



ICLG

The International Comparative Legal Guide to:

Oil & Gas Regulation 2013

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A practical cross-border insight into oil and gas regulation work

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Croatia



Bernd Rajal



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Schoenherr

1 Overview of Natural Gas Sector

- 1.1 A brief outline of Croatia's natural gas sector, including a general description of: natural gas reserves; natural gas production including the extent to which production is associated or non-associated natural gas; import and export of natural gas, including liquefied natural gas (LNG) liquefaction and export facilities, and/or receiving and re-gasification facilities ("LNG facilities"); natural gas pipeline transportation and distribution/transmission network; natural gas storage; and commodity sales and trading.**

In 2010, the total supply (domestic production and imports) of natural gas in Croatia amounted to 3,400 million m³. At the moment, Croatia is not completely dependent on the import of natural gas because about 68.6% of natural gas supplied in 2010 was covered by domestic production from fields in the Pannonian basin and from offshore fields in the North Adriatic. The remaining demand was covered by imports of natural gas, mainly from Russia, Italy and Slovenia. [Annual Report 2010 of the Croatian Energy Regulatory Agency, page 71-72, available at www.hera.hr.] However, Croatia's dependence on gas imports is estimated to grow significantly in the future.

In the Croatian gas industry, the key market player is INA-INDUSTRIJA NAFTE d.d. (INA), a vertically integrated company 47.26% owned by MOL Hungarian Oil and Gas Plc., 44.84% owned by the Republic of Croatia and 7.90% owned by institutional and private investors [www.ina.hr]. At the moment, INA is the only producer of natural gas in Croatia. PRIRODNI PLIN d.o.o. (owned by INA) is the major wholesale and retail natural gas supplier, and at the same time, the importer of natural gas. [Please note that it is regulated by law that the supplier under the public service obligation of gas procurement (who is obliged to supply gas to the tariff customers' suppliers under regulated conditions and at regulated prices) in the Republic of Croatia until 31 July 2013 is the company PRIRODNI PLIN.]

Gas transmission, distribution and storage of natural gas are regulated energy activities performed as a public service. In line with the Croatian Gas Market Act (ZTP), [*Zakon o tržištu plina*, Official Gazette nos. 40/07, 152/08, 83/09, 91/11 and 114/11] the legal unbundling process of the activities related to the gas transmission and gas storage was carried out.

Domestic transmission lines are owned and operated by 100% state-owned company PLINACRO d.o.o., which was separated from INA in 2002. In line with the ZTP, in 2007 PLINACRO was designated as the transmission system operator (TSO) for a period of 30 years. The gas production fields of the Pannonia and North

Adriatic, underground gas storage PSP Okoli, 37 distribution systems and 27 final customers are connected to the transmission system. [Annual Report 2010 of the Croatian Energy Regulatory Agency, page 60.] The Croatian gas transmission system is 2,600 km long and has been continuously expanded in the recent years [www.plinacro.hr]. In 2010, PLINACRO invested EUR 190.5 million in building a gas pipeline network throughout the country and EUR 670,000 in facilities for gas storage. From 2002 to 2011, pursuant to the PLINACRO's Plan of development, construction and modernisation of the Croatian gas transmission system [*Plan razvoja, izgradnje i modernizacije plinskog transportnog sustava u Hrvatskoj od 2002. do 2011*] approximately 300 km of the new gas pipeline were built. The completion of the regional gas pipeline network Lika – Dalmacija from Bosiljevo to Split is expected to be completed by the end of 2012. Furthermore, the respective gas pipeline network Lika – Dalmacija would be connected to the Ionian-Adriatic Pipeline (IAP). The IAP project intends to connect the Croatian and Albanian pipeline system with the Trans Adriatic Pipeline (TAP) [TAP is part of the EU designated Southern Gas Corridor with a length of 520 km running from Greece to Italy, via Albania and the Adriatic Sea.] The total gas pipeline length from Croatia (Ploce) to Albania (Fieri) is 516 km. This is a strategically important project, whose implementation will enable the creation of a new energy corridor for the region of South-East Europe, with the aim of establishing a new supply of natural gas from new sources – the Caspian and Middle Eastern regions. Moreover, in February 2011, a Memorandum of Understanding and Cooperation (MOUC) has been signed between PLINACRO and Trans Adriatic Pipeline AG, which provide a framework for coordination of parties' activities and exchange of technical information aimed at the potential connection of the IAP to the TAP.

Although the Croatian gas market has legally been fully opened as of 1 August 2008, the necessary conditions for *de facto* opening of the market have been met only recently. Primarily these are related to the construction of the interconnecting gas pipeline Donji-Miholjac – Dravaszerdahely between Croatia (PLINACRO as the Croatian TSO) and Hungary (Földgázszállító Zrt. as the Hungarian TSO) which has been completed and was put into operation on 3 August 2011. This is the second supply route for imported natural gas with pipeline capacity of 6.5 billion m³ of gas annually. So far, the only cross-border interconnector in Croatia was in Rogatec between Croatia and Slovenia [operated by Geoplin as the Slovenian TSO] which was also the supply route for Russian gas. The new interconnecting gas pipeline created the important technical pre-conditions for the *de facto* opening of the Croatian gas market. The completion of this second cross-border interconnector will enable higher security of gas supply in Croatia. This project will secure Croatia access to second natural gas supply pipeline, as

well as enable new natural gas suppliers to enter the Croatian gas market. In addition, it is likely that this may also attract new investment projects in LNG terminals and gas storage facilities in the upcoming period.

Furthermore, in September 2011, PLINACRO as the TSO and Geoplin have signed an agreement on the construction of a new gas interconnector between Croatia and Slovenia (Croatia – Lisac / Slovenia – Susak), part of the future corridor Zlobin-Rupa-Kalce-Jelsane. This new interconnection is part of PLINACRO's plans for the development of the gas transmission system from 2010 until 2014.

Currently, construction of the South Stream pipeline section through Croatia is under consideration. The South Stream pipeline project provides for the transport of natural gas from Russia through the Black Sea and onwards to Bulgaria, Serbia, Hungary and Slovenia and further to Austria and Italy. In 2010, the former Croatian Government concluded an inter-governmental agreement with the Russian Federation on cooperation in the construction of a gas pipeline. The agreement envisages the creation of a joint venture company with a 50-50 participation between the two countries. The discussed new route through Croatia would be 270 km long. Reportedly, Gazprom's final investment decision on South Stream is expected in November 2012, with construction to begin by the end of 2012.

In 2010, there have been 37 active gas distribution operators in Croatia, among which the two most important are GRADSKA PLINARA ZAGREB d.o.o. and HEP Plin d.o.o. The total length of the gas distribution network in Croatia at the end of 2010 was 18,045 km.

The only underground natural gas storage in Croatia is PSP Okoli located near the city Sisak. The gas storage operator is PODZEMNO SKLADIŠTE PLINA d.o.o. (PSP). This company was legally unbundled from INA and bought by the state-owned PLINACRO. According to the agreement concluded in 2009, the company PRIRODNI PLIN has leased a total gas storage capacity of 553 million m³. The gas storage operator PSP plans to expand the underground natural gas storage PSP Okoli to increase gas storage capacity, as well as to decrease negative environmental impacts. Moreover, the main investment over the mid-term concerns the planned construction of a small underground gas storage facility in Grubišno Polje. Reportedly, due to the expected gradual decline of gas production in Europe and Croatia, as well as the planned increase in gas consumption in Croatia, of about 5% annually, the construction of a small gas storage facility in Grubišno Polje is planned to cover peak winter gas consumption. The other project, which is of particular importance for the region because of the security of gas supply, concerns the construction of a large gas storage facility in Beničanci in Slavonia.

The planned project of the Adria LNG re-gasification terminal and the connected pipeline construction located near Omišalj on the island Krk in the North Adriatic has been put on hold in 2010 due to the current state of the global market. The planned re-gasification capacity of the LNG terminal is 15 billion m³/year and three storage tanks with a capacity of 195,000 m³ will be installed at the terminal. The Adria LNG consortium (consisting of the European energy companies E.ON Ruhrgas, Total, OMV Gas & Power and Geoplin) will not make a final investment decision before 2013. Thus, completion of the project cannot be expected before 2017. On 1 June 2010, the Croatian electricity company HEP d.d. and PLINACRO established the LNG Hrvatska consortium with the purpose to join the Adria LNG consortium; however, activities on joining the Adria LNG consortium were suspended at the end of 2010. According to the most recent

publicly available information, the new Croatian Government had offered to buy project documentation from the Adria LNG consortium. In addition, it has been reported that PLINACRO has launched a feasibility study on the construction of an alternative LNG terminal on the island of Krk which is expected to be completed in the second half of 2013.

1.2 To what extent are Croatia's energy requirements met using natural gas (including LNG)?

Between 2005 – 2010, the consumption of liquid fuels, imported electricity and coal and coke has been declining, while the consumption of other energy sources had a growing trend. It is estimated that up until 2030, the share of coal, natural gas, biomass (including wood), as well as other renewable energy sources would increase. Nevertheless, Croatia's primary energy supply is dominated by liquid fuels [www.mingo.hr, the Annual Energy Report for 2010 of the Croatian Ministry of Economy, Energy in Croatia 2010, 49-52]:

- Liquid fuels 37.1%.
- Coal and coke 7.5%.
- Natural gas 27.1%.
- Electricity 4.2%.
- Hydro Power 19.4%.
- Heat 0.4%.
- Fuel wood 3.9%.
- Renewables 0.5%.

1.3 To what extent are Croatia's natural gas requirements met through domestic natural gas production?

Domestic natural gas production is performed by INA. INA reported their proven reserves at the end of 2011 at 164.7 million m³ of natural gas. About 71.9% of total domestic demand in 2010 was covered by domestic production from 16 onshore fields in the Pannonian basin and 9 offshore fields in the North Adriatic (see question 1.1 above). [Annual Energy Report for 2010 of the Croatian Ministry of Economy, Energy in Croatia 2010, 37.] In 2010 the total domestic production of natural gas was 2.330 million m³. In 2010, PRIRODNI PLIN imported gas from Russia (30.7% of the total domestic consumption) and to a smaller extent (0.7% of the total domestic consumption) from Italy and Slovenia. [Annual Report 2010 of the Croatian Energy Regulatory Agency, 71-72.] However, INA has switched its gas procurement contract from Gazprom to Italian ENI in December 2010 by concluding the contract for 750 million m³ of natural gas per year during 2011-2013.

1.4 To what extent is Croatia's natural gas production exported (pipeline or LNG)?

Data of the Energy Balances of Natural Gas for 2010 shows that the total export of natural gas in 2010 was 484.1 million m³. [Annual Energy Report for 2010 of the Croatian Ministry of Economy, Energy in Croatia 2010, 42.] LNG is not exported from Croatia.

2 Overview of Oil Sector

2.1 Please provide a brief outline of Croatia's oil sector.

The exploration, generation and refining of crude oil, and most of

the trade in oil derivatives and LPG is carried out by INA Group companies. Crude oil is produced at 34 oil fields and gas condensates at 8 gas condensation fields. In addition to Croatia, INA is currently involved in oilfield operations in Egypt and Angola, whereby in February 2012 it had to temporarily suspend its activities in Syria in line with EU sanctions.

INA operates two oil refineries and two lubricant products plants. Processing of oil and production of oil products is carried out in the Oil Refinery Rijeka located in Rijeka (Urinj), next to the Adriatic Sea with a total of 4.5 million tonnes of annual crude oil processing capacity or 90,000 bbl/day, and in the Oil Refinery Sisak, close to the domestic oil fields and in the centre of Croatian market, with a total of 2.2 million tonnes annual crude oil processing capacity or 44,000 bbl/day. In addition, INA operates the Lube Refinery Rijeka (Mlaka) and the Lube Refinery Zagreb, where lubricants are produced. [Available at www.ina.hr; Annual Energy Report for 2010 of the Croatian Ministry of Economy, Energy in Croatia 2010, 111.] In the last few years, INA has carried out the project of the refinery modernisation in order to comply with EU requirements and standards.

Transportation of oil through oil pipelines in Croatia is performed by Jadranski naftovod d.d. (JANAF). [Ownership structure of JANAF: 37.26% owned by the Croatian Pension Fund; 26.28% owned by the Croatian Compulsory Oil Stocks Agency; 11.80% owned by INA; 10.6% state-owned; 5.36% owned by HEP; 4.30% owned by State Agency for Deposit Insurance and Bank Rehabilitation; and 4.34% owned by institutional and private investors.] The JANAF oil pipeline was completed in 1979 as an international crude oil transportation system with the designed capacity of 34 million tonnes/year and the installed capacity of 20 million tonnes/year. The crude oil quantities transported through the JANAF oil pipeline in 2010 amounted to 6.4 million tonnes. The JANAF oil pipeline system has a longitude of around 622 km with the following sections: Omišalj – Sisak; Sisak – Virje (with a section to Lendava in Slovenia) – Gola (Croatian-Hungarian border); and Sisak – Slavonski Brod (with a section to Bosanski Brod in Bosnia and Herzegovina) – Sotin (Croatian-Serbian border). Crude oil is imported by tankers through the sea terminal in Omišalj on the island of Krk in the North Adriatic. However, the oil pipeline system can also be used for oil import by land. The biggest crude oil handling terminal located in Omišalj has the storage capacity of 760,000 m³ for oil and 60,000 m³ for oil products. Other crude oil handling terminals are located in Sisak, Virje and Slavonski Brod, with the storage capacity of 100,000 m³ in Sisak and 40,000 m³ in Virje. The submarine oil pipeline Omišalj – Urinj has a longitude of 7.2 km with the submarine section of around 6 km and connects the Omišalj Terminal with the INA's Oil Refinery in Rijeka. Oil derivatives terminal JANAF-Žitnjak is located in Zagreb with the storage capacity of 40,000 m³. Total storage capacity of JANAF system amounts to 1.3 million m³ for oil and 100,000 m³ for oil products. [Available at www.janaf.hr; Annual Energy Report for 2010 of the Croatian Ministry of Economy, Energy in Croatia 2010, 112-113.] According to HERA's licence registry, a total of 21 companies are licensed as oil and oil products storage operators. Croatia has three ports which can receive oil and oil products: Omišalj; Zadar; and Ploče.

The first LPG terminal in Croatia which is located some 35 km from Zagreb (Sv. Križ Začretje) was completed in 2009. The LPG terminal with 13 storage tanks (each 5,700 m³) is owned and operated by the company CRODUX PLIN d.o.o.

The Croatian Mandatory Oil Stocks Agency (*Hrvatska agencija za obvezne zalihe nafte i naftnih derivata*; HANDA) is an entity responsible for the maintenance of the mandatory stocks of crude oil and oil products of the Republic of Croatia, which is also

responsible for establishing the mandatory stocks in the quantity of the 90 days average daily consumption by the end of July 2012.

The total number of fuel stations was some 809 in 2010, out of which some 413 petrol stations were owned by INA. [Annual Energy Report for 2010 of the Croatian Ministry of Economy, Energy in Croatia 2010, 113.] According to HERA's licence registry, there are currently a total of 25 oil products wholesalers in Croatia (e.g. INA, PETROL HRVATSKA d.o.o., OMW Hrvatska d.o.o., LUKOIL Croatia d.o.o., TIFON d.o.o., etc.), only one LPG wholesaler and retailer (INA), five LPG wholesalers and a total of 141 companies licensed for the road transport of crude oil, oil products and biofuels.

2.2 To what extent are Croatia's energy requirements met using oil?

Consumption of liquid fuels represents the main energy source in Croatia. It is expected that in the long run, fossil fuels production will gradually decrease in favour of renewable energy sources. Nevertheless, it is estimated that the share of liquid fuels in energy consumption in Croatia will continue to be very high in the upcoming period (see also question 1.2 above).

2.3 To what extent are Croatia's oil requirements met through domestic oil production?

Domestic oil products production is carried out by INA. Only about 20% of domestic requirements for crude oil may be covered by domestic production of oil and condensates. Croatia, thus, is dependent on the import of oil. INA reported their proven reserves at the end of 2011 as 90.2 million bbl of oil. Crude oil production in 2011 amounted to 15.285 million bbl/day and condensate production to 9.912 million bbl/day.

2.4 To what extent is Croatia's oil production exported?

Croatia is not exporting crude oil; it is exporting oil products. [Annual Energy Report for 2010 of the Croatian Ministry of Economy, Energy in Croatia 2010, 115.] In 2010, about 80% of the imported crude oil, 15% of the domestic crude oil and 5% of the domestic condensates were used as raw material for oil products production. The total production of oil products in 2010 amounted to 4 million tonnes of oil products. Nevertheless, the significant share of the oil products in the Croatian market originates from import. In 2010, a total of 0.99 million tonnes of oil products were imported. [Annual Report 2010 of the Croatian Energy Regulatory Agency, 41, 86-87.]

3 Development of Oil and Natural Gas

3.1 Outline broadly the legal/statutory and organisational framework for the exploration and production ("development") of oil and natural gas reserves including: principal legislation; in whom the State's mineral rights to oil and natural gas are vested; Government authority or authorities responsible for the regulation of oil and natural gas development; and current major initiatives or policies of the Government (if any) in relation to oil and natural gas development.

Exploration and production of oil and natural gas reserves is regulated by the Croatian Mining Act (ZR) [*Zakon o rudarstvu*, Official Gazette nos. 75/09 and 49/11] and various secondary

legislation governing specific areas of the hydrocarbons sector. This act provides a legal framework for the exploration and production of mineral raw materials in general. According to the Art 5 of the ZR, mineral raw materials are categorised into five main groups as follows: energy mineral raw materials (including oil and gas as hydrocarbons); mineral raw materials for industrial processing; mineral raw materials for production of construction materials; dimension stone; and mineral raw materials containing metals. Production of hydrocarbons as defined under the Art 10 ZR include not only their extraction and processing, but also their transport by pipelines when technologically connected with approved exploitation fields and storage in geological structures (Art 10 of the ZR). Additionally, the act contains provisions concerning the licensing and concession regimes applicable to exploration and production of mineral raw materials, keeping records on the mineral raw material reserves, the preparation of mining projects, the construction of mining facilities and installations, mining plans and measurements, necessary qualifications, occupational health and safety measures, obligations in relation to environmental restoration of damaged areas, and some other issues.

Projects related to the production of oil and gas are subject to the Environmental Impact Assessment (EIA). The EIA approval, issued under the EIA Regulation [*Uredba o procjeni utjecaja zahvata na okoliš*, Official Gazette nos. 64/08 and 67/09] has to be obtained prior to issuance of the location permit.

On an administrative level, the competent authorities are the Ministry of Economy (*Ministarstvo gospodarstva*; MINGO), the State Property Managing Agency (*Agencija za upravljanje državnom imovinom*; AUDIO) as the state administration authority managing state-owned land, the Ministry of Environmental and Nature Protection (*Ministarstvo zaštite okoliša i prirode*; MZOP) as the state administration authority governing the EIA process and the Ministry of Construction and Physical Planning (*Ministarstvo graditeljstva i prostornog uređenja*; MGPU) as the state administration authority governing the issuance of the location, building and use permits.

Applicants can introduce remedies against the decision of the MINGO with the State Commission for Supervision of Public Procurement Procedure (*Državna komisija za kontrolu postupaka javne nabave*; DKOM) and thereafter with the Administrative Court. Both the EIA decision, issued by the MZOP, and the location and building permit, issued by the MGPU, can be withdrawn by the Administrative Court.

The Mineral Resources Management Strategy of the Republic Croatia as the basic document determining mineral resources management and planning of the mining activities at the state level was adopted by the Croatian Government in July 2008; however it has not been enacted by the Croatian Parliament as required under the ZR. ZR further requires that development acts of the local and regional self-government units are based on the abovementioned strategy (Art 6 of the ZR). Additionally, regional self-government units are required to draft mining-geology studies for their areas, on the basis of which local and regional self-government units in their development acts have to plan requirements and ways to supply mineral resources (Art 7 of the ZR).

3.2 How are the State's mineral rights to develop oil and natural gas reserves transferred to investors or companies ("participants") (e.g. licence, concession, service contract, contractual rights under Production Sharing Agreement?) and what is the legal status of those rights or interests under domestic law?

Oil and natural gas are mineral resources of special interest to the

state which are in possession of the Republic of Croatia. The ZR allows individuals or legal entities to apply for rights to explore for and extract oil and natural gas reserves. However, until Croatia's accession to the EU, only individuals or legal entities having its seat or a branch-office in Croatia and which are registered with competent authority for performing exploration and production activities, and which also dispose of necessary personal, professional, technical and financial means for the establishment and operation of such mining activities, may be granted an approval for exploration and concession for production of oil and natural gas reserves. Prior to the issuance of the approval for exploration and granting concession for production of oil and natural gas resources, a tendering process has to be conducted in accordance with requirements set out in the ZR and the Croatian Concession Act (ZK). [*Zakon o koncesijama*; Official Gazette nos. 125/08 and 90/11.] Within the granted approval for exploration and concession contract on production general rights and obligations and also the consideration for the transfer of such rights, e.g. fixed annual remuneration for the used area, variable remuneration for mineral resources extraction and remuneration for mineral resources exploration, are determined. The state administration authority competent for issuing an approval for exploration and the award of a concession contract for exploration is the MINGO in consultation with other competent authorities in case that exploration and production activities are to be carried out in specific areas (e.g. state-owned land, maritime domain, areas under special water regime, etc.). As a rule, disputes arising from concession contracts shall be resolved by commercial court. However, contracting parties may decide that the disputes are to be resolved by arbitration. In order to prevent wilful misconduct, the transfer of an approval for exploration and concession for production is only possible on an exceptional basis and under the conditions laid down in the ZR and its implementing regulation; in any case, the transfer of the approval and concession has to be approved by the competent authority (see question 3.8).

3.3 If different authorisations are issued in respect of different stages of development (e.g., exploration appraisal or production arrangements), please specify those authorisations and briefly summarise the most important (standard) terms (such as term/duration, scope of rights, expenditure obligations).

As stated above (see question 3.2), the exploration of oil and natural gas resources is subject to an approval of the competent authority (*odobrenje za istraživanje*) and may be permitted only within the approved exploration area (*odobreni istražni prostor*). Data on the approved exploration area has to be registered with the Registry of energy mineral resources exploration areas (*registar istražnih prostora*) which is kept by the MINGO. The respective approval has to contain identification of land plots allocated within an exploration area (by cadastral and land registry numbers of plots). The public tendering process may be launched if MINGO, as the authority competent for mining estimates, assesses that there is a need to determine individual mineral resources in a certain area or to determine their economic exploitability or on the basis of a proposal of an individual or legal entity registered for exploration of mineral resources. However, it should be noted that an approval for exploration of mineral resources may be issued only for the areas designated within the physical planning documents and for the areas for which there is no restriction therein with regard to exploration activities to be carried out. The approval for exploration of oil and natural gas reserves may be issued for a maximum of five years.

However, exploration approval is no guarantee that the holder of approval will also be granted a concession contract for production. In case that a holder of the exploration approval has not been selected as the best bidder within the tender process, it is entitled to compensation for all costs in relation to exploration works, the EIA and the obtaining of a location permit from the selected holder of concession for production. The concession for production may be granted for a maximum of 40 years. An exploration concession may only be granted to a legal or natural person that fulfils, among others, the following requirements: (i) it is registered for performing exploration and production activity; (ii) it is the owner of the land within the exploitation field concerned or it has building rights, or a lease, or a right of use, or building easement during the concession period over that exploitation field; (iii) it has obtained verification of the mining project; (iv) it has obtained the EIA approval; and (v) it has obtained a location permit, etc. (sec II Art 19 – 35 and V Art 45 – 77 of the ZR). The concession for production grants the right to exploit mineral resources for economic purposes including the right to perform mining activity with the purpose of production.

Production activities are to be carried out in accordance with mining project (*rudarski projekt*) verified by the competent authority. In case of fundamental changes of the mining project, a new mining project has to be prepared, whereas for minor changes of the mining project, preparation of a simplified mining project will be sufficient. However, if exploration and production carried out in accordance with the mining project requires deep wells, an adaption project in the form of a simplified mining project has to be prepared (sec IV Art 41 – 44 of the ZR). It should be noted that the authority has also discretionary power to impose obligation on the holder of the exploration approval to prepare the mining project for performing exploration activities. Furthermore, the ZR contains a prohibition to sell mineral resources extracted during exploration; therefore, all mineral resources extracted during exploration are state ownership (Art 29 – 30 of the ZR).

Production activities may be carried out only within the exploitation field (*eksploatacijsko polje*) specified in the concession contract and within the limits defined in the mining project. The exploitation field has to be determined in accordance with the location permit. Data on the exploitation field has to be registered with the Registry of mineral resources exploitation fields (*registar eksploatacijskih polja mineralnih sirovina*) which is kept by the MINGO within 15 days from the day of the concession award. Commencement and termination of any exploration and production activities has to be duly notified to the competent authorities (e.g. MINGO, the State Inspectorate, owners of land plots, the Ministry of Finance, AUDIO, etc.).

The holder of concession for production is required to keep records on the reserves and annual production, whereas the annual report has to be submitted to the MINGO by the end of January.

The authority has the power to revoke the exploration approval and concession for production in case of non-compliance with the terms and conditions of the approval and concession requirements. Grounds for the revocation of the exploration approval are set out in detail in the Art 35 of the ZR and Art 37 of the ZK.

For the construction and operation of mining facilities and installations, the building and use permit are required under the Croatian building law (sec VI Art 78 – 108 of the ZR).

Besides having a concession, the holder of the concession for production must also obtain special approval from the MINGO in order to conduct simultaneous offshore hydrocarbons exploration and production activities in Croatia. To obtain the respective approval, the concession holder must comply with requirements set forth in the Ordinance on fundamental technical requirements,

safety and security in the exploration and production of hydrocarbons from the Croatian seabed. [*Pravilnik o bitnim tehničkim zahtjevima, sigurnosti i zaštiti pri istraživanju i eksploataciji ugljikovodika iz podmorja Republike Hrvatske*, Official Gazette no. 52/10.]

3.4 To what extent, if any, does the State have an ownership interest, or seek to participate, in the development of oil and natural gas reserves (whether as a matter of law or policy)?

Generally INA carries out oil and natural gas development activities in Croatia. Under the shareholders' agreement (2009), MOL gained operational control of INA. Currently, the Republic of Croatia has a stake of 44.84% in INA (see questions 1.1 and 2.1). Although the shareholders' agreement committed the Croatian government to take over the gas trading business of INA (i.e. the import business of PRIRODNI PLIN) by December 2010, this open issue remains to be resolved in the upcoming period. The Croatian state also has stakes in JANAF which carries out the activity of transportation of oil by oil pipelines in Croatia (for the JANAF's ownership structure, see question 2.1).

3.5 How does the State derive value from oil and natural gas development (e.g. royalty, share of production, taxes)?

As stated above (see question 3.2), the exercise of specific rights in connection with natural gas development (search, exploration and production) is transferred by exploration approval and/or concession contract. Therefore, according to the Art 28 of the ZR and the Regulation on mineral resources exploration fee [*Uredba o novčanoj naknadi za istraživanje mineralnih sirovina*, Official Gazette no. 40/11], the holder of exploration approval has to pay:

- (i) an annual remuneration for energy mineral resources exploration in the following amounts:
 - 3,000.00 HRK/ha (approximately EUR 405/ha) of the used area within the approved exploration field in the first year of exploration;
 - 4,000.00 HRK/ha (approximately EUR 540/ha) of the used area within the approved exploration field for the second exploration year; and
 - 5,000.00 HRK/ha (approximately EUR 675/ha) of the used area within the approved exploration field for the third, fourth and fifth exploration year.

According to the Art 61 of the ZR and the Regulation on mineral resources production concession fee [*Uredba o novčanoj naknadi za koncesiju za eksploataciju mineralnih sirovina*, Official Gazette no. 40/11], the holder of concession for production has to pay:

- (i) a fixed annual remuneration for the used area in the following amounts:
 - 4,000.00 HRK/ha (approximately EUR 540/ha) for the used area within exploitation field with surface of up to 20 ha;
 - 5,000.00 HRK/ha (approximately EUR 675/ha) for the used area within exploitation field with surface from 20 ha to 50 ha; and
 - 6,000.00 HRK/ha (approximately EUR 810/ha) for the used area within exploitation field with surface exceeding 50 ha; and
- (ii) a variable remuneration for energy mineral resources extraction in the following amounts:
 - 5% of the market value of the hydrocarbons extracted (with regard to exploitation fields approved before 31 December 2009); and

- 10% of the market value of the hydrocarbons extracted (with regard to exploitation fields approved after 31 December 2009).

3.6 Are there any restrictions on the export of production?

The Croatian law does not provide special restrictions on the export of oil and natural gas production. In the event of a crisis, certain extraordinary measures (including import and export restrictions) can be taken on the basis of the Croatian Energy Act (ZE) [*Zakon o energiji*, Official Gazette nos. 68/01, 177/04, 76/07, 152/08 and 127/10] and other energy laws.

3.7 Are there any currency exchange restrictions, or restrictions on the transfer of funds derived from production out of the jurisdiction?

No specific currency exchange restrictions or restriction on the transfer of funds derived from production out of the jurisdiction can be determined in Croatian law.

3.8 What restrictions (if any) apply to the transfer or disposal of oil and natural gas development rights or interests?

As stated above (see question 3.2), the transfer of an exploration approval and concession for production is only possible on an exceptional basis (Art 14 of the ZR). The conditions and process related to the respective transfer are laid down in the Regulation on transfer of the mineral resources exploration approval and production concession. [*Uredba o prijenosu odobrenja za istraživanje mineralnih sirovina i ugovora o koncesiji za eksploataciju mineralnih sirovina*, Official Gazette no. 126/11.] The exploration approval and concession for production may only be transferred in case of: (i) death of natural person or termination of legal entity to a legal successor of the holder of the approval/concession provided that acquirer fulfils requirements for performing the respective activity; and (ii) bankruptcy of a natural person or legal entity to a natural person or legal entity that purchased the mining facilities and installations, technical documentation and land plots of the exploration/production area, and provided that acquirer fulfils requirements for performing the respective activity. The transfer has to be notified and approved by the competent authorities.

3.9 Are participants obliged to provide any security or guarantees in relation to oil and natural gas development?

According to the Art 51 – 52 of the ZR, participants are obliged to dispose of necessary personal, professional, technical and financial means for the establishment and operation of mining activities. Therefore, securities or guarantees in relation to oil and natural gas development are stipulated in tender documentation and thereafter in concession contracts concluded with the selected best bidder. Existing concession contracts are not disclosed to the public. The holder of concession for production is required to submit to the MINGO the appropriate payment instruments in the amount of the restoration costs as determined by the verified mining project (Art 71 of the ZR).

3.10 Can rights to develop oil and natural gas reserves granted to a participant be pledged for security, or booked for accounting purposes under domestic law?

There are no special regulations in connection with the pledge for

security or the booking for accounting purposes of rights to develop oil and natural gas under the Croatian law.

3.11 In addition to those rights/authorisations required to explore for and produce oil and natural gas, what other principal Government authorisations are required to develop oil and natural gas reserves (e.g. environmental, occupational health and safety) and from whom are these authorisations to be obtained?

Apart from authorisations based on the Croatian Mining Act (see question 3.3), several other authorisations (of different authorities) may be required, depending on the specific project. Therefore authorisations, e.g. according to the Croatian law on state property management, nature and environmental protection, physical planning and building, water regime and maritime domain, etc., may be required (see question 3.1).

3.12 Is there any legislation or framework relating to the abandonment or decommissioning of physical structures used in oil and natural gas development? If so, what are the principal features/requirements of the legislation?

According to Art 69 of the ZR, the permanent suspension of mining activities has to be notified to the competent authorities. The holder of concession for production is required to undertake all safety measures in order to prevent danger to people, property and environment on the occupied areas, and also to notify, among others, the State Inspectorate and Environmental Inspection thereof (Art 72 of the ZR). If the State Inspectorate and Environmental Inspection ascertain that the safety measures, environmental protection measures and restoration of the exploitation field are sufficient, the concession holder can obtain a certificate in relation thereto, and thereafter a decision on concession termination and on the decommissioning of the exploitation field and removal from the Registry of mineral raw materials exploitation fields. The competent authorities are empowered to prescribe safety measures.

3.13 Is there any legislation or framework relating to gas storage? If so, what are the principle features/requirements of the legislation?

The storage of natural gas is carried out by the PODZEMNO SKLADIŠTE PLINA d.o.o. (see question 1.1). According to Art 53 of the ZTP, a storage operator has to grant access to storage facilities under non-discriminatory and transparent conditions. The access to storage can be refused under certain conditions: (i) lack of capacity; (ii) where access to the system would prevent system operator from performing the public service obligation; or (iii) where access to the system would cause serious financial and economic difficulties to gas undertakings with regard to take-or-pay contracts concluded prior to a request for approval of access, which is subject to prior approval from the regulatory authority (HERA). The refusal has to be notified in writing. The party seeking access to storage can file an appeal with the HERA, if access to storage is refused. HERA has to find whether the prerequisites for refusal of access apply (within 60 days). Against the decision of the HERA, no appeal is allowed, but the injured party may bring a claim before the Administrative Court.

4 Import / Export of Natural Gas (including LNG)

4.1 Outline any regulatory requirements, or specific terms, limitations or rules applying in respect of cross-border sales or deliveries of natural gas (including LNG).

There are no special regulations in connection with cross-border natural gas transactions under the Croatian law. Cross-border sales and deliveries of natural gas are transacted pursuant to bilateral agreements between the parties and the availability of cross-border capacity. Also, the Ordinance on the Natural Gas Market Organisation [*Pravilnik o organizaciji tržišta prirodnog plina*, Official Gazette nos. 126/10, 128/11 and 88/12] and the Transportation Network Rules [*Mrežna pravila transportnog sustava*, Official Gazette nos. 50/09 and 88/12] are applicable. In the event of a crisis, certain extraordinary measures (including import and export restrictions) can be taken on the basis of the ZE and the Regulation on Security of Natural Gas Supply [*Uredba o sigurnosti opskrbe plinom*, Official Gazette nos. 112/08, 92/09 and 153/09]. In addition, certain reporting/registration obligations to the Croatian National Bank (*Hrvatska Nacionalna Banka*; CNB) may also be required, depending on the specific transaction.

5 Import / Export of Oil

5.1 Outline any regulatory requirements, or specific terms, limitations or rules applying in respect of cross-border sales or deliveries of oil and oil products.

Cross-border sales and deliveries of oil and oil products are transacted pursuant to bilateral agreements between the parties. In the event of a crisis, certain extraordinary measures (including import and export restrictions) can be taken on the basis of the ZE and the Act on Oil and Oil Derivatives Market (ZTNND) [*Zakon o tržištu nafte i naftnih derivata*, Official Gazette nos. 57/06 and 18/11]. Generally, producers, importers and traders of oil and oil products have an obligation to report certain transactions to the MINGO according to the Ordinance on Data Delivery by the Energy Undertakings to the Ministry [*Pravilnik o podacima koje su energetski subjekti dužni dostavljati Ministarstvu*, Official Gazette no. 87/07]. In addition, certain reporting/registration obligations to the CNB may also be required, depending on the specific transaction. As regards the wholesale of oil products, see also question 10.2 below.

6 Transportation

6.1 Outline broadly the ownership, organisational and regulatory framework in relation to transportation pipelines and associated infrastructure (such as natural gas processing and storage facilities).

As regards ownership of transportation pipelines and storage facilities, see questions 1.1 and 3.1. Gas transportation and storage of natural gas are regulated energy activities performed as a public service. Provisions on the operation of gas transportation pipelines and storage facilities can be found in the ZE, ZTP and the Transportation Network Rules [*Mrežna pravila transportnog sustava*, Official Gazette nos. 50/09 and 88/12], the General Conditions of Natural Gas Supply [*Opći uvjeti za opskrbu prirodnim plinom*, Official Gazette nos. 43/09 and 87/12] and other gas-related regulations. PLINACRO as TSO owns and operates the grid of main gas and regional gas pipelines by which domestic and

imported natural gas is transmitted to exit measuring-reduction stations where the gas is delivered to gas distribution systems and to final (industrial) customers directly connected to the transmission system. The operation of gas transmission grid is divided in five regions (Eastern, Central, Northern, Western and South Croatia). The TSO shall have, *inter alia*, the following responsibilities: (i) ensure technical preconditions, under economically optimal conditions, for the acceptance into the grid of gas produced on the Croatian territory, and gas imported from various sources and directions and for cross border gas transmission; (ii) connect to the transmission system all legal or natural persons who comply with the conditions stipulated by the relevant regulations; (iii) transmit gas on the basis of signed contracts; (iv) balance the transmission system pursuant to the relevant regulations; (v) ensure objective, equal and comprehensible conditions for access to the transmission system pursuant to the relevant regulations; (vi) manage the gas system in case of a crisis situation on the basis of regulated measures; and (vii) elaborate a five-year transmission system development plan, etc. PLINACRO as the TSO is responsible for the allocation and reservation of the transportation system capacities. Network users (e.g. gas supplier and gas trader) are entitled to use gas transportation system within reserved capacity on the basis of a gas transportation contract concluded with PLINACRO as the TSO for a definite period of time. The system operator is obliged to publish the standard form of gas transportation contract. A tariff charging regime applies to the transportation system both at the transmission and distribution level. Following recent amendments of the legal framework, Croatia has adopted the entry-exit transportation tariff system. In line with ZTP, the unbundling process of the activities related to the gas transmission and gas storage was carried out. As regards operation of storage facilities, see question 3.13.

According to the ZTNND, energy undertakings performing the activity of pipeline transport of oil (JANAF) and oil products transport by product-pipeline are required to grant access to their transport facilities to parties entitled to transport facilities access at non-discriminatory and transparent conditions pursuant to the negotiated third party access. The negotiated third party access must be based on the tariff system for the transport of oil and oil products. Provisions on the operation of oil pipeline system of JANAF can be found in the Technical Conditions of Access to Transportation Capacities of JANAF [*Tehnički uvjeti za pristup transportnim kapacitetima JANAF-a*, Gazette "Glasilo VRED-a" no. 3-4/03]. Access can be denied under certain conditions (Art 4 of the ZTNND). There are currently a total of 21 companies licensed for oil and oil products storage in Croatia.

6.2 What Governmental authorisations (including any applicable environmental authorisations) are required to construct and operate oil and natural gas transportation pipelines and associated infrastructure?

According to the Croatian building law, a location permit and building permit issued by the MGPU are required for, *inter alia*, (i) international and main oil and natural gas transportation pipelines and associated infrastructure, (ii) underground gas storage, (iii) oil and liquid oil products storage facilities with capacity of 50,000 tonnes or more, and (iv) LNG storage facility with capacity of 10,000 tonnes or more. An EIA must be carried out before a location permit can be issued. The use permit will be issued on the basis of a technical examination, provided that the constructed building satisfies all conditions under the building and other energy-related laws.

Depending on the specific project, several other authorisations and approvals (of different authorities) may be required (e.g. according

to the Croatian law on state property management, nature and environmental protection, physical planning and building, water regime and maritime domain, etc.). The operation of oil and natural gas transportation pipelines and associated infrastructure is subject to licensing (Art 15 of the ZE).

6.3 In general, how does an entity obtain the necessary land (or other) rights to construct oil and natural gas transportation pipelines or associated infrastructure? Do Government authorities have any powers of compulsory acquisition to facilitate land access?

According to the Art 30 of the ZE, energy entities are entitled to use properties belonging to third parties for the construction and maintenance of grids and systems for the transmission and/or transport and distribution of energy, in compliance with special regulations. Private land may be expropriated provided that this is required with a view to construct a pipeline and that it is in the state interest to do so. A state interest shall be deemed to exist if provision has been made for such projects in the special law. Generally, construction of new transportation infrastructure has to be provided for in the network development plan of the system operators (Art 8 of the ZE), but also in the development plans of the local and regional self-government units. Detail provisions on the administrative procedure applicable to property expropriation can be found in the Croatian Expropriation Act [*Zakon o izvlaštenju*, Official Gazette nos. 9/94, 35/14, 112/00, 114/01, 79/06, 45/11 and 34/12].

6.4 How is access to oil and natural gas transportation pipelines and associated infrastructure organised?

The system operator operating the system to which the customer wishes to be connected with is obliged to grant non-discriminating access at regulated tariffs in line with the Transportation Network Rules (see questions 6.1 and 6.6). The contract on connection to transportation system is concluded between PLINACRO, as the TSO and the distribution system operator, storage system operator, gas producer or final (industrial) customer directly connected to the system in line with the General Conditions of Natural Gas Supply. The system operator is obliged to publish the standard form of contract on connection to transportation system.

As regards access to the oil transportation system, see also questions 6.1 and 6.6.

6.5 To what degree are oil and natural gas transportation pipelines integrated or interconnected, and how is co-operation between different transportation systems established and regulated?

As regards the Croatian oil and gas transportation network, see questions 1.1, 3.1 and 6.1. The TSO is obliged to cooperate with other system operators in the gas sector. For instance, the TSO shall have, *inter alia*, the following responsibilities: (i) provide necessary information and data to the market operator, balancing group representative, related transmission system operator, distribution system operator, storage system operator, and LNG system operator with a view of reliable, safe and efficient functioning and development of interconnected systems; and (ii) to provide information on investment projects related to the transmission system according to the Ordinance on the delivery of data on investment projects. Interconnection of the gas transportation system and transportation system of the neighbouring country including technical aspects in relation to planning, construction and

operation of the interconnected pipelines is carried out on the basis of the agreement concluded with the transportation system operator of the neighbouring country (see Art 22 – 24 of the Transportation Network Rules).

6.6 Outline any third-party access regime/rights in respect of oil and natural gas transportation and associated infrastructure. For example, can the regulator or a new customer wishing to transport oil or natural gas compel or require the operator/owner of an oil or natural gas transportation pipeline or associated infrastructure to grant capacity or expand its facilities in order to accommodate the new customer? If so, how are the costs (including costs of interconnection, capacity reservation or facility expansions) allocated?

As stated above (see question 6.4), a non-discriminatory access to the gas transportation system according to the principle of regulated third party access is provided for in line with the Transportation Network Rules. The access can be refused under certain conditions: (i) lack of capacity; (ii) where access to the system would prevent system operator from performing the public service obligation; or (iii) where access to the system would cause serious financial and economic difficulties to gas undertakings with regard to take-or-pay contracts concluded prior to a request for approval of access, which is subject to prior approval from the regulatory authority (HERA). The system operator which refused access to the system on the basis of a lack of capacity or a lack of interconnection, shall make the necessary changes and expansion of the system in order to enable access within a reasonable period of time, as far as it is economically feasible to do so or when a potential customer is willing to pay for them. A gas undertaking which intends to contract gas supply, but has been refused access to the distribution or transmission system by a final decision, may construct a direct gas line (Art 56 of the ZTP). Major new gas infrastructures (i.e. interconnectors, gas storage system and LNG facilities) may, upon request, be exempt from the application of third party access right under certain conditions laid down in the Art 57 of the ZTP.

Non-discriminatory access to the oil transportation system according to the principle of the negotiated third party access is provided for in line with the ZTNND and the Technical Conditions of Access to Transportation Capacities of JANAF (see also question 6.1). Access can be denied under certain conditions, e.g. lack of capacity, technical or safety limitations (Art 4 of the ZTNND).

The refusal of access has to be notified in writing. The party seeking access to the system can file an appeal with the HERA, if access to system is refused. HERA has to find whether the prerequisites for refusal of access apply (within 60 days). Against the decision of the HERA, no appeal is allowed, but the injured party may bring a claim before the Administrative Court.

6.7 Are parties free to agree the terms upon which oil or natural gas is to be transported or are the terms (including costs/tariffs which may be charged) regulated?

Under Croatian law, gas transportation is regulated energy activity performed as a public service. The General Conditions of Gas Supply stipulate certain specific data that the gas transportation contracts concluded between gas suppliers or gas traders with the TSO for a definite period of time need to comprise as follows: (i) data regarding the contracting parties; (ii) conditions of gas transmission; (iii) provisions on quality of gas supply; (iv) conditions of gas delivery limitation; (v) provisions on the reading and communication of metering data; (vi) provisions on the billing

and payment of the fee for the use of the transmission system; (vii) time and location of gas delivery; and (viii) other provisions. The gas transmission tariff regime is based on the Tariff System for Natural Gas Transport, without the Tariff Rates [*Tarifni sustav za transport prirodnog plina bez visine tarifnih stavki*, Official Gazette nos. 32/06, 3/07, 134/11, 2/12 and 63/12] which regulate the mode, method and conditions of the accounting of the network tariffs. The actual tariff rate is set by the Croatian government.

The maximum price for oil transportation by pipeline is determined by the Tariff System for Oil Transportation by Oil Pipeline [*Tarifni sustav za transport nafte naftovodom*; Official Gazette no. 39/07], enacted by the HERA. The price of oil and oil products storage is not regulated; it is based upon existing market conditions.

7 Gas Transmission / Distribution

7.1 Outline broadly the ownership, organisational and regulatory framework in relation to the natural gas transmission/distribution network.

Gas transmission and distribution are regulated energy activities performed as a public service. Current gas law permits the organisation of a combined system operator, which means that the activities of the transmission system operator (TSO), distribution system operator (DSO), gas storage system operator and LNG system operator may be organised jointly, but unbundled from the gas production and gas supply activities. PLINACRO, as the only TSO, is legally unbundled (see also question 1.1). According to HERA's licence registry, a total of 36 companies are currently licensed as DSO. 13 DSOs are legally unbundled from retail, 23 DSOs are exempt from unbundling due to having less than 100,000 customers. Transmission and distribution networks are subject to regulated third party access (see questions 6.6 and 7.3).

7.2 What Governmental authorisations (including any applicable environmental authorisations) are required to operate a distribution network?

Apart from the licence issued by the regulatory authority (HERA), a concession for gas distribution or a concession for building of distribution system are required to operate a distribution network. Prior to the granting concession, a tendering process has to be conducted in accordance with requirements set out in the ZTP and ZK. Concession may be granted for a period of minimum 20 and maximum 30 years. The authority has the power to revoke the concession in case of non-compliance with the terms and conditions of the concession requirements (Art 21 of the ZTP). According to the Regulation on the amount and method of payment of fees for the concession for gas distribution and concession for building of distribution systems [*Uredba o visini i načinu plaćanja naknade za koncesiju za distribuciju plina i koncesiju za izgradnju distribucijskog sustava*, Official Gazette, no. 27/10], a compensation fee for the concession for gas distribution and concession for building of distribution system is determined at the amount of 0.5% to 1.5% of the total turnover realised by gas distribution activities in the previous year in the area for which the concession is granted.

Depending on the specific project, several other authorisations and approvals (of different authorities) may be required (e.g. according to Croatian law on state property management, nature and environmental protection, physical planning and building, water regime and maritime domain, etc.).

7.3 How is access to the natural gas distribution network organised?

A non-discriminatory access to the distribution network according to the principle of regulated third party access is provided for in line with the Distribution Network Rules [*Mrežna pravila plinskog distribucijskog sustava*, Official Gazette no. 50/09]. The gas supplier shall conclude a gas distribution contract with the DSO, on behalf and for the account of the final customer connected to the distribution system to which it supplies the gas. The gas distribution contract concluded for an indefinite period of time governs the provision of gas distribution service, including the ancillary services, and the connection capacity from the energy approval for each final customer connected to the distribution system to which the gas supplier supplies the gas and the financial obligations in accordance with the tariff system in force. Such contract shall also include a list of all final customers connected to the distribution system to which the gas supplier supplies the gas elaborated by the balancing groups. The DSO is obliged to publish the standard form of a gas distribution contract.

7.4 Can the regulator require a distributor to grant capacity or expand its system in order to accommodate new customers?

Access to the distribution system may be denied by the DSO under certain conditions provided by the law. The regulatory authority (HERA) can be appealed if the right of access is damaged (see question 6.6). Compare also question 6.6 to insufficient system capacity or insufficient interconnection.

7.5 What fees are charged for accessing the distribution network, and are these fees regulated?

The gas distribution tariff regime is based on the Tariff System for Natural Gas Distribution, without Tariff Rates [*Tarifni sustav za distribuciju prirodnog plina bez visine tarifnih stavki*, Official Gazette nos. 34/07, 47/07, 44/10 and 13/12] which set out the mode, method and conditions of the accounting of the network tariffs. The tariff system in the distribution system is based on the post stamp principle. The actual tariff rate is also set by the Croatian government.

7.6 Are there any restrictions or limitations in relation to acquiring an interest in a gas utility, or the transfer of assets forming part of the distribution network (whether directly or indirectly)?

There are no restrictions or limitations in relation to acquiring an interest in a natural gas utility, or the transfer of assets forming part of the distribution network.

8 Natural Gas Trading

8.1 Outline broadly the ownership, organisational and regulatory framework in relation to natural gas trading. Please include details of current major initiatives or policies of the Government or regulator (if any) relating to natural gas trading.

Gas trading is based on the Ordinance on the Natural Gas Market Organisation which sets out the rules on the procedure for reservation and allocation of gas system capacities, rules on trading

with capacities and gas balancing systems, rules on the use of the operating reserves, procedures on switching the gas supplier and other rules in relation to the third party access regime.

Participants on the gas market are the gas producers, system operators, suppliers, gas traders, eligible customers, tariff customers and the market operators. Relationships between the market participants are regulated by contracts (e.g. contract on connection to transportation or distribution system, gas transfer contract, gas distribution contract, gas storage contract, contract on the supply of tariff or eligible customer, gas procurement contract, sale contract, balancing contract, etc.). PLINACRO as the TSO is responsible for the allocation and reservation of the transportation system capacities. Each supplier and each trader has to be a member of a balancing group or establish its own group. A balancing group is a virtual association of gas market participants, which balance the gas system and which is organised and managed by the head of the balance group, being (i) a trader, or (ii) a supplier, that acquires gas from a gas producer and/or abroad to sell it on the territory of the Republic of Croatia. The Croatian Energy Market Operator is the operator of the electricity market (*Hrvatski operater tržišta energije d.o.o.*; HROTE) as the market operator keeps the register of the balancing group representatives and publishes it on its website (www.hrote.hr). At the moment, there are nine registered balancing group representatives: PRIRODNI PLIN d.o.o.; PRVO PLINARSKO DRUŠTVO d.o.o. za distribuciju plina; CRODUX PLIN d.o.o.; GRADSKA PLINARA ZAGREB-OPSKRBA d.o.o.; VETROPACK STRAŽA TVORNICA STAKLA d.d.; KORLEA d.o.o.; LUKOS ENERGIJA d.o.o.; PETROKEMIJA d.d.; and EconGas d.o.o.

According to the Ordinance on the Natural Gas Market Organisation, the gas system capacity can be traded on the primary and secondary market. On the primary market, the gas system capacity is traded directly by PLINACRO as the TSO and PSP as the gas storage operator, using the 'use it or lose it' principle. In case of unused reserved capacity, a supplier is obliged to offer it on the secondary market upon PLINACRO's prior approval in order to prevent system congestions. PLINACRO is responsible for conducting the physical balancing of the gas system. The balancing energy may be offered until 3:00 p.m. before the 'gas day' at the latest. The balancing group representative is responsible for the balancing energy payments incurred by its balancing group. HROTE, as the gas market operator, is required to conclude the tender for selection of a balancing energy bidder on an annual basis for the gas year 2013/2014 by 15 July 2013 at the latest. Payment of balancing energy contract and a supply of balancing energy contract will be done for the first time for the gas year 2013/2014.

The market players are using their own form of trading documentation and at the time being, there is no set of standardised transaction documents commonly used on the Croatian gas market.

8.2 What range of natural gas commodities can be traded? For example, can only "bundled" products (i.e., the natural gas commodity and the distribution thereof) be traded?

Natural gas can be traded as an unbundled commodity, separate from the service of distribution/transportation.

9 Liquefied Natural Gas

9.1 Outline broadly the ownership, organisational and regulatory framework in relation to LNG facilities.

Currently, no LNG facility exists in Croatia. As stated above (see

question 1.1), some Croatian companies were expected to join the planned construction project of the Adria LNG re-gasification terminal on the island of Krk in the North Adriatic. Reportedly, construction of Croatia's own LNG terminal is under consideration.

9.2 What Governmental authorisations are required to construct and operate LNG facilities?

According to the Croatian building law, a location permit and building permit issued by the MGPU are required for, *inter alia*, a LNG storage facility with capacity of 10,000 tonnes or more. An EIA must be carried out before a location permit can be issued. The permit will be issued on the basis of a technical examination, provided that the constructed building satisfies all conditions under the building and other energy-related laws.

Depending on the specific project, several other authorisations and approvals (of different authorities) may be required (e.g. according to the Croatian law on state property management, nature and environmental protection, physical planning and building, water regime and maritime domain, etc.). The operation of a LNG facility is subject to licensing (Art 34 of the ZTP).

9.3 Is there any regulation of the price or terms of service in the LNG sector?

Pursuant to Art 4 of the ZTP, a LNG facility operation is regulated energy activity which is carried out as a public service in the gas sector. Currently, there are no special regulations of the price or terms of service in the LNG sector.

9.4 Outline any third-party access regime/rights in respect of LNG Facilities.

A non-discriminatory third party access regime also applies to LNG terminals. The access to LNG facility can be refused under certain conditions (set out in question 3.13 above).

10 Downstream Oil

10.1 Outline broadly the regulatory framework in relation to the downstream oil sector.

Oil industry falls under the competence of MINGO. The national regulatory authority is HERA. The entity responsible for maintenance of the compulsory stocks of crude oil and oil products in Croatia is HANDA. Beside the ZE, the main legal act is the ZTNND (see question 2.1).

10.2 Outline broadly the ownership, organisation and regulatory framework in relation to oil trading.

As stated above (see question 2.1), most of the trade in oil products and LPG is carried out by INA Group companies. Other important market players in the oil industry are PETROL HRVATSKA d.o.o., OMW Hrvatska d.o.o., LUKOIL Croatia d.o.o. and TIFON d.o.o.

A licence for performance of energy activities (*dozvola za obavljanje energetske djelatnosti*) issued by the HERA is needed to carry out the wholesale of oil products and wholesale of LPG. As regards the wholesale of oil products, beside the licence for performance of the respective energy activities, it is necessary to obtain approval from MINGO in line with the Regulation on Conditions for Retail and Foreign Trade of Particular Goods

[Uredba o uvjetima za obavljanje trgovine na veliko i trgovine s inozemstvom za određenu robu, Official Gazette nos. 58/09, 27/10 and 37/11]. According to this Regulation, legal and natural persons engaged in wholesale and foreign trade with fuels must have adequate warehouses specially furnished and equipped for the storage of fuel. As regards certain reporting obligations to the MINGO, see question 5.1 above.

The price of oil products is not regulated; it is based upon existing market conditions. However, the maximum retail prices for oil products is set out in the Ordinance on Determination of Retail Prices of Oil Products [Pravilnik o utvrđivanju najviših maloprodajnih cijena naftnih derivata, Official Gazette, no. 37/11, whereas the maximum prices for LPG is set out in the Ordinance on Determination of Prices of LPG [Pravilnik o utvrđivanju najviših maloprodajnih cijena ukapljenog naftnog plina, Official Gazette, nos. 147/10 and 59/11].

11 Competition

11.1 Which Governmental authority or authorities are responsible for the regulation of competition aspects, or anti-competitive practices, in the oil and natural gas sector?

On an administrative level, HERA is competent for the regulation and supervision of energy activities in the oil and natural gas market. The competence of other authorities being responsible for anti-competitive practices, such as the Croatian Competition Agency (*Agencija za zaštitu tržišnog natjecanja*; AZTN) remains unaffected.

11.2 To what criteria does the regulator have regard in determining whether conduct is anti-competitive?

The regulator has to observe the criteria of the Croatian Competition Act (ZZTN) [*Zakon o zaštiti tržišnog natjecanja*, Official Gazette no. 79/09] and also that of the Act on the Regulation of Energy Activities [*Zakon o regulaciji energetske aktivnosti*, Official Gazette nos. 177/04 and 76/07] and other energy-related legislation. It should be noted that under the Stabilisation and Association Agreement between the Republic of Croatia and the European Union and its Member States, Croatian antitrust and merger control rules are to be applied and interpreted in accordance with the rules, measures and principles of EU competition law.

11.3 What power or authority does the regulator have to preclude or take action in relation to anti-competitive practices?

The Croatian Competition Agency (AZTN) can initiate an investigation upon receipt of a complaint or upon its own initiative. It can request information necessary for conducting the investigation from any entity operating on the market or from state authorities (e.g. HERA is required to provide technical support to AZTN in the form of expert advice and market analysis).

Upon completion of proceedings, AZTN may issue a decision prohibiting further performance of an anti-competitive agreement or practice or a decision prohibiting the abuse of dominant position in the market. AZTN is further empowered to impose fines (of up to 10% of a total annual turnover of the party involved in the anti-competitive practice) or remedial measures. In certain

circumstances, AZTN can terminate the proceedings by imposing on the parties to the proceedings commitments proposed during the proceedings, provided they are sufficient for the protection of competition and the harmful situation would be eliminated by their fulfilment.

11.4 Does the regulator (or any other Government authority) have the power to approve/disapprove mergers or other changes in control over businesses in the oil and natural gas sector, or proposed acquisitions of development assets, transportation or associated infrastructure or distribution assets? If so, what criteria and procedures are applied? How long does it typically take to obtain a decision approving or disapproving the transaction?

The Croatian merger control regime catches the merger of independent undertakings, the acquisition of control and the creation of a full-function joint venture. According to Art 17 of the ZZTN, the filing obligation to the AZTN arises if the following conditions are cumulatively met:

- (i) the combined worldwide turnover of all undertakings concerned is at least HRK 1 billion (approximately EUR 135 million) in the financial year preceding the concentration, where at least one of undertakings concerned has its seat and/or subsidiary in the Republic of Croatia; and
- (ii) the aggregate national turnover of each of at least two of undertakings concerned is at least HRK 100 million (approximately EUR 13.5 million) in the same period.

AZTN may, within a period of 30 days from notification, either clear a merger or decide to open an in-depth review. The in-depth review proceeding may take three months with the possibility of an extension by another three months where it is necessary to seek additional expert advice, carry out an additional analysis or where sensitive industries or markets are concerned. Pursuant to the ZZTN, AZTN may approve unconditionally or conditionally, or prohibit merger.

12 Foreign Investment and International Obligations

12.1 Are there any special requirements or limitations on acquisitions of interests in the natural gas sector (whether development, transportation or associated infrastructure, distribution or other) by foreign companies?

Currently, there are no special requirements or limitations on acquisitions of interests in the oil and natural gas sector by foreign companies.

12.2 To what extent is regulatory policy in respect of the oil and natural gas sector influenced or affected by international treaties or other multinational arrangements?

The regulatory policy in respect of the oil and natural gas sector is especially influenced and affected by the requirements of European market liberalisation packages.

Croatia is a member of the Energy Charter Conference.

13 Dispute Resolution

13.1 Provide a brief overview of compulsory dispute resolution procedures (statutory or otherwise) applying to the oil and natural gas sector (if any), including procedures applying in the context of disputes between the applicable Government authority/regulator and: participants in relation to oil and natural gas development; transportation pipeline and associated infrastructure owners or users in relation to the transportation, processing or storage of natural gas; downstream oil infrastructure owners or users; and distribution network owners or users in relation to the distribution/transmission of natural gas.

No compulsory dispute resolution procedures apply between the regulator and participants in the oil and natural gas sector.

13.2 Is Croatia a signatory to, and has it duly ratified into domestic legislation: the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards; and/or the Convention on the Settlement of Investment Disputes between States and Nationals of Other States ("ICSID")?

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards was ratified in 1981, and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States was ratified in 1998.

13.3 Is there any special difficulty (whether as a matter of law or practice) in litigating, or seeking to enforce judgments or awards, against Government authorities or State organs (including any immunity)?

Generally there is no special difficulty in litigating, or seeking to enforce judgments or awards, against government authorities or state organs. Nevertheless, due to the long timeframes involved in obtaining judgments in court, companies often try to resolve disputes without seeking a judicial remedy.

13.4 Have there been instances in the oil and natural gas sector when foreign corporations have successfully obtained judgments or awards against Government authorities or State organs pursuant to litigation before domestic courts?

We are not aware of any such dispute resolution cases.

14 Updates

14.1 Please provide, in no more than 300 words, a summary of any new cases, trends and developments in Oil and Gas Regulation Law in Croatia.

The current mining legal framework is criticised by the mining industry mainly because its (lawful) implementation in practise became impossible. Namely, under the old mining legal framework exploration and production authorisations which have been granted for an unlimited period. However, the current legal framework lacks explicit and clear rules on how to apply the current legal framework to holders of old authorisations. For instance, the holder of the approval of an exploitation field obtained under the old legal framework (i.e. before 30 July 2009) loses, by virtue of law, the right to exploit, should the concession not be obtained within the time period defined in the approval for production. Additionally, the holder of an old exploration approval and/or approval or concession for production was required to submit the appropriate evidence on the fulfilment of the obligation to resolve all legal and ownership issues with owners and users of the land plots located on the approved exploitation and exploration fields or for which concession have been granted to the competent concession/approval award authority until 30 January 2010. In case it does not comply with the mentioned obligation within the set term, the concession/approval award authority is entitled to revoke the issued approval of the exploitation field and/or to terminate the concession contract.

In order to remedy these identified problems, necessary amendments of legislation in the mining sector are underway. According to the published Draft of the Mining Act, one of the major amendments is the introduction of the new licensing and concession regimes applicable to exploration and production of mineral resources. A second major amendment is that exploration and production of hydrocarbons will no longer be regulated under the mining law, but under the new Act on Hydrocarbons. However, no draft proposals are made publicly available so far.

Restructuring and liberalisation of the Croatian energy sector is an ongoing process in Croatia. Energy sector reform in Croatia, which commenced in 2001 by adopting the first energy-related laws, is very much influenced by the country's accession to the EU, particularly in terms of the alignment of the Croatian legal and institutional framework to the EU's laws and standards. However, the transposition of the Third Energy Package into the Croatian legal system and amendments of the energy-related legislation is still a pending issue.

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