić's business ran into trouble, so various investors began sniffing around DIOKI's land on Krk. Danko Končar, the Croatian entrepreneur who became rich doing business in Russia,²⁵¹

²⁵⁰ Nikola Bajto, Novosti, "E.ON pretekao Vladu za dvije godine" [E.ON overtakes the Government by two years!]; <http://arhiva.portalnovosti.com/2012/05/e-on-pretekao-vladu-za-dvije-godine/>

²⁵¹ Marinko Glavan, Orjana Antešić, Novi list, "Končaru nije stalo do navoza, zanimaju ga samo nekretnine" [Končar doesn't care about slipways, he is only interested in real estate]; <http://www.novolist.hr/Vijesti/Hrvatska/Koncaru-nije-stalo-do-navoza-zanimaju-ga-samo-nekretnine>

wanted to buy it.²⁵² Trying to help his friend Ježić, the Finance Minister in the Milanović government, Slavko Linić, advocated selling DIOKI to the Swiss firm United Energy Commodities, allegedly linked to the Russian criminal underground,²⁵³ but the Economy Minister Radimir Čačić would not allow it.²⁵⁴ While Linić was interested in saving Ježić's business, Čačić did not care whether DIOKI or its daughter company would go bankrupt.²⁵⁵ Čačić, then an influential Vice Prime Minister in charge of the economy, was exclusively interested in ownership of the Omišalj land, where he kept trying to build an LNG terminal. He hoped that interested partners might be found in the Arab world. It was claimed that mysterious investors from Azerbaijan were interested in Dina, DIOKI and the associated land, but these investors never turned up, while an attempt to attract Turkish investors also fell through.²⁵⁶ Had Čačić not been forced to leave the Government because of a prison sentence for a traffic accident he caused in Hungary, DIOKI might possibly have been

taken over by retired Croatian army general Ivan Čermak, the owner of Crodux – a firm specialising in importing, storing, retail and wholesale of oil products and gas in the RC.²⁵⁷ But Čermak's intention to restructure Ježić's petrochemical firms was sabotaged by HEP, the state company controlled by the HNS – that is, Čačić's successor as president of the party, Ivan Vrdoljak. In May 2013, Vrdoljak appointed his friend Tomislav Šerić as HEP's director, replacing Zlatko Koračević, brought by Čačić to the position a year previously.²⁵⁸ A month later, in June 2013, HEP thwarted Čermak's intention to take over Ježić's petrochemical business: in the pre-bankruptcy settlement process, the state firm voted against Čermak's restructuring plan.²⁵⁹ Such a decision was harmful to HEP itself, waiving multimillion claims against DIOKI and Dina. This was not the sole point of contention between Vrdoljak and Čermak during the Kukuriku administration's term. The conflict began around the construction of a gas-powered combined heat and power plant that Čermak had planned on building in Slavonski Brod in partnership with HEP,²⁶⁰ and

²⁵² Sandra Carić Herceg, Business.hr, "Danko Končar kupuje Diokijevo zemljište za LNG terminal" [Danko Končar is buying DIOKI's LNG terminal land]; <https://web.archive.org/web/20111230204843/http://www.business.hr:80/hr/Kompanije/Vijesti/Danko-Koncar-kupuje-Diokijevo-zemljiste-za-LNG-terminal>

²⁵³ Gordan Malić, Index.hr, "Linić spašava Ježića prodajom Dina Petrokemije ukrajinskoj firmi s mafijaškim vezama?!" [Linić saving Ježić by selling Dina Petrokemija to Ukrainian firm with mafia connections?!]; <https://www.index.hr/vijesti/clanak/Linic-spasava-Jezica-prodajom-Dina-Petrokemije-ukrajinskoj-firmi-s-mafijaskim-vezama!/626531.aspx>

²⁵⁴ Jutarnji list, "NOVI SUKOB U VLADI Linić želi dati Dioki Ježiću i Rusima! Čačić: 'Nema šanse!'" [New conflict in government: Linić wants to give DIOKI to Ježić and the Russians! Čačić: 'No chance!']; <https://www.jutarnji.hr/vijesti/novi-sukob-u-vladi-linic-zeli-dati-dioki-jezicu-i-rusima-cacic-nema-sanse/1542243/>

²⁵⁵ Ilko Ćimić, Index.hr, "Slučaj Dine i Diokija: Osam mjeseci laži, obmanjivanja i bezobrazluka Milanovićeve vlade" [The case of Dina and Dioki: Eight months of lies, deception and effrontery by Milanović's Government]; <https://www.index.hr/vijesti/clanak/Slucuj-Dine-i-Diokija-Osam-mjeseci-lazi-obmanjivanja-i-bezobrazluka-Milanoviceve-vlade/632481.aspx>

²⁵⁶ Ibid.

²⁵⁷ Crodux oil products, "About Us": <https://www.crodux-derivati.hr/o-nama/>

²⁵⁸ Drago Hedl, Jutarnji list, "'PEKAO SAM PIZZE I OD TOGA STVORIO SUPER BIZNIS, PA ČU I HEP PRETVORITI U MOĆNU KOMPANIJU' Novi šef državnog diva za Nedjeljni" [I baked pizzas and made a super business out of it, so I'll turn HEP into a mighty company too! New boss of the state giant for the Nedjeljni]; <https://www.jutarnji.hr/vijesti/%E2%80%98pekao-sam-pizze-i-od-toga-stvorio-super-biznis-pa-cu-i-hep-pretvoriti-u-mocnu-kompaniju%E2%80%99-novi-sef-drzavnog-diva-za-nedjeljni/1152044/>

²⁵⁹ Bojana Mrvoš Pavić, Novi list, "Opasno politikanstvo: HEP odustaje i od LNG-a na Krku?" [Dangerous politicking: HEP giving up on LNG on Krk?]; <http://www.novolist.hr/Vijesti/Hrvatska/Opasno-politikanstvo-HEP-odustaje-i-od-LNG-a-na-Krku>

²⁶⁰ Krešimir Žabec, Jutarnji list, "POZADINA SUKOBA Čermak uvjeren da mu je ministar Vrdoljak srušio životni projekt od 450 milijuna eura" [Background of the conflict: Čermak convinced minister Vrdoljak brought down his 450 million Euro life's project]; <https://www.jutarnji.hr/vijesti/hrvatska/pozadina-sukoba-cermak-uvjeren-da-mu-je-ministar-vrdoljak-srusio-zivotni-projekt-od-450-milijuna-eura/593878/>

continued when Vrdoljak's ministry declared that the fuel sold at Čermak's Crodex petrol stations is of unsatisfactory quality.²⁶¹ Because of all this, Čermak publicly demanded that Vrdoljak resign and announced lawsuits worth millions.²⁶² Čermak's Crodex is a competitor in the gas market to the Vukovar-based First Gas Society (PPD),²⁶³ owned by Vrdoljak's friend Pavao Vujnovac.²⁶⁴

The media interpreted HEP's decision preventing Čermak from buying DIOKI and Dina as abandoning the LNG terminal. Earlier on, there had been announcements that it was precisely HEP that would buy the land needed to build a land-based LNG terminal on Krk.²⁶⁵ Yet later, talk turned to how the RC Government itself would be the one to carry out the land purchase, through the State

Property Management Office (DUUDI), headed by Mladen Pejnović.²⁶⁶ It turned out to be a false promise: due to DIOKI and Dina's bankruptcy, the Austrian Hypo-Alpe-Adria Bank became the owner of the land on Krk, and sold it on to Gasfin, a Luxembourg-based firm connected to the Russian Gazprom.²⁶⁷ Gasfin claims that they want to build a land-based terminal with their own resources. Meanwhile, the RC Government, with the European Union's backing, changed course and decided to build a smaller, floating LNG terminal. A land-based terminal is only planned for the second stage of the project, so the issue of land ownership will be resolved if the second stage ever comes about. Currently, the first stage itself is in question: due to the potentially harmful impacts on the environment,²⁶⁸ as well as the resistance from the local community, assisted by the current owner of the Krk land, Gasfin,²⁶⁹ but also due to a lack of interest in leasing capacities in the announced floating LNG terminal.²⁷⁰ Andrej Plenković's government claims that will nevertheless not give up on the

²⁶¹ Luka Filipović, Tportal.hr, "Čermak i Vrdoljak u otvorenom oktanskom ratu" [Čermak and Vrdoljak in open octane warfare]; <https://www.tportal.hr/biznis/clanak/cermak-i-vrdoljak-u-otvorenom-oktanskom-ratu-20150115>

²⁶² Vanja Nežirović, Jutarnji list, "MOJA ISTINA 'Vrdoljak mi se nije ni javio, tražim njegovu smjenu i spremam milijunsku tužbu'" [My truth: 'Vrdoljak never even got in touch, I'm demanding his removal and preparing a lawsuit worth millions]; <https://www.jutarnji.hr/vijesti/moja-istina-vrdoljak-mi-se-nije-ni-javio-trazim-negovu-smjenu-i-spremam-milijunsku-tuzbu%E2%80%9999/466573/>

²⁶³ Anto Bajo, Marko Primorac, Dijana Jurinec, "Tržište plina u Republici Hrvatskoj - liberalizacija i financijsko poslovanje" [Gas market in the Republic of Croatia - liberalisation and financial operations], *Fiscus* no. 3 June 2016, Institut za javne financije; <https://www.ijf.hr/hr/publikacije/casopisi/12/fiscus/1081/trziste-plina-u-republici-hrvatskoj-liberalizacija-i-financijsko-poslovanje/1168/>

²⁶⁴ Drago Hedl, Jutarnji list, "VLASNIK PPD-a ZA NEDJELJNI 'Nije istina da je za moj uspjeh zaslužan moj prijatelj Vrdoljak'" [PPD owner for Nedjeljni: 'It is not true that my friend Vrdoljak is responsible for my success]; <https://www.jutarnji.hr/vijesti/vlasnik-ppd-a-za-nedjeljni-nije-istina-da-je-za-moj-uspjeh-zaslu-zan-moj-prijatelj-vrdoljak/591352/>

²⁶⁵ Bojana Mrvoš Pavić, Jagoda Marić, Novi list, "Zaduženi HEP kreditom kupuje teren za LNG terminal i spašava Dinu" [Indebted HEP uses loan to buy land for LNG terminal, saving Dina]; <http://www.novilist.hr/Vijesti/Gospodarstvo/Zaduzeni-HEP-kreditom-kupuje-teren-za-LNG-terminal-i-spasava-Dinu>

²⁶⁶ Marko Biočina, Marko Špoljar, Poslovni dnevnik, "Država kupuje zemljište za LNG terminal na Krku" [State buys land for LNG terminal on Krk]; <http://www.poslovni.hr/hrvatska/drzava-kupuje-zemljiste-za-lng-terminal-na-krku-251746>

²⁶⁷ Dražen Majić, HRT, "Tko stoji iza Gasfina - novog aktera u trileru o LNG-u" [Who is behind Gasfin - the new player in the LNG thriller]; <https://vijesti.hrt.hr/433657/gasfin-novi-akter-u-geopolitickom-trileru-o-lng-ju>

²⁶⁸ Petar Vidov, Faktograf.hr, "LNG na Krku guraju mimo zakonske procedure, iako je štetan za okoliš" [The LNG on Krk being pushed in disregard of the legally mandated procedure, in spite of its harmfulness to the environment]; <https://faktograf.hr/2018/04/27/lng-krk-guraju-mimo-zakonske-procedure-iako-je-stetan-za-okolis/>

²⁶⁹ Dražen Majić, HRT, "Gasfin sudjelovao u izradi studije koja je protiv plutajućeg LNG-ja" [Gasfin took part in drafting the study against the floating LNG]; <https://vijesti.hrt.hr/435721/gasfin-sudjelovao-u-izradi-studije-koja-je-protiv-plutajuceg-lng-ja>

²⁷⁰ Bojana Mrvoš Pavić, Novi list, "FIJASKO LNG-a Za zakup mizernih količina plina javili se samo HEP i Ina" [LNG fiasco: only HEP and INA apply to lease miserable amounts of gas]; <http://www.novilist.hr/Vijesti/Gospodarstvo/FIJASKO-LNG-a-Za-zakup-mizernih-kolicina-plina-javili-se-samo-HEP-i-Ina>

LNG, calling the terminal a strategic project,²⁷¹ adopting a special law, the so-called Lex LNG, according to which, in case it is not cost-effective, the terminal would be subsidised by Croatian citizens by means of the supply security charge, in the amount determined by the Croatian Energy Regulatory Agency (HERA).²⁷² The same Law also announces the possibility of expropriation of the land necessary to realise the project. The floating LNG terminal is built under the auspices of the LNG Croatia company, owned by the state firms, HEP and Plinacro.²⁷³ The LNG Croatia firm was established back in 2010, its purpose then having been to take over a stake in the Adria LNG consortium,²⁷⁴ and in the meantime served to house HNS party cadres.^{275,276} The current director of LNG Croatia is Barbara Dorić, also

considered a HNS cadre.²⁷⁷ Dorić became the director of LNG Croatia in April 2018,²⁷⁸ a week before Prime Minister Plenković expelled the Bridge of Independent Lists (HDZ's previous coalition partner) from his administration and two months before the ruling parliamentary majority was officially reshuffled with the aid of Vrdoljak's HNS.²⁷⁹

Failed investments

If the construction of an LNG terminal in Croatia was just a business, and not also a political project, it is likely that the terminal would already have been built. Already in 2002, former president Stipe Mesić successfully lobbied for an agreement to construct an LNG terminal. The Emir of Qatar, Hamad Bin Khalifa Al-Thani wanted to build the terminal with his own money, without Croatian investors.²⁸⁰ In that case, the terminal would be owned by Qatar, but Croatia could still lease its capacities and charge for the services of transport through the state gas pipeline network. There is no reason to fear shortages: Qatar has the world's third largest reserves of natural gas, behind Russia and Iran.²⁸¹

²⁷¹ Ivanka Toma, Goran Ogurlić, Jutarnji list, "VELIKI RAZGOVOR S PREMIJEROM ANDREJOM PLENKOVIĆEM 'Mađarska želi ući u suvlasništvo LNG-a, ali će naše tvrtke imati većinski udio'" [Big interview]; <https://www.jutarnji.hr/vijesti/hrvatska/veliki-razgovor-s-premijerom-andrej-om-plenkovicem-madarska-zeli-uci-u-suvlasnistvo-lng-a-ali-ce-nase-tvrtke-imati-vecinski-udio/8211287/>

²⁷² Liquefied Natural Gas Terminal Law, Official Gazette, OG 57/2018; https://narodne-novine.nn.hr/clanci/sluzbeni/2018_06_57_1156.html

²⁷³ Ivana Marković, Ivica Arar, "100 godina prirodnog plina u Hrvatskoj" [100 years of natural gas in Croatia], Nafta i plin, Vol. 37. No. 152., 2017.; <https://hrcak.srce.hr/193702>

²⁷⁴ Plinacro.hr, "Plinacro i HEP osnovali tvrtku LNG Hrvatska d.o.o." [Plinacro and HEP found LNG Croatia d.o.o.]; <http://www.plinacro.hr/default.aspx?id=325>

²⁷⁵ Maro Marušić, Lupiga.com, "POSAO IZ SNOVA: Samo trojica rade u tvrtki o čijoj budućnosti nitko ništa ne zna. Ne brinite, dio uložених milijuna već je bačen u vjetar!" [Dream job: only three employed in company about whose future no one knows a thing. Don't worry, part of the millions invested has already been thrown to the wind!]; <https://www.lupiga.com/vijesti/posao-iz-snova-samo-trojica-rade-u-tvrtki-o-cijoj-buducnosti-nitko-nista-ne-zna-ne-brinite-dio-ulozenih-milijuna-vec-je-bacen-u-vjetar>

²⁷⁶ Maro Marušić, Lupiga.com, "OVAKO HNS GOSPODARI SEKTOROM: „Mladen Antunović uništio je desetke tvrtki i poslao ih u stečaj"" [This is how the CPP governs the sector: 'Mladen Antunović ruined dozens of firms, sending them into receivership]; <https://lupiga.com/vijesti/ovako-hns-gospodari-sektorom-mladen-antunovic-unistio-je-desetke-tvrtki-i-poslao-ih-u-secaj>

²⁷⁷ Davorka Blažević, Tris.com.hr, "'Konzultantica' visokog rizika" [High-risk consultant]; <http://tris.com.hr/2015/02/portret-tjedna-barbara-doric-predsjednica-uprave-agencije-za-ugljikovodike-konzultantica-visokog-rizika/>

²⁷⁸ Večernji list, "Barbara Dorić nova direktorica tvrtke LNG Hrvatska" [Barbara Dorić the new director of the LNG Croatia company]; <https://www.vecernji.hr/biznis/barbara-doric-nova-direktorica-tvrtke-lng-hrvatska-1240146>

²⁷⁹ Ilko Čimić, Index.hr, "Vratio se Ivan Vrdoljak, najveći ljugavac hrvatske politike" [Vrdoljak, the greatest sleazeball of Croatian politics, is back]; <https://www.index.hr/vijesti/clanak/biografija-ivana-vrdoljaka-biografija-je-hrvatske-politicke-ljugavosti/1014362.aspx>

²⁸⁰ Robert Bajruši, Jutarnji list, "JOSIPOVIĆ U MISIJI POMIRENJA Katarski emir: 'U LNG terminal želim uložiti 2 milijarde dolara'" [Josipović on a mission of reconciliation. The Qatari Emir: 'I want to invest 2 billion dollars in the LNG terminal']; <https://www.jutarnji.hr/vijesti/hrvatska/josipovic-u-misiji-pomirenja-katarski-emir-u-lng-terminal-zelim-uloziti-2-milijarde-dolara/1560399/>

²⁸¹ Natural gas - Proved Reserves: country comparison, The World Factbook, CIA; <https://www.cia.gov/library/publications/the-world-factbook/>

"When the LNG is built, the market will begin to function. Gas is a global commodity, a market-traded commodity, large discoveries of gas around the world guarantee supply and the expert community has predicted that the price of LNG would fall. The mere appearance of LNG in Lithuania lead to a 30 percent fall in the price of gas." – Politician 1

Sanader refused the offer, with the justification that the terminal would be built by the European consortium, Adria LNG. When there was a change of government and it became clear that Sanader's European consortium would not materialise, the first Vice Prime Minister in charge of the economy, Radimir Čačić, and President Ivo Josipović once more attempted to attract the Qatari LNG investment.²⁸² Qatar agreed to supply gas for the Krk LNG terminal for the following 25 years, leaving open the possibility of financing the construction of the terminal once they are better acquainted with the project.²⁸³ The mood on the plane returning from Doha to Zagreb was celebratory; it seemed that the door to Qatari investment in Croatia had finally swung open, when an unexpected verdict came in from Hungary: Čačić was sentenced to 22 months in prison for the traffic accident he caused in the neighbouring state. The first Vice Prime Minister and then president of HNS did not even know that the judgement

rankorder/2253rank.html

²⁸² Goran Penić, Jutarnji list, "CIJELI VRH DRŽAVE U KATARU Čačić nudi šecima poslove vrijedne dvije milijarde eura!" [Entire state leadership in Qatar: Čačić offering sheiks deals worth two billion Euros!]; <https://www.jutarnji.hr/vijesti/hrvatska/cijeli-vrh-drzave-u-kataru-cacic-nudi-seicima-poslove-vrijedne-dvije-milijarde-eura/1361925/>

²⁸³ Agencija VLM, Poslovni.hr, "Katar će sljedećih 25 godina biti dobavljač plina za LNG terminal" [Qatar will supply gas for the LNG terminal for the next 25 years]; <http://www.poslovni.hr/hrvatska/katar-ce-sl-jedecih-25-godina-biti-dobavljac-plina-za-lng-terminal-221198>

would be handed down that day.²⁸⁴ The Qataris were then sent letters assuring them that Čačić leaving the Government would change nothing, while legislative changes were justified in the context of attracting Qatari investment.²⁸⁵ A year later, the Qatari delegation was welcomed in Croatia by the new economy minister and HNS president, Ivan Vrdoljak.²⁸⁶ The Qataris were supposed to come to Croatia as early as spring 2013, but the meeting did not take place, nor was it clearly explained why it fell through.²⁸⁷ At the time, Vrdoljak claimed that the Qataris were not interested in building the LNG terminal after all, only to change his story in December, when they did finally turn up. For the rest of his term, Vrdoljak spoke on several occasions of how there would be no abandoning the construction of the terminal on Krk, even announcing that 2020 would be the final deadline for its construction,²⁸⁸ yet

²⁸⁴ Nikolina Šajn, Jutarnji list, "Trenutak kada je Čačiću Josipović prenio vijest o presudi: Slavio je trijumf iz Dohe, a onda mu se srušio svijet..." [The moment Josipović gave Čačić the news of the verdict: he was celebrating the triumph in Doha, and then his world collapsed...!]; <https://www.jutarnji.hr/vijesti/hrvatska/trenutak-kada-je-cacicu-josipovic-prenio-vijest-o-presudi-slavio-je-trijumf-iz-dohe-a-onda-mu-se-srusio-svijet.../1363122/>

²⁸⁵ Krešimir Žabec, Robert Bajruši, Jutarnji list, "ZAKON ZA KATARSKE INVESTITORE Ministar Vrdoljak: Spriječit ću vlasnike terena da ne unište projekt LNG terminal" [A law for Qatari investors. Minister Vrdoljak: I'll stop the land owners from ruining the LNG terminal project]; <https://www.jutarnji.hr/vijesti/hrvatska/zakon-za-katarske-investitore-ministar-vrdoljak-sprijecit-cu-vlasnike-terena-da-ne-uniste-projekt-lng-terminal/1369056/>

²⁸⁶ Petra Maretić Žonja, Večernji list, "Katar mogući partner za LNG i opskrbu plinom" [Qatar a possible partner for the LNG and gas supply]; <https://www.vecernji.hr/vijesti/vrdoljak-katar-zainteresiran-za-lng-terminal-906937>

²⁸⁷ Bojana Mrvoš Pavić, Novi list, "LNG na čekanju: Katarska delegacija ne dolazi, a kad će – ne zna se" [LNG on hold: Qatari delegation not coming, nobody knows when they might!]; <http://www.novolist.hr/Vijesti/Rijeka/LNG-na-cekaju-Katarska-delegacija-ne-dolazi-a-kad-ce-ne-zna-se>

²⁸⁸ Hina, Poslovni.hr, "Vrdoljak: LNG terminal najkasnije 2020. godine" [Vrdoljak: LNG terminal by 2020 at the latest]; <http://www.poslovni.hr/hrvatska/vrdoljak-lng-terminal-najkasnije-2020-godine-275957>

the implementation never went beyond an environmental impact assessment.²⁸⁹ Vrdoljak believed that Croatia could not build the terminal on its own and that money had to be invested by international partners. However, he did not overexert himself looking for investors, and so American lobbying also became more intense.²⁹⁰ Pavao Vujnovac, owner of PPD, the firm that resells Gazprom's gas in Croatia, also publicly stated the same belief as Vrdoljak – that Croatia should not build the terminal on its own.²⁹¹ Although liquefied gas is necessarily more expensive than pipeline gas, Vrdoljak's friend Vujnovac would still find LNG to be competition: if the long-announced terminal were to be built in Croatia, the upper limit of the price of gas would be determined by the price of LNG. Thus, for instance, in Lithuania, according to an independent study commissioned by the state oil company, the very presence of an LNG terminal has led to a lower price of imported Russian gas.²⁹² As mentioned, Croatia currently pays for the third most expensive imported wholesale gas in Europe, behind only Finland and Moldavia.²⁹³

²⁸⁹ Bojana Mrvoš Pavić, Novi list, "LNG terminal u Omišlju neće imati negativan utjecaj na okoliš" [LNG terminal in Omišalj to have no negative effect on the environment]; <http://www.novolist.hr/Vijesti/Hrvatska/LNG-terminal-u-Omislju-neece-imati-negativan-utjecaj-na-okolis>

²⁹⁰ Josip Bohutinski, Marina Šunjerga, Večernji list, "Europski novac i američki lobisti sagradit će LNG terminal na Krku" [European money and American lobbyists will build the Krk LNG terminal]; <https://www.vecernji.hr/vijesti/europski-novac-i-americki-lobisti-sagradit-ce-lng-terminal-na-krku-989336>

²⁹¹ Darko Bičak, Poslovni dnevnik, "LNG ne može biti samo hrvatski projekt" [The LNG cannot be just a Croatian project]; <http://www.poslovni.hr/hrvatska/lng-ne-moze-biti-samo-hrvatski-projekt-302173>

²⁹² Pöyry Management Consulting, "Independent Economic Analysis of the Long-term Liquefied Natural Gas Import Solution to the Republic of Lithuania"; https://enmin.lrv.lt/uploads/enmin/documents/files/Economic_analysis_of_LNG_FINAL.pdf

²⁹³ ACER, "Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets in 2017"; https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202017%20-%20Gas%20Wholesale%20Markets%20Volume.pdf

"The impact of Russian, that is, Gazprom's pricing on gas is very large, as their position is in effect a monopoly, and the attempt to reduce this by means of LNG facilities has proven to be relatively successful, as for instance in Lithuania. The price of Russian gas fell by 30 percent. However, in Croatia, an LNG facility has been hindered by those who would like to maintain the monopoly position of Russian gas."

– **Expert 7**

The change of government in the 2015 elections brought with it the abandoning of the land-based LNG terminal, whose entry into service Vrdoljak has been announcing for years, even though no concrete steps have been taken towards its construction. Under the influence of the American administration,²⁹⁴ Tihomir Orešković's government decided to install a floating LNG terminal on Krk,²⁹⁵ an FSRU (Floating Storage Regasification Unit) vessel that will be bought from Norway,²⁹⁶ which is a quicker and cheaper solution than building a land-based terminal. The European Union invested 101.4 million Euro in grants for the construction of a floating terminal on Krk, and 159.6 million Euro will be spent just on the

²⁹⁴ Krešimir Žabec, Jutarnji list, "STIGLE PONUDE SEDAM KOMPANIJA ZA GRADNJU NA KRKU Amerika pritišće Hrvatsku da gradi plutajući, a ne kopneni LNG terminal" [Seven companies' bids arrive to build on Krk. America pressuring Croatia to build a floating, not a land-based LNG terminal]; <https://www.jutarnji.hr/vijesti/hrvatska/stigle-ponude-sedam-kompanija-za-gradnju-na-krku-amerika-pritisce-hrvatsku-da-gradi-plutajuci-a-ne-kopneni-lng-terminal/83554/>

²⁹⁵ Conclusion on speeding up the process of constructing a floating terminal for storing and gasifying liquefied natural gas on Krk island, RC Government, 8 October 2016; <https://vlada.gov.hr/UserDocsImages/Sjednice/2016/27%20sjednica%20Vlade//27%20-%208.pdf>

²⁹⁶ Hina, Večernji.hr, "LNG Hrvatska za FSRU odabrao ponudu norveškog Golar Powera vrijednu 159,6 milijuna eura" [LNG Croatia selects Norway's Golar Power's bid for the FSRU, worth 159.6 million Euro]; <https://www.vecernji.hr/biznis/lng-hrvatska-za-fsru-odabrao-ponudu-norveskog-golar-powera-vrijednu-159-6-milijuna-eura-1281725>

purchase of the chosen FSRU vessel.²⁹⁷ If the terminal does not turn out to be cost-effective, the so-called Lex LNG foresees the possibility of introducing supply security charges to be paid by Croatian citizens.²⁹⁸ Although there has only been interest in leasing a fifth of its capacities, the terminal will be built with public money, the RC Government has decided.²⁹⁹ The American embassy in Zagreb has greeted this decision,³⁰⁰ unlike the local community on Krk. In an open letter, Omišalj mayor Mirela Ahmetović accused Plenković's government of servility to American interests.³⁰¹

*"I believe that Croatian citizens shouldn't be paying for the gas supply security of South-East Europe, but only their own expenditures. There are two possible solutions. One is to announce an invitation to tender for the construction, where the private contractor agrees to build at their own risk. Or else, for it to become a European Union security facility, in which case the European Union would have to finance it. It will probably not be commercially viable beyond some 20, 25 percent. The rest should be borne by whoever defines the European Union's security policy." – **Expert 3***

²⁹⁷ Ibid.

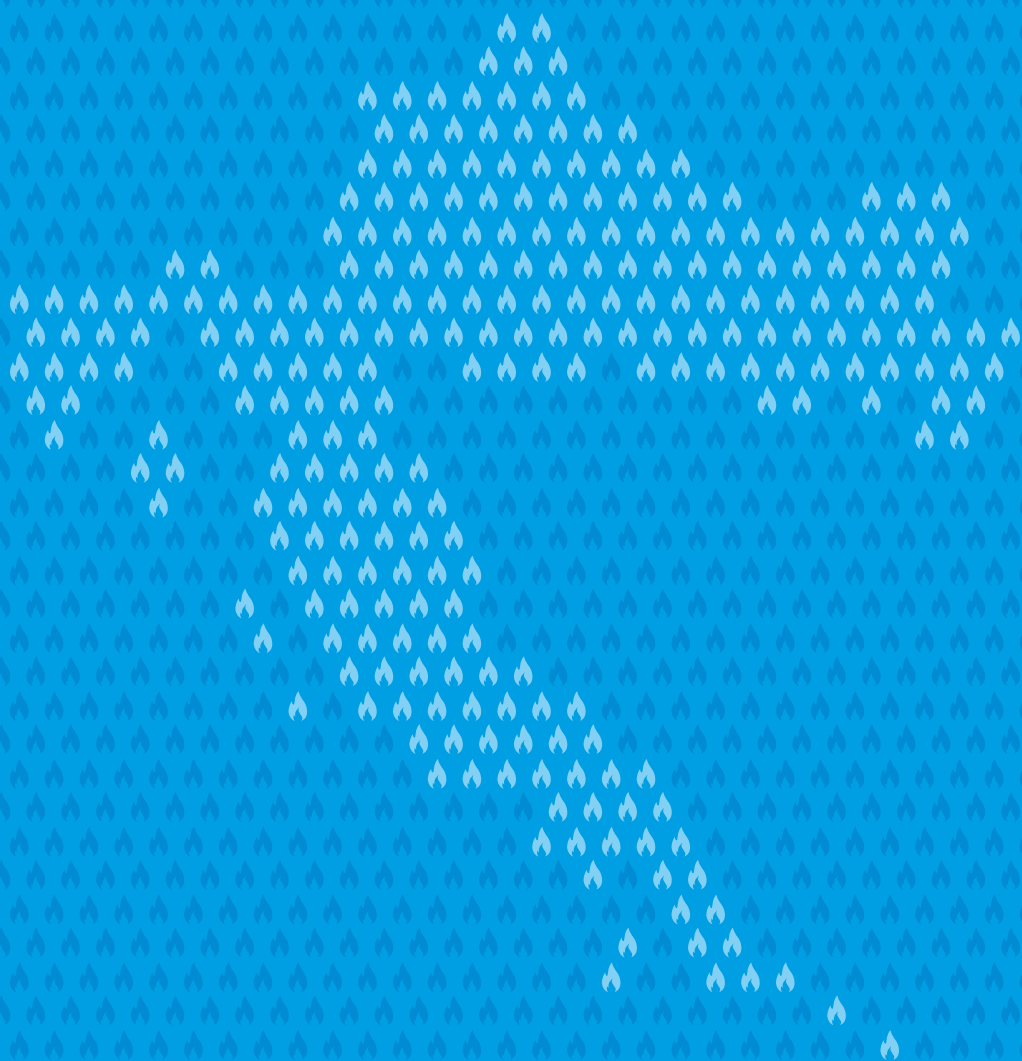
²⁹⁸ Liquefied Natural Gas Terminal Law, Official Gazette, OG 57/2018; https://narodne-novine.nn.hr/clanci/sluzbeni/2018_06_57_1156.html

²⁹⁹ Decision on financing the first stage of the floating liquefied natural gas terminal on Krk island, RC Government; <https://vlada.gov.hr/sjednice/140-sjednica-vlade-republike-hrvatske-25209/25209>

³⁰⁰ V.B./Hina, Tportal, "Amerikanci trljaju ruke, veleposlanik čestitao na odluci da gradimo LNG terminal" [Americans rubbing their hands, ambassador congratulates on the decision to build the LNG terminal]; <https://www.tportal.hr/vijesti/clanak/amerikanci-trljaju-ruke-veleposlanik-cestitao-na-odluci-da-gradimo-lng-terminal-20190201>

³⁰¹ HRT Radio Rijeka, "Mirela Ahmetović u otvorenom pismu: Državni vrh iznosi laži o LNG terminalu" [Mirela Ahmetović in open letter: state leadership issuing lies about the LNG terminal]; <https://radio.hrt.hr/radio-rijeka/clanak/mirela-ahmetovic-u-otvorenom-pismu-drzavni-vrh-iznosi-lazi-o-lng-terminalu/188814/>

CASE STUDY: **PPD**



KEY QUESTION

In the Croatian public, the gas business for years was presented as purely loss-making.³⁰² Nevertheless, it was precisely on gas that the most successful Croatian entrepreneur³⁰³ built his business empire. Pavao Vujnovac became the owner of the First Gas Society (PPD) in 2010, having bought the then-loss-making firm: the balance sheet at the time showed a little more than 7 million Euros in annual income, and over a million Euros of losses. During 2017, the PPD made more than a billion Euros, with a profit of 35 million Euros.³⁰⁴ Success in the gas business allowed Vujnovac to expand his business activities. Energia Naturalis (ENNA), his business empire's umbrella group, which also owns the PPD, deals with rail transport, trading in oil products, owns 25 percent of shares in Luka Ploče d.d., where it builds oil and liquefied petroleum gas (LPG) terminals, and is the single individual shareholder in the Pevec retail chain, with a 37 percent stake. In addition to Croatia, ENNA has its companies in Switzerland, Hungary, BH, Slovenia, and Serbia.³⁰⁵ How did the owner of PPD manage to build such a business in just a few years? Part of the credit should certainly go to Vujnovac and his team's skill, but in order to get a full picture, not only the local, but also the international political-economic context within which the PPD emerged and where it grew to its current dimensions has to be examined.

³⁰² Gojko Drljača, Iva Puljić Šego, Večernji list, "Plinski biznis donio bi RH milijarde kuna gubitka" [Gas business would bring the RC billions of Kunas of losses]; <https://www.vecernji.hr/biznis/plinski-biznis-donio-bi-rh-milijarde-kuna-gubitka-46541>

³⁰³ Goran Litvan, Lider, "Lider predstavlja listu 1000 najvećih kompanija" [Lider presents the list of 1000 largest companies]; <https://lider.media/aktualno/tvrtke-i-trzista/poslovna-scena/lider-predstavlja-listu-1000-najvecih-kompanija/>

³⁰⁴ Register of annual financial reports, Fina; <https://www.fina.hr/en/annual-reports>

³⁰⁵ Energia Naturalis, Enna.hr; <https://www.enna.hr/en>

"I find something wrong here. INA signed a three-year agreement on purchasing Italian gas, which was that same Russian gas, but didn't go directly through Gazprom, but through ENI. And it seems to me as if this had been some kind of early preparation for the PPD. Because after this, the PPD appeared, then a very small distribution company from Vukovar. I haven't anything to say against them, Vujnovac is extraordinary, he knows a lot about gas. But I miss a part of the knowledge about how he came to be the exclusive importer of gas for Croatia." – Expert 2

"Would you rather buy gas from no-name suppliers for less, or from a safe supplier, but for more? The price is not the only criterion by which you value something. Unseen elements also have to be calculated in. Supply security has a price. Does a long-term contract with PPD guarantee safety of delivery? I would never buy gas from a big player through a second or third-hand intermediary." – Expert 6

"As far as gas is concerned, Croatia is transitioning from a country that largely covered its needs for gas from its own production, which was then a good quality sector that generated local jobs, generated local knowledge, to increasingly becoming a gas importer. This gas import is entirely privatised by a single firm, which emerged from nothing only to become the most powerful Croatian firm ten years later, with various interests possibly lurking behind it. But this doesn't seem to be in Croatia's interest. Croatia has one of the highest prices of gas on the wholesale market." – Expert 7

The business model of intermediary trading in Gazprom's gas began to develop after the collapse of the Soviet Union, but it truly flourished after Vladimir Putin came to power in Russia.³⁰⁶ Putin's administration

³⁰⁶ Valerij Panjuškin, Mihail Zigar, "Gazprom: Novo

recognised gas as the most powerful weapon in its geopolitical arsenal.³⁰⁷ Such an attitude towards the trade in energy commodities explains the ownership structure of firms that make money reselling Gazprom's gas. In such firms, Gazprom or entrepreneurs connected to it appear as partial co-owners, while the remainder of the ownership stakes is mostly held by persons with links to the Russian criminal underground,³⁰⁸ Putin's intelligence service, the FSB,³⁰⁹ the Russian oligarchy,³¹⁰ or local tycoons close to those in power.³¹¹ Trade in Gazprom's gas is thus used to reward the allies of Putin's administration, but also European heavyweights capable of, in return, delivering to Russia a certain political influence in the states where they are active.³¹² The real ownership of Gazprom's intermediary firms often hides behind a complicated structure of offshore firms, usually registered in Cyprus.³¹³ Russia insists on trading gas through intermediary firms, even though such a business model imperils Gazprom's financial

stability as well.³¹⁴ In May 2008, the market value of the Russian gas giant reached almost 370 billion USD. By January 2019 it had fallen to barely more than 50 billion USD. Conceding part of the profits to the intermediary firms was not the sole cause of such a drastic fall in Gazprom's value. Expensive projects to construct new gas pipelines, such as Nord Stream 2 and TurkStream, which Russia intends to use to deliver its gas to European customers while bypassing Ukraine, came at a high price. This is clearly a political, not a business decision: experts claim that the investments are not cost-effective, and it would be cheaper for Gazprom to continue transporting gas through Ukraine.³¹⁵ Putin's regime has regularly used Gazprom as a lever of power on its home terrain. In 2000, a Gazprom subsidiary called Gazprom-Media was established, which became the largest media group in Russia by buying up and silencing media critical of Putin.³¹⁶ Gazprom was also the main sponsor of the 2014 Olympic Games in Sochi, which set them back around three billion USD.³¹⁷ Ever since Putin came to power in Russia in 2000, Gazprom was controlled by his closest associates, Dmitry Medvedev, Viktor Zubkov and Alexey Miller. Like Rosneft chief executive Igor Sechin, Putin met the three in the early Nineties, when they worked together at the Sankt-Peterburg Mayor's cabinet.³¹⁸

"The Kremlin Playbook" study has shown on the examples of Hungary, Slovakia, Bulgaria,

rusko oružje" [Gazprom: New Russian Weapon], Fraktura, Zagreb 2009.

³⁰⁷ Gabriel Colins, J.D., "Russia's Use of the 'Energy Weapon' in Europe"; Rice University's Baker Institute for Public Policy, 2017; https://www.bakerinstitute.org/media/files/files/ac785a2b/BI-Brief-071817-CES_Russia1.pdf

³⁰⁸ Luke Harding, The Guardian, "WikiLeaks cables link Russian mafia boss to EU gas supplies"; <https://www.theguardian.com/world/2010/dec/01/wikileaks-cables-russian-mafia-gas>

³⁰⁹ Agnia Grigas, "The Politics of Energy and Memory Between the Baltic States and Russia", Ashgate Publishing Limited, 2013

³¹⁰ Cable: 06BUCHAREST411_a, Wikileaks.org; https://wikileaks.org/plusd/cables/06BUCHAREST411_a.html

³¹¹ Corruption Research Center Budapest, 2016; https://energiaklub.hu/files/study/met_energiaklub_korrupciokutato_20161026.pdf

³¹² Virginia Nica, BIRN, "Moldova Pays High Price for Power Games"; <http://www.balkaninsight.com/en/article/moldova-pays-high-price-for-power-games-03-07-2017>

³¹³ Roman Kupchinsky, "Bulgaria's 'Overgas,' a Russian Spy in Canada, and Gazprom", Eurasia Daily Monitor Volume: 6 Issue: 30; <https://jamestown.org/program/bulgarias-overgas-a-russian-spy-in-canada-and-gazprom/>

³¹⁴ EurasiaNet, "Russia: Gazprom, a Behemoth No More"; <https://eurasianet.org/russia-gazprom-a-behemoth-no-more>

³¹⁵ Katya Golubkova, Denis Pinchuk, Jan Lopatka, Reuters, "Bypassing Ukraine will be costly for Russia's Gazprom - analysts"; <https://finance.yahoo.com/news/bypassing-ukraine-costly-russias-gazprom-113858378.html>

³¹⁶ Gazprom-Media, Wikipedia.org; <https://en.wikipedia.org/wiki/Gazprom-Media>

³¹⁷ Associated Press, "Russian Tycoons And State-Controlled Companies Are Footing The Bill For The Most Expensive Olympics In History"; <https://www.businessinsider.com/russian-tycoons-pay-bill-for-sochi-2013-5?IR=T>

³¹⁸ Karen Dawisha, Putin's Kleptocracy: Who Owns Russia?, Simon & Schuster, 2014.

Latvia and Serbia³¹⁹ that Russia has been forming interest networks in Central and Eastern Europe, by means of which it has influenced political decisions, all with the aim of "state capture". Attempts to simultaneously undermine the Euro-Atlantic orientation and to politically bring European countries closer to Russia were recognised. Two prongs of Russian action were identified: the economic and the political. By penetrating key economic spheres (such as energy, agriculture, the financial sector), while making extensive use of the known weaknesses of the capitalist system when it comes to corruption risks, a model of kleptocratic oligarchy is promoted – the tycoon, crony capitalism where, through its business intermediaries, Russia can influence a democratically elected government. At the same time, Russia politically supports its allies and sympathisers, invariably destructive populist, nationalist and Eurosceptic movements critical of the Western establishment, especially the USA's aggressive foreign policy, thus pushing the targeted countries towards the model of the so-called illiberal democracy. The strengthening of Russian interest networks in Central and Eastern Europe intensified after the global recession of 2008. The most important instrument of Russian "state capture" is gas, an energy source without which many European citizens, especially those in the east of the continent, would spend their winters freezing. This is the reason Gazprom is often called the most powerful weapon in Putin's arsenal.³²⁰ Susceptibility to Russian influence in Central and Eastern Europe is proportional to the level of dependence on Gazprom's gas. The Kremlin Playbook study has also revealed Gazprom's models of market control: all means available,

³¹⁹ Heather A. Conley, James Mina, Ruslan Stefanov, Martin Vladimirov, "The Kremlin Playbook: Understanding Russian Influence in Central and Eastern Europe", Center for Strategic & International Studies, 2016; <https://www.csis.org/analysis/kremlin-playbook>

³²⁰ Gabriel Colins, J.D., "Russia's Use of the "Energy Weapon" in Europe"; Rice University's Baker Institute for Public Policy, 2017; https://www.bakerinstitute.org/media/files/ac785a2b/BI-Brief-071817-CES_Russia1.pdf

with corruption playing a prominent role, being used to undermine the market position of the national energy firms, while simultaneously increasing the market domination of Gazprom's chosen gas trading intermediary. Such a position also allows Gazprom to set market conditions; the European Commission has established that the Russian gas monopolist charged up to 40 percent more for gas in Eastern European markets than in Western Europe.³²¹ Gazprom has used the money thus obtained to finance political parties, also with the goal of expanding or entrenching Russian influence. It is therefore important to Russia to extend for as long as possible, and, if possible, also to increase, the European continent's dependence on natural gas. Although small, the Croatian gas market is no exception: the Russian ambassador to Zagreb, Anvar Azimov, publicly conveyed Putin's offer to extend the Croatian gas distribution network throughout the country using Russian investments.³²² Azimov has claimed that Russia and Croatia have to be strategic partners, invoking the unity of the Slavic peoples.³²³

The ownership structure of Gazprom's intermediary in Croatia appears to be very transparent, in comparison with similar firms in Eastern Europe. Naturally, since Croatian laws allow secret ownership of companies,³²⁴

³²¹ European Commission, "Antitrust: Commission sends Statement of Objections to Gazprom – Factsheet", 2015; http://europa.eu/rapid/press-release_MEMO-15-4829_en.htm

³²² Bernard Karakaš, Večernji list, "Putinov prijedlog za plinifikaciju cijele Hrvatske i dalje stoji" [Putin's proposal to extend the Croatian gas distribution network throughout the country still on the table]; <https://www.vecernji.hr/premium/putinov-prijedlog-za-plinifikaciju-cijele-hrvatske-i-dalje-stoji-1287944>

³²³ Edi Prodan, Novi list, "RUSKI VELEPOSŁANIK AZIMOV 'Vašu slavensku dušu nitko neće razumjeti bolje od nas Rusa' [Nobody will understand your Slavic soul better than the Russians]; <http://www.novolist.hr/Vijesti/Hrvatska/RUSKI-VELEPOSŁANIK-AZIMOV-Vasu-slavensku-dusu-nitko-nece-razumjeti-bolje-od-nas-Rusa>

³²⁴ Companies Act, consolidated text, art. 148-158; <https://www.zakon.hr/z/546/Zakon-o-trgovackim-društva>

with each firm there is the possibility that the publicly available information on its ownership is not comprehensive. And according to publicly available information, the only owner of the PPD and its umbrella group ENNA is the Osijek-based entrepreneur Vujnovac. His path to success is sufficiently unusual to be described in the media as an "American dream type story".³²⁵ He studied economy in his native Osijek, and during his studies had to make a living by doing various jobs, mostly in the service industry. He graduated when he was already 30 years old. Not long after finishing university, Vujnovac got a job at PPD as a sales advisor. Four years later, he would take over PPD from its former owners, and in a matter of years transform the loss-making and overindebted local firm, set up in 2001 to extend the gas distribution network in Vukovar, into the largest player in the Croatian wholesale gas market.³²⁶ In his own words, Vujnovac learned on the Hungarian example.³²⁷ This neighbouring country entered the European Union in 2004, so it embarked on the liberalisation of its gas market considerably earlier than Croatia. PPD first agreed to deliver gas to resell to Croatian users with E.ON, followed by the Russian Gazprom, with which in 2017 it signed a long-term, ten-year gas delivery contract.³²⁸ PPD began importing gas

into Croatia on 1 January 2012, immediately becoming the supplier for the Zagreb City Gasworks,³²⁹ followed by two other large consumers, likewise publicly owned: HEP and the Kutina Petrochemicals. In 2018 PPD bought Kutina Petrochemical in a joint venture with INA.³³⁰ In recent years, Vujnovac has expanded his business to include tourism projects, where additional business links with Russia, but also with the neighbouring Hungary, can be observed. Vujnovac's Seacoast and Coastline companies have been sold to the Swiss company Devela Consulting GmbH,³³¹ whose ownership structure contains names of entrepreneurs with business links to the Russian Gazprom, but also to Hungarian tycoon Lőrinc Mészáros,³³² a friend of Viktor Orbán and owner of Osijek Football Club.³³³ And then there are the inevitable links to local politics. HNS president Ivan Vrdoljak is of a similar generation to PPD's owner, and they know each other from their native Osijek. Vujnovac has openly called Vrdoljak his friend, but claims the former economy minister had nothing to do with the PPD's business success.³³⁴ More concrete are Vujnovac's links

prirodnim-plinom-v14

³²⁹ PPD history; <https://www.ppd.hr/povijest-ppd-a-s110>

³³⁰ PPD and INA sign a Contract to recapitalise the Kutina Petrochemicals, PPD; <https://www.ppd.hr/ppd-i-ina-potpisali-ugovor-o-dokapitalizaciji-petrokemije-v16>

³³¹ Data from the Business Croatia service; <https://poslovna.hr/>

³³² Gong; <https://www.facebook.com/gong.hr/photos/a.320319481318947/2934272956590240/?-type=3&theater>

³³³ Aleksandar Holiga, Telegram.hr, "Tko je misteriozni Orbanov tajkun koji kupuje NK Osijek i gradi najsumanutije stadione na svijetu" [Who is Orbán's mysterious tycoon buying FC Osijek and building the world's most insane stadiums]; <https://www.telegram.hr/price/tko-je-misteriozni-orbanov-tajkun-koji-kupuje-nk-osijek-i-gradi-najsumanutije-stadione-na-svijetu/>

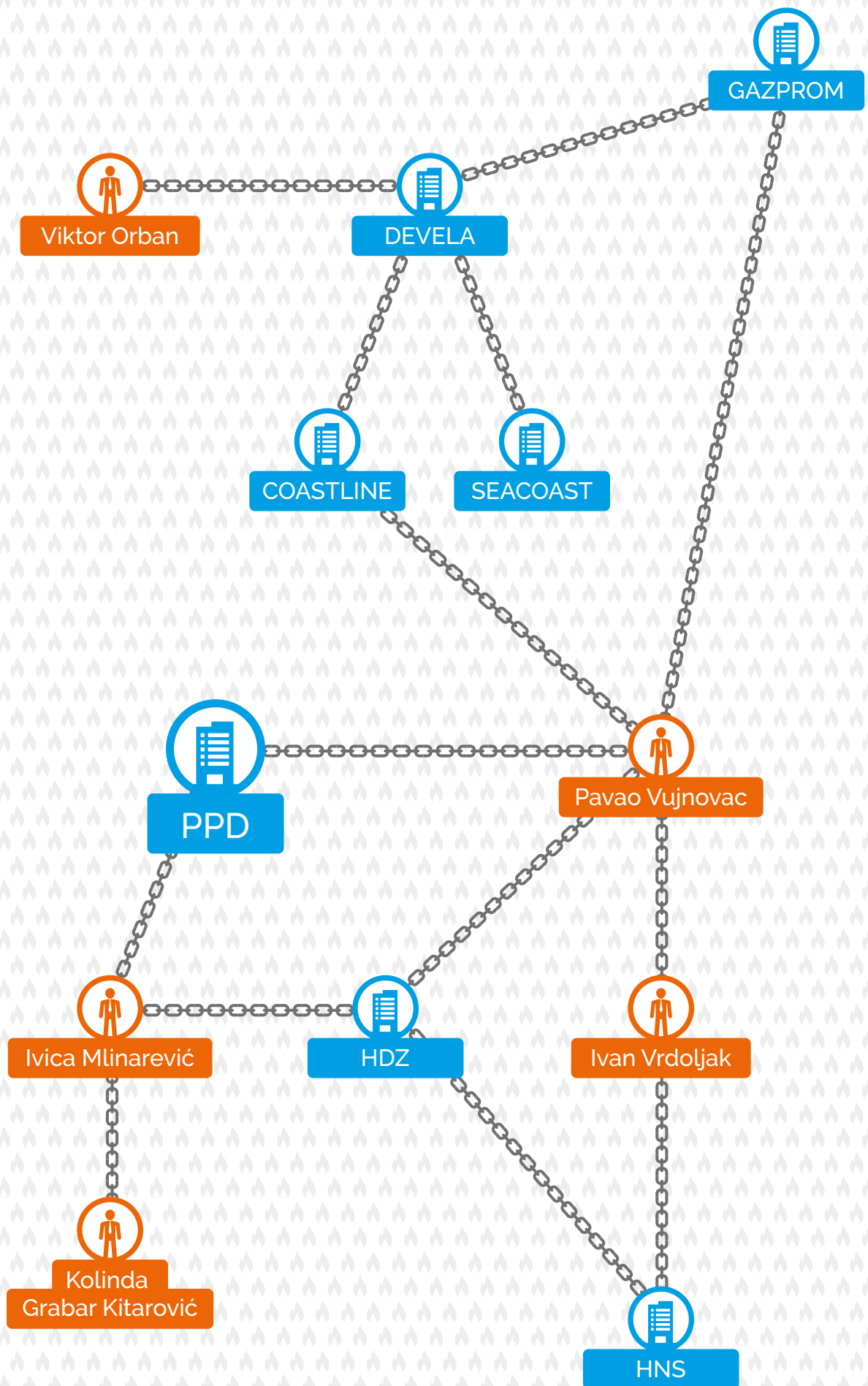
³³⁴ Drago Hedl, Jutarnji list, "VLASNIK PPD-a ZA NEDJELJNI 'Nije istina da je za moj uspjeh zaslužan moj prijatelj Vrdoljak'" [PPD owner for Nedjeljni: 'It is not true that my friend Vrdoljak is responsible for my success!']; <https://www.jutarnji.hr/vijesti/vlasnik-ppd-a-za-nedjeljni-nije-istina-da-je-za-moj-uspjeh-zasluzan-moj-prijatelj-vrdoljak/>

³²⁵ Drago Hedl, Jutarnji list, "VLASNIK PPD-a ZA NEDJELJNI 'Nije istina da je za moj uspjeh zaslužan moj prijatelj Vrdoljak'" [PPD owner for Nedjeljni: 'It is not true that my friend Vrdoljak is responsible for my success!']; <https://www.jutarnji.hr/vijesti/vlasnik-ppd-a-za-nedjeljni-nije-istina-da-je-za-moj-uspjeh-zasluzan-moj-prijatelj-vrdoljak/591352/>

³²⁶ Petar Vidov, Novosti, "Stranka na plinski pogon" [Gas-powered party]; <https://www.portalnovosti.com/stranka-na-plinski-pogon>

³²⁷ Lidija Kiseljak, Večernji list, "Uspjeli smo jer smo se prvi pripremili za liberalizaciju tržišta plina. PPD je sad već spreman za Srbiju i BiH" [We succeeded because we were the first to prepare for the liberalisation of the gas market. The PPD is already ready for Serbia and BiH]; <https://www.vecernji.hr/biznis/pavao-vujnovac-uspjeli-smo-je-smo-se-prvi-pripremili-za-liberalizaciju-trzista-plina-ppd-je-sad-vec-spreman-za-srbiju-i-bih-1082344>

³²⁸ PPD and Gazprom sign long-term agreement to supply natural gas, PPD; <https://www.ppd.hr/ppd-i-gazprom-potpisali-dugorocni-ugovor-o-opskrbi>



to HDZ, to which on three separate occasions over 2014 and 2015 he leant almost a million Euros.³³⁵ The money was paid through PPD's daughter-company Gas Trading d.o.o. which was later liquidated. The loan was brokered by the then-general secretary of the HDZ, later HDZ deputy president and Parliamentary Deputy Speaker, Milijan Brkić. HDZ was financially exhausted by the affairs that have dragged on from back in Sanader's day and desperately needed money.³³⁶ HDZ has admitted that they used loans from PPD to finance the campaigns for the European Parliamentary elections in 2014 and the presidential election in 2014/2015, meaning that Kolinda Grabar Kitarović was elected President of the RC thanks to PPD's money.³³⁷ President Grabar Kitarović's campaign director was Ivica Mlinarević, who had previously been employed by PPD,³³⁸ whom the public had known better as a member of the Board of Croatian Motorways, investigated over various corruption affairs.³³⁹ Mlinarević has

zan-moj-prijatelj-vrdoljak/591352/

³³⁵ Petar Vidov, Novosti, "Stranka na plinski pogon" [Gas-powered party]; <https://www.portalnovosti.com/stranka-na-plinski-pogon>

³³⁶ Hina, Jutarnji.hr, "HDZ U FINANCIJSKIM PROBLEMIMA Zabrinuti zaposlenici tek sada dobili plaću za pretprošli mjesec" [HDZ in financial trouble: worried employers only now receive last month's paychecks]; <https://www.jutarnji.hr/vijesti/hrvatska/hdz-u-financijskim-problemima-zabrinuti-zaposlenici-tek-sada-dobili-placu-za-pretprošli-mjesec/587344/>

³³⁷ Ilko Čimić, Index.hr, "HDZ nakon Fimi medie opet u problemima: Tvrtke im posuđivale milijune, a podatke su tajili" [HDZ again in trouble after Fimi Media: Companies leant them millions, and they hid the data]; <https://www.index.hr/vijesti/clanak/hdz-na-kon-fimi-medie-opet-u-problemima-tvrtke-im-posudjivale-milijune-a-podatke-su-tajili/904308.aspx>

³³⁸ Iva Puljić Šego, Večernji list, "Mlinarević: Zadužnice su potpisali Milijan Brkić i Karamarko, za sve je znao i Miro Kovač" [Mlinarević: debentures were signed by Milijan Brkić and Karamarko, and Miro Kovač knew about everything]; <https://www.vecernji.hr/vijesti/ivica-mlinarevic-zaduznice-su-potpisali-milijan-brkic-i-karamarko-za-sve-je-znao-i-miro-kovac-1097798>

³³⁹ Petar Vidov, Index.hr, "Finalni dokaz: Pogledajte video zapis muljanja HAC-ove Uprave!" [The final proof: see the video recording of the chicanery the Croatian Motorways' Board engages in]; <https://www.>

nonetheless maintained close relations to HDZ: in 2017, Plenković's government appointed him to the Board of Directors of Autocesta Zagreb-Macelj d.o.o.³⁴⁰ After the Karamarko and Orešković government fell and HDZ was consumed by a yet undecided power struggle, Vujnovac publicly demanded for HDZ to return their unpaid debts.³⁴¹ In addition, a number of Vujnovac's business partners belong to a circle of entrepreneurs considered close to HDZ. Josip Jurčević, who used to lead the intelligence agency SOA [Security Intelligence Agency], is on the board of Luka Ploče. Tomislav Karamarko used to be the director of SOA, while Brkić and Jurčević were both assistant directors. Brkić and Jurčević are also connected through their engagement in the Opatovina Projects company, which had attracted the attention of USKOK's anti-corruption investigators due to the Karlovačka Banka affair.³⁴² Together with Vujnovac, Jurčević is also a co-owner of the Adria Coast Turizam and AMR Sustavi companies, the latter having done lucrative business with HEP.³⁴³ Zoran Gobac, whose ties to the HDZ reach back into the Nineties (he was believed to be close to Ivo Sanader, Luka Bebić, Ivić Pašalić, Đuro Brodarac, Ivan Jarnjak,

[index.hr/vijesti/clanak/finalni-dokaz-pogledajte-vidео-zapis-muljanja-hacove-uprave/456144.aspx](https://www.index.hr/vijesti/clanak/finalni-dokaz-pogledajte-vidео-zapis-muljanja-hacove-uprave/456144.aspx)

³⁴⁰ Communication from the closed session of the 40th Government sitting, 8 June 2017; <https://vlada.gov.hr/vijesti/priopcenje-sa-zatvorenoga-dijela-40-sjednice-vlade/21804>

³⁴¹ Berislav Jelinić, Nacional, "EKSKLUZIVNI INTERVJU Pavao Vujnovac: 'HDZ mi je dužan 4,2 milijuna kuna'" [Exclusive interview, Pavao Vujnovac: 'HDZ owes me 4.2 million Kunas']; <https://www.nacional.hr/ekskluzivni-intervju-pavao-vujnovac-hdz-mi-je-duzan-42-milijuna-kuna/>

³⁴² Marin Dešković, Jutarnji list, "USKOK ĆE ISPITATI SUPRUGE BIVŠIH ŠEFOVA TAJNIH SLUŽBI Dobile su ogroman kredit od 19,5 milijuna eura" [USKOK will interrogate the wives of former intelligence services bosses: they received a huge, 19.5 million Euro loan]; <https://www.jutarnji.hr/vijesti/hrvatska/uskok-ce-ispitati-supruge-bivsih-sefova-tajnih-sluzbi-dobile-su-ogroman-kredit-od-195-milijuna-eura/1137188/>

³⁴³ Saša Paparella, Poslovni dnevnik, "Gopcu 40,7 mil. kuna od HEP-a" [Gobac gets 40.7 million Kunas from HEP]; <http://www.poslovni.hr/domace-kompanije/gopcu-407-mil-kuna-od-hep-a-331375>

Tomislav Karamarko...³⁴⁴) also appears as a co-owner in these firms. Today he is believed to be close to Milijan Brkić.³⁴⁵ Together with Vujnovac, Gobac and Jurčević also own several offshore firms on Malta.³⁴⁶ Zoran Gobac was also mentioned as the most generous donor to the HDZ's slush fund. Mladen Barišić, the former HDZ treasurer, testified in the Fimi Media affair criminal trial that Gobac gave him two million Euros, which was allegedly the ruling party's cut from the deal to build the Zagreb Arena on the occasion of the World Handball Championship in 2009.³⁴⁷ It was also through handball that Vujnovac introduced himself to the wider Croatian public. PPD left anonymity when in 2014 it became a sponsor for Handball Club Zagreb, which was then renamed the First Gas Society Zagreb HC.³⁴⁸

³⁴⁴ Robert Bajruši, Nacional, "Gobac je capo di tutti capi hrvatskog sporta" [Gobac is capo di tutti capi of Croatian sport!]; <http://arhiva.nacional.hr/clanak/13948/gobac-je-capo-di-tutti-capi-hrvatskog-sporta>

³⁴⁵ Đurđica Klancir, Net.hr, "TAJNA BRKIĆEVA MREŽA: Kako je nekad skromni specijalac izrastao u političkog uglednika prve klase, a onda opet postao – Vaso" [Brkić's secrete network: how the once humble special police officer grew into a first-class political notable, and then turned back into Vaso!]; <https://net.hr/danas/hrvatska/mocna-tajna-mreza-milijana-brkica-kako-je-nekad-skromni-specijalac-izrastao-u-politickog-uglednika-prve-klase-a-onda-opet-postao-vaso/>

³⁴⁶ Berislav Jelinić, Blaž Zgaga, Nacional, "Malta Files:Nepoznate malteške veze vlasnika PPD-a i Zorana Gopca" [Malta Files: the unknown Maltese connection of PPD owner and Zoran Gobac!]; <https://www.nacional.hr/malta-files-nepoznate-malteske-veze-vlasnika-ppd-a-i-zorana-gopca/>

³⁴⁷ Petar Vidov, Index.hr, "Barišić: Zoran Gobac mi je rekao da je HDZ dobio dva milijuna eura od izgradnje Arene Zagreb" [Barišić: Zoran Gobac told me the HDZ got two million from the construction of the Zagreb Arenal]; <https://www.index.hr/vijesti/clanak/Barisic-Zoran-Gobac-mi-je-rekao-da-je-HDZ-dobio-dva-milijuna-eura-od-izgradnje-Arene-Zagreb/611278.aspx>

³⁴⁸ NOTICE OF CHANGE OF NAME – First Gas Society Zagreb Handball Club!, Rk-Zagreb.hr; <http://rk-zagreb.hr/vijesti/rukomet/obavijest-promjene-imena-rukometni-klub-prvo-plinarsko-drustvo>

"Gazprom has an annual turnover that is about ten times as large as the Croatian budget. Why would such a giant talk to two people from Croatia and haggle with them? The price would be the same for both. Ok, you two want to play market, so play. But the two should see where their niches are: are they looking at industry, households, a mix of the two, selling gas, selling part and storing the rest to make an earning during peak times. This is what the Hungarians did, they invested in infrastructure for storing large amounts of gas. Now, why was there just one player who used this here, not two or three, that needs to be asked of the government. Because the state made it possible for the others not to get a chance." – Politician 2

KEY EVENTS

The earthquake in the gas market that would allow the PPD to edge into the wholesale gas market was caused by Ivo Sanader in 2009. Having signed an agreement with MOL, he consented to split away INA's gas business. INA's gas business was taken over by its daughter-company Prirodni Plin d.o.o. Josip Petrović, Sanader's trusted associate, was appointed president of the Supervisory Board. Prirodni plin d.o.o. inherited INA's role as the supplier in the wholesale gas market, meaning they bought INA's gas and resold it to distributors supplying households. As all this was done at a regulated price, Prirodni Plin d.o.o. posted only losses until in 2014 it was reintegrated into INA. PM Zoran Milanović's government then decided that HEP would become the wholesale gas market supplier.³⁴⁹

³⁴⁹ Decision on determining the wholesale gas market supplier, RC Government, 27 February 2014; <https://vlada.gov.hr/UserDocsImages/Sjednice/Arhiva/143.%20-%208a.pdf>

"The difference in relation to Western Europe is that there, it was city companies that traditionally sold water, gas and electricity. Liberalisation was carried out in a different way than here. Here, INA sold gas. Then the Government decreed that it would no longer be INA, but HEP. Already at that time, there had been claims that this was against market rules. And ultimately it ended up with us essentially having PPD as the gas supplier in Croatia." – Politician 2

The plan to nationalise INA's gas business fell through because of Sanader's resignation, the recession that ensued and the subsequent prosecution of the former Prime Minister and HDZ president. Had Sanader not unexpectedly left his post as Prime Minister, the state would have taken over INA's gas business. Was Sanader's plan to make Prirodni Plin d.o.o. an intermediary through which gas would be imported from Russia? Already in 2007, Sanader's government adopted the Gas Market Act, with which it began to implement measures of liberalisation.³⁵⁰ It was hence already known that price deregulation would open up the market, as well as that the falling production of gas in the Northern Adriatic would lead to increasing demand for imported gas. This way, the state firm might use the deregulation of the price of gas for industrial consumers in order to offset the losses from trading regulated gas for households. It would probably ultimately become profitable, and subsequently possibly partially privatised, along a similar model to that of the Hungarian MET. The bulk of Croatia's need for gas was then still satisfied by INA's production. But since no new gas reserves had been discovered under MOL's management, it would have been evident to an educated observer that the need for imported gas was going to grow. Today, this need is successfully met by PPD, which was best prepared for the opening up of the market. The owner of PPD does not hide

³⁵⁰ Gas Market Act, OG 40/2007; https://narodne-novine.nn.hr/clanci/sluzbeni/2007_04_40_1342.html

that his firm "actively participated in creating primary and secondary legislation that allowed the preconditions to open up the market."³⁵¹

"When PPD takes over the monopoly position - and PPD gained strength because it's the long arm of Gazprom - it's the regulator that should act. That regulator should say whether it's allowed to have such market concentration. Consumers need to be protected from monopoly, but regulators are not doing anything here, which is common in such shallow systems." – Politician 3

When Sanader made the decision to separate INA's gas business, INA and the Russian Gazprom still had a long-term contract to supply gas until the end of 2010. But the contract period was nearing its end, a contract extension had not yet been agreed, and Sanader left behind damaged relations with Russia. Gazprom let Croatian negotiators know that it would not be possible to agree to an increased delivery of gas under the existing contract conditions.³⁵² PM Jadranka Kosor's government was willing to make concessions to Russia, at least according to what Kosor's foreign policy advisor Davor Ivo Stier said in the American Embassy in Zagreb.³⁵³ Croatia managed to pull through the gas crisis of 2009, caused by the intermediaries in the gas trade between Russia and Ukraine, but, according to expert opinions,³⁵⁴ it was completely unprepared for another gas shortage. This would explain why in the first

³⁵¹ N.D., Energetika-net.com, "Liberalizacija cijene plina velikim kupcima već donosi koristi" [Liberalising the price of gas is already benefiting large buyers]; <http://www.energetika-net.com/specijali/intervju-mjeseca/liberalizacija-cijene-plina-velikim-kupcima-vec-donosi-koristi-15578>

³⁵² Cable: 09ZAGREB497_a, Wikileaks.org; https://wikileaks.org/plusd/cables/09ZAGREB497_a.html

³⁵³ Cable: 09ZAGREB729_a, Wikileaks.org; https://wikileaks.org/plusd/cables/09ZAGREB729_a.html

³⁵⁴ Cable: 09ZAGREB718_a, Wikileaks.org; https://wikileaks.org/plusd/cables/09ZAGREB718_a.html

year of her term in office, Kosor met Putin three times. According to Stier's discussions at the American Embassy,³⁵⁵ gas supply was the main reason for Kosor's trip to Moscow in 2010. At the time, Stier had announced that the Russians would probably ask in return that the Druzhba Adria project be revived, connecting the Russian Druzhba oil pipeline to Janaf. Croatia could not accede to this project: if the Russians used up the entire capacity of Janaf's oil pipeline to export crude oil and petroleum products towards the Adriatic, there would be a disruptions in the oil supply in the region. The negotiations were accompanied by various speculations: the media wrote that talks had collapsed, Gazprom denied it.³⁵⁶ There are two possible reasons why no agreement was ultimately reached: either the Russians were asking for something the Kosor government could not agree to, or the Prime Minister was let down by INA's Hungarian co-owner. According to unconfirmed information that had reached the media, at INA they were irritated by the Government's failure to uphold the contract to separate out the gas business, and announced a bidding process of their own accord. Kosor had no way of stopping them.³⁵⁷ Whatever the reason, it was decided that INA's firm, Prirodni Plin, would select its supplier of foreign gas in a bidding process. In addition to Gazprom, the call for bids was addressed to the Italian Eni and the Hungarian subsidiary of the German E.ON,³⁵⁸ the previous owner of PPD. The Croatian media speculated at the time that E.ON's Hungarian subsidiary was also interested in buying a stake in INA's

firm Prirodni Plin, and allegedly offered a lower price in Croatia than Gazprom's. It was precisely E.ON's bid that was favoured in public, but the contract was ultimately signed with Eni. Gazprom did not even apply.³⁵⁹ Before the bidding process whereby Croatia stopped buying Gazprom's gas, it had seemed that relations with Russia had been thawing. Prime Minister Kosor even reached an agreement with Putin on including Croatia in the South Stream gas pipeline project.³⁶⁰ The deal fell through precisely due to the bidding process whereby it was decided in 2010 that for the following three years, gas would be bought from Eni rather than Gazprom.³⁶¹ The deregulation of the price of gas for industrial users, as part of a gradual liberalisation of the Croatian gas market in line with European regulations,³⁶² allowed Gazprom to return to the market through a private intermediary, Vujnovac's PPD. The price at which Vujnovac's firm buys gas from Gazprom is naturally a trade secret, but PPD's lightning-fast market growth³⁶³ would suggest that they could offer better conditions than their competition.

³⁵⁵ Cable: 10ZAGREB71_a, Wikileaks.org; https://wikileaks.org/plusd/cables/10ZAGREB71_a.html

³⁵⁶ Marko Biočina, Nacional, "Gazprom: Nećemo zatvoriti plin za RH" [Gazprom: we won't shut off gas to Croatia]; <http://arhiva.nacional.hr/clanak/93147/gazprom-necemo-zatvoriti-plin-za-rh>

³⁵⁷ Marko Biočina, Nacional, "Miloševićeva mirovna misija u Moskvi" [Milošević's peace mission in Moscow]; <http://arhiva.nacional.hr/clanak/105187/miloseviceva-mirovna-misija-u-moskvi>

³⁵⁸ Snježana Vujisić Sardelić, Poslovni dnevnik, "U igri za novi plinski ugovor E.ON, ENI i Gazprom" [E.ON, ENI and Gazprom in play for a new gas agreement]; <http://www.poslovni.hr/hrvatska/u-igri-za-novi-plinski-ugovor-eon-eni-i-gazprom-164036>

³⁵⁹ Marko Biočina, Nacional, "Miloševićeva mirovna misija u Moskvi"; <http://arhiva.nacional.hr/clanak/105187/miloseviceva-mirovna-misija-u-moskvi>

³⁶⁰ L. Filipović, Tportal, "Što je to Kosor potpisala u Moskvi?" [What did Kosor sign in Moscow?]; <https://www.tportal.hr/biznis/clanak/sto-je-to-kosor-potpisala-u-moskvi-20100303>

³⁶¹ Josip Bohutinski, Marko Biočina, Večernji list, "Gazprom: Kosoričina je Vlada kriva što ste izgubili Južni tok" [Gazprom: Kosor's government is to blame for losing South Stream]; <https://www.vecernji.hr/vijesti/gazprom-kosoricina-je-vlada-kriva-sto-ste-izgubili-juzni-tok-473187>

³⁶² Anto Bajo, Marko Primorac, Dijana Jurinec, "Tržište plina u Republici Hrvatskoj - liberalizacija i financijsko poslovanje" [Gas market in the Republic of Croatia - liberalisation and financial operations], Fiscus no. 3, October 2016, Institut za javne financije; <https://www.ijf.hr/hr/publikacije/casopisi/12/fiscus/1081/trziste-plina-u-republici-hrvatskoj-liberalizacija-i-financijsko-poslovanje/1168/>

³⁶³ Ibid.

"The First Gas Society got conditions that allowed them to flourish and Russians to return to this market. Thus, the Russians lost a market, but however small the market was, it wasn't without interest for them. So they looked for a way to return, and they returned through PPD."
– Expert 10

The South Stream gas pipeline was abandoned in late 2014, due to the pressure the EU put on Bulgaria.³⁶⁴ Previously, HNS's Ivan Vrdoljak,³⁶⁵ then the economy minister in PM Zoran Milanović's government, had sought to reinvolve Croatia in the South Stream project. Vrdoljak appealed for Gazprom's investment in Croatia, offering to build gas power stations,³⁶⁶ which would increase consumption, and with it the Croatian gas market. In his last year in office, Vrdoljak took around a hundred Croatian businesspeople to a Russian-Croatian business forum in Moscow, where he called on Russian companies to invest in Croatia.³⁶⁷ This was a radical turn in the political bearing towards Russia, whose companies found it difficult to access the

³⁶⁴ Feorg Gotev, Euractiv.com, "EU-Gazprom deal clears Bulgaria of South Stream cancellation claims"; <https://www.euractiv.com/section/energy/news/eu-gazprom-deal-clears-bulgaria-of-south-stream-cancellation-claims/>

³⁶⁵ L. Filipović, Tportal, "Južni tok gotova stvar, Rusi žele graditi elektranu!" [South Stream a done deal, the Russians want to build a power station]; <https://www.tportal.hr/biznis/clanak/juzni-tok-gotova-stvar-rusi-zele-graditi-elektranu-20130117>

³⁶⁶ Hina, Jutarnji.hr, "VRDOLJAK POTVRDIO PISANJE JUTARNJEG 'LNG terminal na Krku na vrhu je prioriteta Europske komisije'" [Vrdoljak confirms Jutarnji's reporting: 'LNG terminal on Krk is a top priority for the European Commission']; <https://www.jutarnji.hr/vijesti/hrvatska/vrdoljak-potvrdio-pisanje-jutarnjeg-lng-terminal-na-krku-na-vrhu-je-prioriteta-europske-komisije/679948/>

³⁶⁷ HRT, "Rusko-hrvatski gospodarski forum: sklopljeni prvi poslovi, ali uz kritike" [Russian-Croatian business forum: first deals agreed, but with criticism]; <https://vijesti.hrt.hr/272369/rusko-hrvatski-gospodarski-forum-u-moskvi>

Croatian market in Sanader's time. During his term, Vrdoljak was prone to promoting gas projects. He was proud of opening the third unit of the Sisak thermal power station,³⁶⁸ even though the project was expensive and not cost effective.³⁶⁹

"The Sisak TP was built as a way of settling Russia's debt³⁷⁰, so the Russians installed a gas-powered turbine there that will probably never function. I mean, it did start to function, but it's inefficient in how it produces electrical energy and heat." – **Politician 2**

Vrdoljak also advocated building a 450 MW capacity gas thermal power station in his native Osijek, even though it is clearly an unprofitable project³⁷¹ that even imperils HEP's financial viability.³⁷² The price of the electricity the new

³⁶⁸ Ministry of the Economy, "Minister Vrdoljak on a tour of the new gas thermal power station and future biomass power station"; <https://www.mingo.hr/page/ministar-vrdoljak-u-obilasku-nove-termoelektrane-na-plin-i-buduce-elektrane-na-biomasu-u-sisku>

³⁶⁹ Marko Biočina, Jutarnji list, "SANADEROVA ELEKTRANA Koštala čak 240 milijuna eura, a proizvodit će samo gubitke, jedino je pitanje hoće li se oni mjeriti u desecima ili stotinama milijuna" [Sanader's power station cost as much as 240 million Euros, and will only create losses. The only question is whether they'll be in the tens, or hundreds of millions]; <https://www.jutarnji.hr/vijesti/hrvatska/sanaderova-elektrana-kostala-cak-240-milijuna-eura-a-proizvodit-ce-samo-gubitke-jedino-je-pitanje-hoce-li-se-oni-mjeriti-u-desecima-ili-stotinama-milijuna/183568/>

³⁷⁰ "inherited from the debt the Soviet Union owed to Yugoslavia (translator's note)

³⁷¹ Marko Biočina, Večernji list, "Osijek treba elektranu, no mora li biti na plin i velikog kapaciteta?" [Osijek needs a power station, but does it have to be gas-fired and high capacity?]; <https://www.vecernji.hr/premium/osijek-treba-elektranu-ali-da-li-na-plin-i-velikog-kapaciteta-958994>

³⁷² Boris Bilas, Nacional, "HRVATSKA ELEKTROPRIVREDA NE ODUSTAJE OD GRADNJE TERMoeLEKTRANE U OSIJEKU Lobiranja Ivana Vrdoljaka prijete budućnosti HEP-a" [Croatian energy company not giving up on building a thermal power plant in Osijek. Ivan Vrdoljak's lobbying

TPS Osijek would produce would be higher than the price of electricity on the common European market, which is why it was scrapped by the minister of the economy who succeeded Vrdoljak. As Economy Minister, Vrdoljak also advocated further exploitation of Adriatic gas and oil, which Gazprom was also interested in.³⁷³ The Port of Ploče,³⁷⁴ whose biggest shareholder is the majority owner of the PPD, was supposed to be the operations centre for hydrocarbon explorations in the Adriatic. Vrdoljak advocated an urgent privatisation of Kutina Petrochemicals as the best model for saving the greatest gas consumer in Croatia,³⁷⁵ as well as a partial privatisation of HEP.³⁷⁶ Andrej Plenković's government financed the sale of Petrochemicals to a joint PPD and INA company under suspicious circumstances,³⁷⁷ and an initial public offering of HEP shares

threatening HEP's future!]; <https://www.nacional.hr/hrvatska-elektroprivreda-ne-odustaje-od-gradnje-termoelektrane-u-osijeku-lobiranja-ivana-vrdoljaka-prijete-buducnosti-hep-a/>

373 Interfaks, Vedomosti.ru, "Газпром нефть" намерена участвовать в тендерах на шельфе Адриатики" [Gazprom Oil intends to tender for the Adriatic shelf]; <https://www.vedomosti.ru/business/news/2014/04/07/gazprom-neft-namerena-uchastvovat-v-tenderah-na-shelfe>

374 Marija Brnić, Poslovni dnevnik, "Luka Ploče logističko središte za istraživanje nafte i plina" [Luka Ploče the logistical centre for oil and gas exploration]; <http://www.poslovni.hr/hrvatska/luka-ploce-logisticko-srediste-za-istrazivanje-nafte-i-plina-284158>

375 HRT, "Vrdoljak: Petrokemija hitno u privatizaciju" [Petrochemicals to be urgently privatised]; <https://vijesti.hrt.hr/220195/vrdoljak-petrokemija-hitno-u-privatizaciju>

376 HRT, "Vrdoljak: Savjetnik za IPO HEP-a, na prodaji do 25% dionica" [Vrdoljak: A consultant for HEP's IPO; 25% of shares to be on sale]; <https://vijesti.hrt.hr/275749/vlada-ce-imenovati-savjetnika-za-javnu-prodaju-25-hep-grupe-21>

377 Petar Vidov, Faktograf.hr, "Država poklonila firmu od dvije milijarde kuna onima koji su je financijski uništili" [The state gives company worth two billion Kuna to those who financially ruined it]; <https://faktograf.hr/2018/11/03/petrokemija-privatizacija-ina-ppd/>

378 Petar Vidov, Faktograf.hr, "Plenkovićeva vlada obećala prekršiti zakon da novim vlasnicima Petrokemije osigura veću zaradu" [Plenković's government promises to break the law to secure greater

is still under consideration.³⁷⁹ In the agreement to sell Petrochemicals, the RC Government agreed to reduce gas import tariffs, even though such a decision should fall under the exclusive authority of the Croatian Energy Regulatory Agency (HERA). A month and a half after Petrochemicals changed owners, HERA lowered the price of transporting gas by around 20 percent, just as had been announced in the agreement to sell the Kutina-based firm.³⁸⁰ The circle of businessmen around Vujnovac's PPD is allegedly very interested in investing in HEP shares as well,³⁸¹ while Gazprom is already prepared to enter the Croatian electricity market.³⁸²

"Just look at the Petrochemicals contract. The favourable treatment is legible. Can it be proven? Does anybody want to prove it? Everybody knows everything, in 2009 it was known why the gas business was being split away, why a nuclear power plant was being pushed, why renewable energy sources – apart

profits for Petrochemicals' owners]; <https://faktograf.hr/2018/11/08/plenkoviceva-vlada-obecala-prekrstiti-zakon-da-novim-vlasnicima-petrokemije-osigura-vecu-zaradu/>

379 HRT, "Za Plenkovića i Dalić IPO HEP-a i dalje najbolji model za Inu" [A HEP IPO still the best model for INA, according to Plenković and Dalić]; <https://vijesti.hrt.hr/376204/za-dalic-javna-ponuda-manjinskog-udjela-hep-a-i-dalje-dobar-model>

380 M.E., Energetika-net-com, "HERA snizila cijenu transporta plina za 23,2%" [HERA lowers the price of transporting gas by 23.2%]; <http://www.energetika-net.com/vijesti/plin/hera-snazila-cijenu-transporta-plina-za-23-2-27856>

381 Ivica Đikić, Novosti, "Čovjek na plinski pogon" [Gas-powered man]; <https://www.portalnovosti.com/covjek-na-plinski-pogon>

382 Vedran Marjanović, Slobodna Dalmacija, "Putinov Gazprom na mala vrata ušao u Hrvatsku, Rusi će nam prodavati i struju! U Vladi sliježu ramenima: Slobodno smo tržište..." [Putin's Gazprom enters Croatia by the back door, Russians will sell us electricity as well! At the Government they shrug their shoulders: We are a free market...]; <http://urednik.slobodnadalmacija.hr/novosti/biznis/clanak/id/477696/putinov-gazprom-na-mala-vrata-usao-u-hrvatsku-rusi-ce-nam-prodavati-i-struju-u-vladi-slijezu-ramenima-slobodno-smo-trziste>

from wind – are being shelved, everything was known. Everything was apparent, so it was also apparent who lobbied the best and whose interests are being favoured." – Expert 8

It is interesting that Vrdoljak was less benevolent towards the gas projects of PPD's competitors. When general Ivan Čermak, owner of Crodux, wanted to build a thermal power station in Slavonski Brod, which would probably have supplied itself with Crodux's gas, Vrdoljak stood in his path.^{383 384 385} At the same time, he supported a coal thermal power plant in Ploče,³⁸⁶ whose construction was announced by the Luka Ploče Energija, the daughter-company of Luka Ploče d.d., in which PPD is the majority shareholder. The Luka Ploče Energija company was headed by Josip Jurčević, former SOA intelligence agent and Vujnovac's business partner in a number of different enterprises. The coal-fired thermal power plant in Ploče has so far not been built due to strong resistance from

the local community.³⁸⁷ Vrdoljak also had understanding for Vujnovac's tourism projects. He included the Nova Camping company's project, co-owned by Vujnovac and the Zadar entrepreneur Goran Tudorović, on the list of strategic projects.³⁸⁸ Tudorović bought the Visan company from Vrdoljak's wife Ivana, leading to accusations of conflict of interest being made against the former economy minister.³⁸⁹ For the abovementioned reasons, Vrdoljak also had to publicly respond to the question whether he has any connections to PPD. "I am not a co-owner and have no interests in the PPD, I said this a thousand times", he stated in the Nova TV daily news programme.³⁹⁰

The 2015 parliamentary elections were a political earthquake for Croatia, resulting in PM Tihomir Orešković's short-lived government coalition between Karamarko's HDZ and their junior partner Bridge, self-proclaimed technocrats entering government for the first time. It marked the first time that a member of the government came directly from Vujnovac's group: Leo Prelec, previously member of the

³⁸³ Krešimir Žabec, Jutarnji list, "POZADINA SUKOBIA Čermak uvjeren da mu je ministar Vrdoljak srušio životni projekt od 450 milijuna eura" [Background of the conflict: Čermak convinced minister Vrdoljak brought down his 450 million Euro life's project]; <https://www.jutarnji.hr/vijesti/hrvatska/pozadina-sukoba-cermak-uvjeren-da-mu-je-ministar-vrdoljak-srusio-zivotni-projekt-od-450-milijuna-eura/593878/>

³⁸⁴ Vedran Balen, Večernji list, "Vrdoljak stopira elektranu Ivana Čermaka?" [Vrdoljak stopping general Ivan Čermak's power plant?]; <https://www.vecernji.hr/vijesti/vrdoljak-stopira-elektranu-ivana-cermaka-992529>

³⁸⁵ Bojana Mrvoš Pavić, Novi list, "Čistoća goriva okidač: U pozadini sukoba Vrdoljaka i Čermaka rat oko TE u Slavoniji?" [Pureness of fuel the trigger: is the war over the thermal plant in Slavonia what's in the background of the conflict between Vrdoljak and Čermak?]; <http://www.novolist.hr/Vijesti/Hrvatska/Cistoca-goriva-okidac-U-pozadini-sukoba-Vrdoljaka-i-Cermaka-rat-okolo-TE-u-Slavoniji>

³⁸⁶ Metkovic-news.com, "Ministar Vrdoljak (HNS) podržao inicijativu o gradnji TE Ploče" [Minister Vrdoljak (CPP) supports the initiative to build the Ploče Thermal Plant]; <https://metkovic-news.com/news/ministar-vrdoljak-podrzao-inicijativu-o-gradnji-te-ploce/>

³⁸⁷ Igor Lasić, Novosti, "Neretljani protiv termo-elektrane" [Neretvans against thermal power plant]; <https://www.portalnovosti.com/neretljani-protiv-termoelektrane>

³⁸⁸ Petar Vidov, Faktograf.hr, "Vrdoljak: Tvrtka Nova camping nije imala koristi od uvrštenja na listu strateških projekata" [Vrdoljak: the Nova Camping company did not benefit from being included in the list of strategic projects]; <https://faktograf.hr/2016/10/05/ivan-vrdoljak-nova-camping-strateski-projekt/>

³⁸⁹ Oriana Ivković Novokmet, Telegram, "Vrdoljaka su počeli prozivati zbog poslova njegove supruge, izvukli smo 5 stvari o tom slučaju" [Vrdoljak called out for his wife's deals, we found 5 things related to this case]; <https://www.telegram.hr/politika-kriminal/vrdoljaka-su-poceli-prozivati-zbog-poslova-njegove-supruge-izvukli-smo-5-stvari-o-tom-slucaju/>

³⁹⁰ I.M., Dnevnik.hr, "Ivan Vrdoljak za Dnevnik Nove TV: 'Predsjednica se ne bi trebala konzultirati s nekim ljudima, već raditi s Vladom'" [Ivan Vrdoljak for the Nova TV daily news: 'The President shouldn't be consulting with certain people, but should work with the government']; <https://dnevnik.hr/vijesti/hrvatska/predsjednik-hns-a-ivan-vrdoljak-za-dnevnik-nove-tv-nece-biti-preslagivanje-vlade---537024.html>

Boards of three firms from the ENNA group, became deputy economy minister. He was appointed to the function as part of the HDZ's quota. Sabina Škrtić, Vrdoljak's ministerial aide for the energy sector, went the other way, initially starting to work for PPD as a consultant before becoming employed in ENNA as a member of the Board. Mladen Pejnović, former chief of the State Property Management Office (DUUDI),³⁹¹ also became a consultant for PPD. During his short stint in Orešković's government, Prelec played an important role in the process of ENNA becoming the largest shareholder in Pevec, for which he was investigated by the Conflict of Interest Commission.³⁹² No wrongdoing on his part has been established, and after the first HDZ and Bridge government collapsed, Prelec returned to his former employer, as director at two firms within Vujnovac's ENNA group. He is currently the director of the AMR Sustavi company, co-owned by Vujnovac, Gobac and Jurčević, which had, in the very first year of its existence, agreed lucrative deals with HEP.³⁹³

The first HDZ and Bridge government caved in due to Karamarko's conflict with his coalition partners, but also due to the intraparty schism within HDZ. Relations between Karamarko and Brkić, once closest associates, have with time become so damaged that they nearly came to blows in the centre of Zagreb.³⁹⁴ It may be that the causes of the conflict should

be sought in the investigations of the State Attorney's Office allegedly focused on the circles of businessmen close to Brkić.³⁹⁵ After Karamarko's resignation, HDZ was taken over by Andrej Plenković. Since he had no counter-candidates, it is believed that he had made a pact with Brkić in order to become president of the party. Plenković had originally announced that he would demand responsibility in the matter of the loan HDZ got from PPD,³⁹⁶ only to forget that promise later. He welcomed PPD owner Vujnovac in Banski Dvori,³⁹⁷ and PPD's boss's held an informal meeting with Plenković's advisor and HDZ patriarch Vladimir Šeks. The meeting was intended to remain secret, but was caught on camera and the picture leaked to the media.³⁹⁸

The links between PPD and HDZ reach across into neighbouring Bosnia and Herzegovina as well. According to claims by the independent Sarajevo-based Žurnal.info news site, the Bosnian-Herzegovinian HDZ boss Dragan Čović has introduced Russian capital to the Mostar-based Aluminij d.d., an aluminium plant which is the important part of the

³⁹¹ Marija Brnić, Poslovni dnevnik, "Mladen Pejnović novi je konzultant PPD-a" [Mladen Pejnović is the PPD's new consultant]; <http://www.poslovni.hr/karijere/mladen-pejnovic-novi-je-konzultant-ppd-a-321514>

³⁹² Decision number: 711-I-113-P-56-17/18-05-17, Conflict of Interest Commission, 2017; <https://www.sukobinteresa.hr/sites/default/files/akti/2018/p-56-17-18-05.pdf>

³⁹³ Saša Paparella, Poslovni dnevnik, "Gopcu 40.7 mil. kuna od HEP-a" [Gobac gets 40.7 million Kunas from HEP]; <http://www.poslovni.hr/domace-kompanije/gopcu-407-mil-kuna-od-hep-a-33137>

³⁹⁴ Express, 24sata.hr, "Nemamo mi što pričati! Brkić i Karamarko se skoro potukli?" [We have nothing to talk about! Brkić and Karamarko nearly come to blows?]; <https://www.24sata.hr/news/nemamo-mi-sto-pricati-brkic-i-karamarko-se-skoro-potukli-594836>

³⁹⁵ Berislav Jelinić, Nacional, "TAJNI SUSRET GOTOVO ZAVRŠIO FIZIČKIM OBRAČUNOM: Brkić nasrnuo na Bajića u zagrebačkom restoranu Burin" [Secret meeting nearly ends up with a physical altercation: Brkić attacks Bajić in Burin, a restaurant in Zagreb]; <https://www.nacional.hr/ekskluzivno-u-nacionalu-tajni-susret-gotovo-zavrpio-fizickim-obracunom-brkic-nasrnuo-na-bajica-u-zagrebackom-restoranu-burin/>

³⁹⁶ M.Šu./N1, Tportal.hr, "Plenković o PPD-u: Tražit ću odgovornost!" [Plenković on the PPD: I will demand responsibility!]; <https://www.tportal.hr/vijesti/clanak/plenkovic-o-ppd-u-trazit-cu-odgovornost-20160706>

³⁹⁷ D.I., Dnevnik.hr, "Plenković: PPD će nastaviti s isporukom plina Petrokemiji" [Plenković: PPD will continue to deliver gas to Petrochemicals]; <https://dnevnik.hr/vijesti/hrvatska/andrej-plenkovic-sazvao-konferenciju-zbog-situacije-u-petrokemiji---472560.html>

³⁹⁸ R.I., Index.hr, "IMAMO FOTKE Šeks uhvaćen s vlasnikom PPD-a, firme zbog koje je lani u HDZ-u izbila ogromna afera" [We've got photos: Šeks caught with owner of PPD, the company that caused a huge scandal in the HDZ last year]; <https://www.index.hr/vijesti/clanak/hdzu-opet-fali-love-imamo-fotke-susreta-seksa-i-direktora-ppda-firme-koja-im-je-vec-posudjivala-novac/976990.aspx>

economy in Herzegovina. The supposed Russian deal to take over Aluminij d.d. was, according to Žurnal, brokered by PPD and Zoran Gobac,^{399 400 401} which alarmed the BH secret services.⁴⁰² To import raw materials and export its products, Aluminij Mostar has used the services of Luka Ploče, the starting point of the pan-European corridor 5C, which, once completed, will connect Croatia and Hungary via BH. In January 2017, PPD became the main sponsor of the Zrinjski football club,⁴⁰³ known in BH as "Čović's regime club".⁴⁰⁴ Čović's Herzegovinian HDZ's growing closeness with Milorad Dodik,⁴⁰⁵ ruler of Republika Srpska and one of the most vocal advocates of a

pro-Russian policy in the region,⁴⁰⁶ should be viewed in the same context.

*"Several years ago, a very strange decision took place in Luka Ploče. When it was decided that a coal-fired thermal power station would not be built, PPD decided to build a terminal for liquefied petroleum gas, meaning LPG. I associated it in the context of the shutting down of the Sisak refinery, which had produced liquefied petroleum gas for the Croatian and regional markets. The termination of production of the gas in the Sisak refinery directly opens up the possibility for PPD. The terminal is obviously being built with the intention to enter the Bosnian market on time, with Russian-produced LPG. And LPG has been abandoned as a concept in the EU, as what it could replace in transport is not worth what natural gas is worth. LPG emissions are much higher than LNG. So the target is obviously the Bosnian market, which would also eliminate LNG as a potential energy source for Bosnia. You make it so that for Bosnia, LNG becomes unattractive as an energy source." – **Politician 2***

³⁹⁹ Avdo Avdić, Žurnal.info, "Aluminij na ruski pogon: Vijeće ministara ukinulo carinu na uvoz nelegiranog aluminija" [Russian-driven aluminium: Ministers' council abolishes duties on import of unalloyed aluminium]; <http://www.zurnal.info/novost/20873/vijece-ministara-ukinulo-carinu-na-uvoz-nelegiranog-aluminija>

⁴⁰⁰ Avdo Avdić, Žurnal.info, "Direktor Aluminija demantira, Žurnal dokumentira: PPD otkupljuje dugove za struju i uvodi Ruse u kompaniju" [Aluminium director denies, Žurnal documents: PPD buying back electricity debts and introducing Russians into the company]; <http://zurnal.info/novost/20882/ppd-otkupljuje-dugove-za-struju-i-uvodi-ruse-u-kompaniju>

⁴⁰¹ Avdo Avdić, Žurnal.info, "STRUJNI UDAR: Dodikov i Čovićev završni napad na Aluminij" [Electric shock: Dodik's and Čović's final assault on Aluminij]; <http://www.zurnal.info/novost/21557/dodikov-i-covicev-završni-napad-na-aluminij>

⁴⁰² Hina, 24sata.hr, "Priznali: Da, špijuni iz BiH su prisluškivali hrvatske političare" [They admit: Yes, BH spies eavesdropped on Croatian politicians]; <https://www.24sata.hr/news/priznali-da-spijuni-iz-bih-su-prisluškivali-hrvatske-politicare-540792>

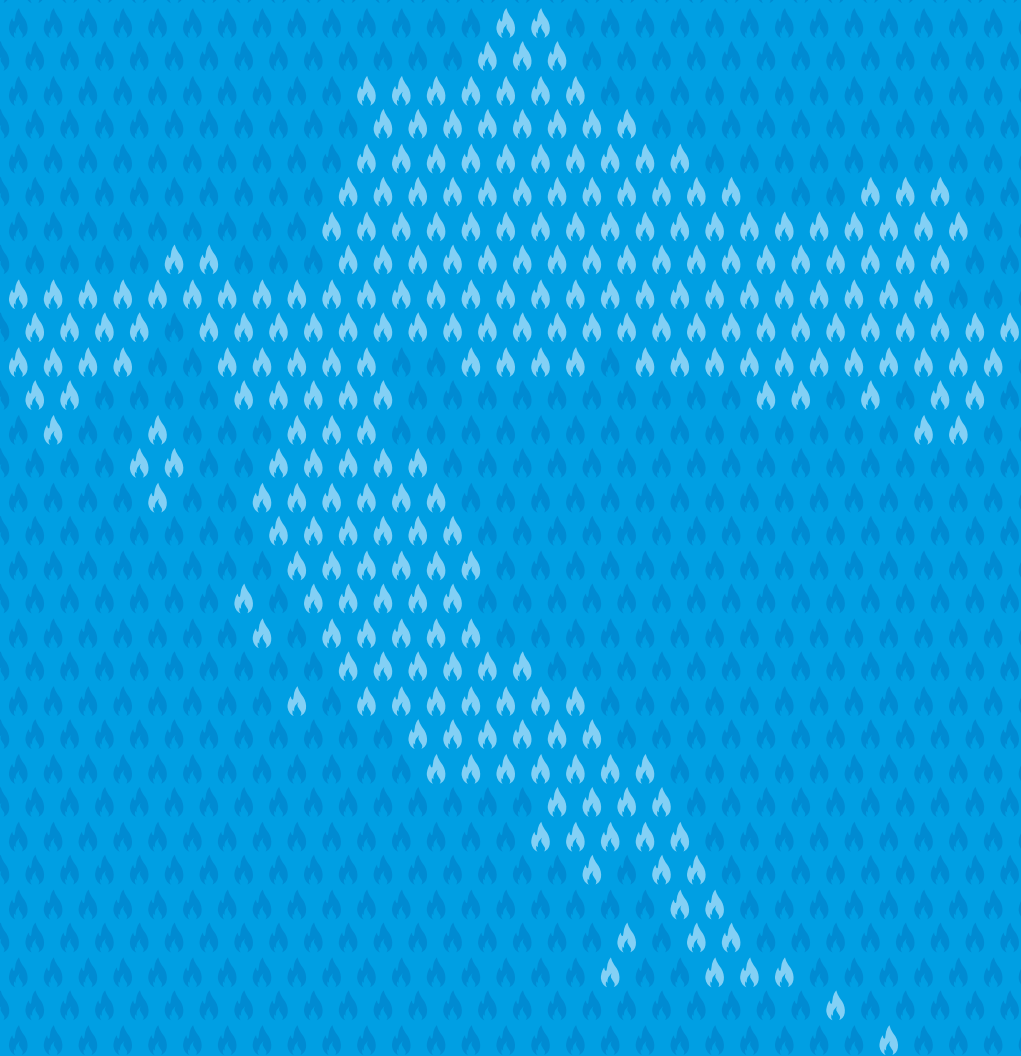
⁴⁰³ HŠK Zrinjski: PPD the 'Noblemen's' general sponsor, Hercegovina.info; <https://www.hercegovina.info/vijesti/sport/nogomet/hsk-zrinjski-ppd-generalni-sponzor-plemicima-119560>

⁴⁰⁴ Ivan Crnjac, Dnevnik.ba, "Je li HŠK Zrinjski Čovićev klub?!" [Is HŠK Zrinjski Čović's club?!]; <https://www.dnevnik.ba/teme/je-li-hsk-zrinjski-covicev-klub>

⁴⁰⁵ D.I., Dnevnik.hr, "Dragan Čović i Milorad Dodik dogovorili koaliciju u BiH" [Dragan Čović and Milorad Dodik agree to form a coalition in BH]; <https://dnevnik.hr/vijesti/svijet/dragan-covic-i-milorad-dodik-dogovorili-koaliciju-u-bih---535345.html>

⁴⁰⁶ Željko Trkanjec, Jutarnji list, "PROCURILI DETALJI SASTANKA DODIKA I PUTINA U SOČIJU Dodika je pritisnuo da riješi ekološki problem s Hrvatskom i poželio sreću na izborima" [Details leak of the Sochi meeting between Dodik and Putin: Putin pressures Dodik to solve the environmental problem with Croatia and wishes him luck at the elections]; <https://www.jutarnji.hr/vijesti/hrvatska/procurili-detalji-sastanka-dodika-i-putina-u-sociju-dodika-je-pritisnuo-da-rijesi-ekoloski-problem-s-hrvatskom-i-pozeLIO-srecu-na-izborima/7889820/>

CONCLUSION AND RECOMMENDATIONS



CONCLUSION

For the purpose of this study, we defined public policy capture as the influence of special interests on the process of adopting and implementing a certain public policy, where hidden *networks of power* systematically manipulate this process to their benefit. One of the key points in analysing capture is detecting the networks of power. Networks of power denote groups of powerful individuals (the elite) competing in gaining control over resources in order to bring benefits to the members of their networks. Networks of power use the available instruments of capture to build up the network's capital. A network's capital entails a combination of economic, social, cultural and political capital. This approach was taken in the analysis of the state of capture of the gas economy policy in the Republic of Croatia.

Research findings suggest that the type of gas economy policy capture is extremely specific, not an ideal-type public policy capture as defined in the previous paragraph. It has been established that, both in Croatia and in other Eastern and Central European countries, the prerequisite for capture is the implementation of the common European policy of gas market liberalisation. Hence, the studied model of capture is shaped by adapting to the wider social and political context, deeply determined by the aforementioned process of liberalisation. In conducting the research, it was revealed that the level of capture of gas economy policy was best estimated by analysing decisions regarding large energy projects, as well as decisions pertaining to the business activities of public energy firms. We have defined decisions on large energy projects not only as formally adopted decisions (such as, for instance, the decision to split off the gas business from INA), but consider public advocacy for certain energy projects from a position of executive power (such as, for instance, support for the construction of a coal thermal power station in Ploče) as also constituting decisions.

Evaluating the level of capture through analyses of the usual documents shaping public policies is therefore made difficult both by the undefined national goals, which precludes estimating the level to which public policies have realised private or national interests, and by the fact that a significant part of the national legislative framework is determined by common European regulations. The research conclusion that energy development strategies, which do cite the national energy policy goals, do not represent a beacon to guide those responsible for public policies was taken into account. This is made evident by the fact that no operative acts have been drafted to enable effective implementation – and its monitoring – of a strategy, as well as by political decision-making on large energy projects that bypass, or even go counter to the existing strategies. The totality of the Croatian energy policy can therefore be gleaned from the decisions that were adopted and advocated regarding large energy projects and the business operations of public energy companies, which are consequently the focus of our analysis of gas economy policy capture.

The goal of the research was, on the one hand, to determine the usefulness of applying the concepts of public policy capture in analysing the Croatian gas sector, and, on the other, to determine the extent to which the model of Russian actions on the European periphery as presented in "The Kremlin Playbook" is of use in understanding the case of Croatia. The structure of the research report therefore reflects two fundamental elements of the model in question: 1) weakening the market position of the dominant local actor, and 2) strengthening the market position of the intermediary firm, the chosen supplier of Gazprom's gas. Networks of capture, instruments of capture and network capital are thus analysed across two different case studies: one on the weakening of INA's market position, and another on the strengthening of the market position of the PPD. The research findings indicate that the model proposed in "The Kremlin Playbook" is extremely useful as a key to decypher the overall events in the

Croatian energy and gas sector over a longer period of time. The captivity of the gas sector is reflected in the market domination of the intermediary firm, which is partly the result of energy policy capture by means of favouring a specific actor, and partly of the Russian response to the process of liberalisation of the European market. Using gas as an important geostrategic resource, the Russian Federation has recognised the model of doing business via intermediary firms connected to local elites as the vehicle for their interests.

The decades-lasting yet still unrealised project of an LNG terminal on Krk has been selected for the third case study due to its importance in recognising the dynamic of the power relationship between the so-called "great powers", both in Croatian territory, as well as in the sphere of gas business activities overall. Although the issue of the LNG terminal runs through the case studies pertaining to INA and PPD, we nevertheless decided to tackle it as a distinct case study. The usefulness of such an approach has been recognised in the fact that this is a project where the conflicted Western and Eastern interests visibly clash. The USA and its Western European allies have advocated the construction of an LNG terminal in order to reduce Central and Eastern Europe's dependence on Russian gas, and consequently its susceptibility to Russian influence. Russia, in turn, has openly opposed the Krk LNG terminal project, seeking to safeguard its monopoly position in the gas supply sector in the eastern part of the European continent.

Beyond the framework of initial expectations, the research findings have indicated the usefulness of viewing gas economy policy capture as merely an aspect of the broader Russian capture of East European states by means of the specific instruments available to the transnational network of capture. Partly thanks to the accumulation of large amounts of money, the intermediary firm deepens the capture processes by offering support to local political actors. The thus empowered political actors harm the rule of law by promoting the

concept of so-called illiberal democracy, thus accomplishing Russian foreign-policy goals, as outlined in the chapter on the political context. This perspective clarifies why out of all the actors on the political scene, PPD gave the most direct and immediate support to HDZ at the time the party was run by wanna-be strongman Tomislav Karamarko.

In carrying out the research, the usual warning signs indicating the possibility of capture were found in the three case studies: legislative changes allowing abuse of the public interest; existence of discretionary competences in decision-making on the energy sector; and the concurrent lack of strong control mechanisms (especially independence of the judiciary), a total absence of policy frameworks for the energy sector to anchor deliberation, planning and decision-making. As regards the level of formality of capture, there is an observable contrast between the complete informality of the process of adopting exceptionally important decisions on the energy sector (we know little about how the decisions are made and who influences them) and the mechanisms of capture themselves, which are often in essence very formal, that is, contained in the government's, public firms and other public authorities' formal decisions.

Through two case studies, INA and PPD, two mostly but not entirely distinct networks of capture were observed. In the INA case study, this was a network dominated by Prime Minister Ivo Sanader, consisting of his closest party associates (such as Jadranka Kosor, Damir Polančec, Ivan Šuker), politically appointed executives of public firms (such as Josip Petrović), businessmen close to the HDZ (such as Robert Ježić) and representatives of the interests of foreign capital (such as Zsolt Hernádi and Mikhail Gutseriyev). In the PPD case study, a network of capture has been detected, organised around the owner of the PPD and constituted by members of HDZ and HNS, parties forming the current ruling coalition in Croatia. It needs to be said that the research did not unambiguously identify all the members of the segment of the network

of capture that centres around PPD's owner. Although the interviewees have highlighted the importance of hidden ownership as an instrument of capture, they offered no evidence thereof themselves, nor did the research establish such evidence. At the same time, the comparable cases of gas sector capture in East European countries show that intermediary firms trading in Gazprom's gas regularly have several different owners. Three different types of actors show up in the ownership structures: 1) Gazprom itself; 2) figures connected to the Kremlin; and 3) local powerful politicians or businessmen. As the Croatian case significantly departs from the described pattern, and in light of the fact that the Croatian legislative framework allows secret ownership of companies, we are unable to name the people whose influence dominates within the network of capture described in the PPD case study.

The study has established that various instruments are used in the practice of capture. The case of the takeover of Kutina Petrochemicals on its own makes evident the financial instruments of state subsidies, selective rescue of firms and special forms of aid that, in this case, have also taken the form of the state taking on a firm's liabilities. Decisions and policies whose unifying principle would be the direct business benefits they brought to PPD have also been observed among the instruments used to influence market competition: advocating projects that would increase the consumption of gas in the RC, slow realisation of the project to construct an LNG terminal, sabotaging rival firms' projects (Vrdoljak's opposition to a thermal power station in Slavonski Brod and scuppering of Dioki's pre-bankruptcy settlement, prevented Crodex from acquiring large consumers of gas). There are many reasons for the absence of mechanisms to control and limit the discretionary powers of the very highest level of executive authority and the management structures of public firms: strategic documents are no obstacle to the decision-maker's discretion, there is no adequate oversight of the work of the executive

authorities and public firms as a result of the questionable independence of supervisory and control bodies; regulatory agencies are not independent in their functioning, but operate in line with the expectations of the Government (making it possible, as in the case of Kutina Petrochemicals, that a future decision of the "independent" regulatory agency is defined by a contract agreed between a private company and the state). Capture is also enhanced by the Croatian model of managing public firms, where the minister is able to personally dominate the entire sector. Appointing executive and supervisory boards in a large number of vital firms thus becomes an instrument of capture whereby the network of capture expands its capital and size.

The research has established that there are characteristics in political practice that encourage capture and indicate its existence. The decision-making processes in the energy sector are characterised by a high level of informality, leaving the influences on the substance of the decisions – including the aspect of lobbying contacts – untransparent. Mock public discussions are conducted whose goal is not to improve the statutes being adopted, which is very often reflected in the length of time afforded to the discussions. Instead of the legally mandated 30 day standard, only during the time it took to finalise this analysis, public discussions on amendments to the INA Privatisation Act (lasting 14 days) and on the analyses and background of the Draft Integrated Energy and Climate Plan for the Period 2021-2030 (lasting 9 days) have been conducted. The public discussion on the 2019 Legislative schedule of the Ministry of Environmental Protection and Energy also lasted only 14 days. Experts interviewed during the research highlighted the senselessness of participating in public discussions, stressing that the discussions are being held *pro forma*, with no real possibility for the expert community to influence vital decisions.

When it comes to strategies to exert pressure, those interviewed have cited the instances

of attacks on their honour and reputation, and examples of political pressure (in the form of clear communication of the desired substance of future expert decisions). In addition, instances of pressure on employees in publicly owned companies have been recorded, requesting that they conceal information that is in the public interest. We are unable to present more detailed information on the cases listed here as this would imperil the anonymity of the interviewees.

HDZ's dependence on PPD has taken the form of loans from the firm to the party. The dependence of the subjects of capture within a network of capture also comes about through a mutual exchange of benefits through the companies owned by the subjects of capture, but it is to be assumed that in the Croatian case, the publicly available ownership data affords for only a cursory insight into the subjects and the network of capture itself. The possibility of secret ownership of companies remains a strong motive for state officials to establish practices of capture. Appointments based on the criterion of political favouritism reduce the resilience of the entire system to practices of capture, while at the same time having the potential itself to become an instrument of capture. Researching the network of capture has also recorded examples of quick shifts between public and private executive functions in the energy sector – another characteristic indicating capture. Thus Sabina Škrtić, aide to the economy minister, left the Government to join the executive board of a company within PPD's group, just like deputy minister of the economy Leo Prelec, who also entered government from an executive position in the PPD.

RECOMMENDATIONS

Policy recommendations:

1. prohibit secret ownership of private companies by amending the Companies Act.
2. Full removal of intransparencies and informalities from the functioning of the RC Government as regards the processes of formulating public policies, drafting strategies and adopting executive decisions through amendments to the Rules of Procedure of the RC Government and adopting codes of conduct for members of Government that should ensure:
 - a. guaranteeing the transparency of work and composition of working groups drafting legislation and strategies and preparing the Government's executive decisions
 - b. prohibiting informal consulting processes in decision-making processes.
3. Regulate lobbying by adopting a special law on lobbying that should include:
 - a. introducing the obligation to draft and publish records of state officials' meetings with extra-institutional/non-state actors
 - b. an obligation to leave a written record of the meetings held and the contacts, to include, at a minimum:
 - iii. a short description of the topic of the meeting
 - iv. the persons present
 - v. a short description of the proposals submitted in writing
 - vi. all proposals submitted in writing
 - c. introducing a mandatory, publicly available register of lobbyists (local and foreign).
4. Pay special attention to the accuracy of the data collected for the purpose

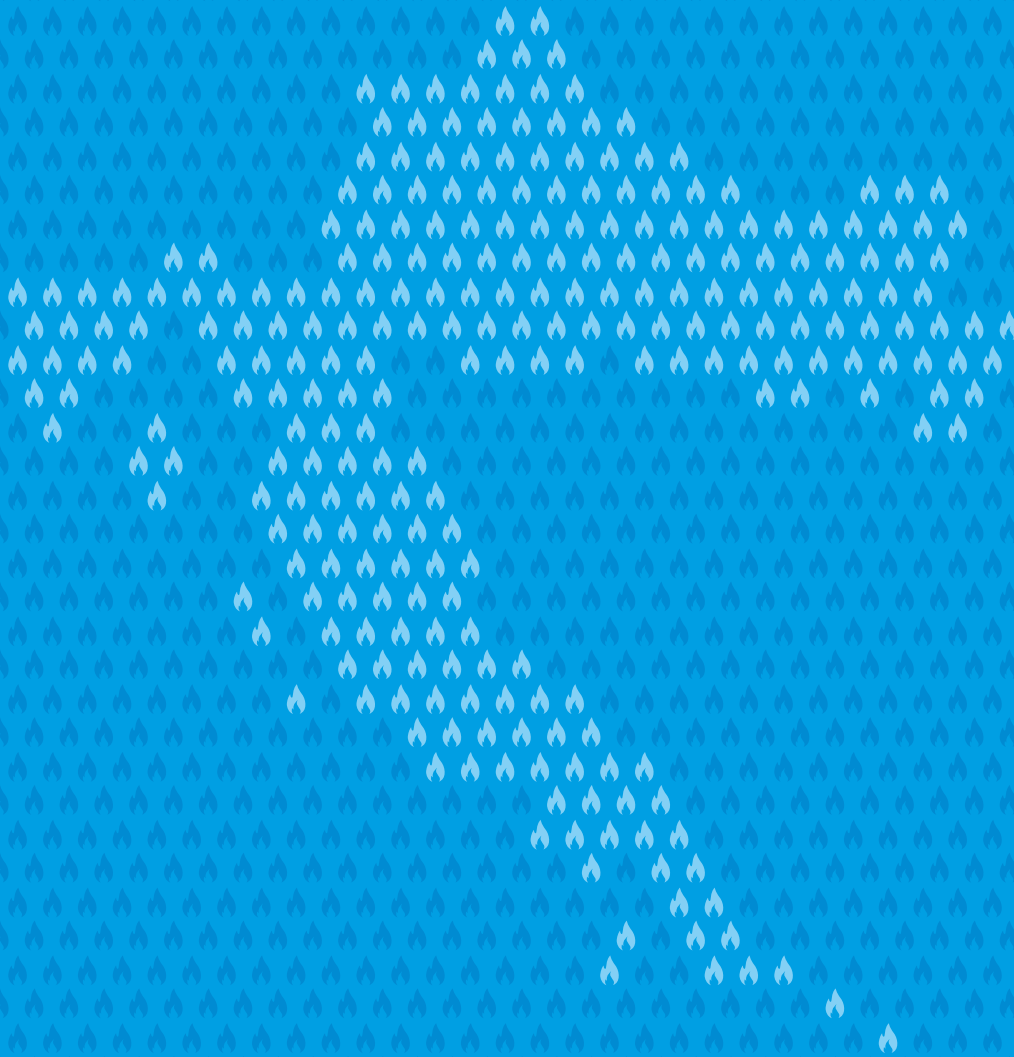
of setting up a Beneficial Ownership Registry. The public must have the right to free and unobstructed access to the data in the Registry by means of a searchable online interface.

5. Set up an independent Parliamentary Budget Office to evaluate the impacts of regulations, tasked with carrying out evaluations of the possible effects of each act before it is voted on in the Croatian Parliament.
6. End the personal domination of ministers over the publicly owned companies under the ministries' jurisdictions by democratising the composition of these companies' assemblies so as to involve representatives of the relevant ministry, of citizens, users, civil society organisations, institutional stakeholders from the relevant sector and the parliamentary opposition.
7. When reforming the public administration, special attention needs to be paid to unequivocally establish the full independence and autonomy of Croatian regulatory agencies.
8. Find an adequate model for coordinating Croatian foreign energy policy, keeping in mind that decisions on transnational projects are adopted at the highest political level.
9. Change the approach to drafting strategic documents so as to consult the representatives of the relevant professions, as well as all parliamentary groups, in the drafting process, in order to reach the highest possible level of consensus when adopting strategic documents in the Croatian parliament. Consensually adopt the implementation documents that will secure the continued implementation of strategies after changes of government.
10. Democratise decision-making on large investment projects, so as to involve the representatives of the local communities, the relevant professions and the civil society in the consultations before decisions are made.

ENERGY SECTOR RECOMMENDATIONS:

1. Strategic development of the energy sector based on transition to a low-carbon society and economy.
2. Adopting regulation to limit the emissions of cargo vessels in the Adriatic. As this would also create a potential market for using LNG as marine fuel, building an LNG terminal would simultaneously become a more reasonable option. However, the executive government should work in partnership with the local authorities; concerns of the local community on Krk could be taken into account by reevaluating the idea of installing an FSRU vessel next to INA's gas platforms in the Northern Adriatic.
3. Increase gas storage capacities in order to increase the security of natural gas supply.
4. Full privatisation of INA and investment of the earnings in a renewable energy investment cycle.
5. Simplify small producers' access to the electrical grid to the greatest extent possible, and encourage citizens to install micro solar power systems through the Croatian Reconstruction and Development Bank and HEP.
6. Set up a circular waste management system and invest in building composting facilities and plants for producing renewable biogas and natural fertilizers.
7. Use the remaining hydropotentials through HEP investments, primarily in areas where building hydropower plants would have additional useful effects such as flood regulation and irrigation. Any further exploitation of hydropotentials must satisfy international environmental standards.
8. Discourage the use of gas as a primary energy source for household heating, focus on using geothermal energy, biomass, heat pumps and similar technologies.
9. Further stimulation of energy renovation of housing and commercial buildings.

ANNEXES



ANNEX 1

DESCRIPTIONS OF THE INTERVIEWEES

POLITICIANS	
Politician 1	Former member of RC Government
Politician 2	Former member of RC Government, university professor
Politician 3	Former member of RC Government
Politician 4	Former member of RC Government, university professor
Politician 5	Former member of RC Government, university professor
Politician 6	Former member of RC Government, university professor
Politician 7	Former member of RC Government
Politician 8	Former member of RC Government
EXPERTS	
Expert 1	Former INA executive
Expert 2	Former INA executive
Expert 3	Former member of RC Government
Expert 4	University professor
Expert 5	Former INA executive
Expert 6	Former senior public administration official
Expert 7	University professor
Expert 8	University professor
Expert 9	Former INA employee
Expert 10	Former INA executive
Expert 11	Senior public administration official
Expert 12	Former senior public administration official

- 1. How would you rate the quality of the design and implementation of Croatian energy policy? What are the positive and the negative characteristics?**
 - a. Do you believe that over the past 10-15 years Croatia has conducted a socially responsible energy policy? Has energy policy achieved its goals and fulfilled the public interest?
 - b. What were the key missed opportunities or wrong political decisions of great significance? What are the consequences of not acting / wrong decisions?
 - c. How could Croatian energy policy be enhanced? Do you have any specific proposals?
- 2. What does the decision-making process look like in energy policy? Who are the key actors who make decisions? To what extent does the broader geopolitical context influence the decisions themselves?**
- 3. What do you consider to be the key political decisions in the overall gas governance policy that influenced the overall gas business in the RC?**
 - a. Are there extra-institutional actors who influenced decision-making or the shaping of energy policy?
 - b. What are the reasons decisions were made in the manner and at the time they were made?
- 4. What are the key energy policy instruments, the tools used to shape it?**
 - a. What really shapes what we call energy policy? Strategies, laws, bylaws, Government decisions or management of state energy firms?
- 5. What is your opinion on various RC Governments' actions and governance of the energy sector?**
- 6. What is your view of the way the state has treated INA over the last two decades, especially as regards all the relevant stages of the company's privatisation and the implementation of the process of liberalising the Croatian gas market?**
 - a. How would you rate the quality of the management of INA? What are the key problems?
 - b. How do you rate the impact of the decision to split off INA's gas business on the process of market liberalisation?
 - c. Was there a better, alternative model of liberalising the gas market?
 - d. How do you rate the transparency of the overall process?
- 7. What is your vision of the further direction of energy policy development? What are your key recommendations? What needs to be fixed?**
 - a. What should be the state policy on INA in terms of the future development of the company?
 - b. What impact will the construction of an LNG terminal have on the Croatian gas/energy market?
 - i. Was the decision to build an LNG terminal based on the logic of the market? What does an LNG terminal bring to Croatia?
 - ii. What are the advantages and drawbacks of building an LNG terminal?
- 8. Can you recommend us certain journalists, experts, politicians, businessmen or associations you believe we should by all means include in our research?**

