

Comments on Strategic Goal 8 – Ecological and Energy transition for Climate Neutrality of the Croatian National Development Strategy 2030

We agree with the premise of moving to a lower carbon-intensive economic structure. In that spirit, it is important to keep in mind the following important features of any such move:

1. Any approach in this endeavour must be mindful of objective budget constraints and seek to transparently present the costs and benefits of each policy to achieve a lower carbon footprint.
2. While transitioning the economy to a lower carbon footprint, Croatia must ensure energy security, including access to fossil fuels to support economic growth and development – ensuring access to baseload energy supplies is a necessary condition for moving to a decarbonised economy.
3. Many EU members, such as Germany, Netherlands and Italy - that have been enjoying the benefits of hydrocarbons and to some extent have exhausted their domestic oil and gas reserves – are now building additional pipelines to import hydrocarbons. One such example is the controversial German– Russian Nord Stream 2 pipeline project.
4. In 2019 Croatia sourced 17% of its electricity from the jointly owned Krško nuclear power plant in Slovenia. The plant has a licence to operate until 2043. Replacing this low-carbon source of baseload energy is a material issue as it directly impacts the stability and reliability of Croatia's energy supply and ability to meet its long-term decarbonisation targets. Germany's policy decision in 2011 to phase out nuclear power plants, and its switch to natural gas and coal to compensate for the loss of this baseload power demonstrate the challenges involved in altering a country's energy mix.
5. The Croatian offshore is largely underexplored for hydrocarbons and provides potential for discoveries of oil and gas. Production of oil in the Bay of Kavala in Greece and elsewhere demonstrates this activity is complimentary with tourism, fishing and other activities while supporting regional development. Such discoveries would provide a direct route to fossil fuel access, energy security, tax revenue, high paying technical jobs, support the domestic industrial base, particularly key industries that are dependent on a reliable, efficient, stable and economically attractive supply of energy, such as, greenhouses, fertilizer production, petrochemical and others. It would also allow Croatia to address natural oil and gas seepage that occur in the Croatian Adriatic as well as mitigate illegal oil dumping that regularly occurs in the Adriatic and appear to correlate with tanker routes that import oil into the region. Finally, it would provide a tool for Croatia to assert its sovereignty over its Adriatic waters.
6. The development of technologies to achieve carbon neutrality such as carbon capture and storage all derive from existing fossil fuel technologies and are also considered enhanced recovery techniques. Leveraging existing synergies can ensure Croatia maintains and develops its existing related and potential future technological industrial base and extends the life of its onshore oil and gas fields, ultimately making use of existing infrastructure and preventing the need for additional new infrastructure to import more oil and gas. In addition, this would

provide an effective means of keeping abreast of and potentially stakes in technological developments in hydrocarbon fields seeking to affect a carbon-neutral future.

7. INA/MOL can delay decommissioning costs of mature oil and gas fields as well as utilising existing infrastructure by leveraging such technologies both enhanced oil recovery as outlined in the previous point and the production of hydrogen. This is compatible with finding a way to a carbon-neutral future while generating cashflows to fund the same. HEP can also benefit in a similar fashion.

In terms of the priorities outlined in the domain of energy policy we:

Agree with the following:

1. Promoting the energy transition and renewable sources.
2. Increasing energy independence and efficiency and transitioning to clean(er) energy.
3. Introducing advanced digital energy systems, grids, and energy storage capacities.
4. Decarbonisation, the removal, and storage and use of carbon dioxide.
5. Increasing the energy efficiency of buildings and limiting of energy poverty.

In seeking to meet the above goals it is crucial to ensure proper use of state funds which necessarily involves robust cost benefit analysis of all proposals. EU assistance is welcome but involves taxpayer funded co-payments. To ensure maximum positive results from these synergies, it is always important to maintain fiscal realities firmly in sight. We welcome the Strategy is transparent on page 100 in admitting the current subsidy schemes for renewable energies are not fiscally sustainable. Additionally, any policy change necessarily involves transfers of costs and benefits within sectors of society. Ensuring the largest and least efficient end users of energy pay their fair share of the cost of moving to a carbon-neutral future is crucial if Croatia aims to successfully implement this most challenging of policy goals.

We partly agree with the following priority:

1. Research, development and implementation of new technologies

Domestic capacities, technical and financial are too limited to achieve success in this domain independently. The ability to commercialise and thus implement any new technologies is even less developed in Croatia.

We are fully in favour of leveraging Croatian know-how but believe it can only practically occur in cooperation with technological and financial partners in the EU, US and beyond.

We do not agree with the following priority:

1. Investment in clean technologies linked to hydrogen

We have nothing against hydrogen technologies; however, we would prefer the Strategy take a technology-neutral approach to decarbonising the economy. This would increase the likelihood of state support for this endeavour succeeding, by not limiting support to one technology ex ante. We fail to see why only one of any number of technologies would be explicitly preferred by the Strategy. We would much rather prefer a policy approach which encourages technological development in

general without a priori seeming to prefer any given technology. Such an approach would have the added benefit of reducing perceptions of favouritism and thus corruption in Croatia.

Additional Considerations

The Strategy is silent on the issue of oil sludges and oil dumping in the Adriatic. Additionally, the Strategy is silent on whether/how Croatia plans to address naturally occurring oil and gas seepage in the Adriatic. Has Croatia, for example, explored a bilateral approach with Italy on these matters and sought technical assistance and/or advice from other member states, relevant EU-level organisations or private sector bodies in this regard? Has Croatia explored concretely demonstrating its support for Western Balkan states to join the EU by exploring whether Albania and Montenegro would be willing and/or able to join any such initiative?

Conclusion

We provide these comments to assist the authorities to draft as consistent and thorough a strategy as possible, highlighting multi-disciplinary aspects in the process. Crodiaspora's Energy Panel discussion of October 30, as part of the 2020 Corpdiaspora Summit forms a part of our comments on the Strategy. We look forward to any feedback on these considerations and are ready to provide additional inputs as and when required.