

Assessment of country performance and opportunities from the Energy Union

Croatia shows strong performance mainly in one dimension of the Energy Union: Concerning *Decarbonisation*, Croatia is on track to meet its 2020 targets for greenhouse gas emission reductions and renewable energy. The interconnection capacity for electricity was of 69% in 2014 for Croatia.

As regards the remaining dimensions of the Energy Union, **Croatia faces several challenges**. In terms of the *Internal Energy Market*, absence of competition in the gas wholesale market and distorting price regulation on wholesale and retail gas markets negatively impact the level of competition and prices. Market opening is needed to improve the investment climate and create incentives for new entrants. There is currently no commodity exchange or gas hub. Wholesale gas trading is based on bilateral contracts. In addition, the company importing gas into Croatia has a monopoly position. With regard to *Energy Security*, the country – by diversifying supply sources – may improve its position and gain the possibility to moderate prices. In addition, transport infrastructures other than road (rail and ports in particular) are in need of modernisation, making the country vulnerable to oil imports. Concerning *Energy Efficiency*, there is important energy saving potential in the building and transport sector. Croatia has a very low public support share allocated to *Research and Innovation* in the field of energy and environment. In terms of intensity of low-carbon technologies patents, Croatia is much behind the EU average and main worldwide partners.

Against this background, the **Energy Union Strategy can provide potential benefits** for Croatia:

- *Energy Security*: Diversification of European gas sources, suppliers and routes and better coordination of emergency response mechanisms among Member States will further strengthen Croatia's energy security situation.
- *Internal energy market*: A completed internal energy market will support Croatia's efforts for regional cooperation on generation adequacy, which will be more cost-effective than a national approach. The diversification of gas supplies sources will provide the possibility to moderate gas prices in Croatia.
- *Decarbonisation*: EU 2030 Framework for Climate and Energy can contribute to maintaining public acceptance of the energy transition.
- *Energy Efficiency*: The Energy Union will strengthen the targeted use of financial instruments for increased investments particularly in the transport and buildings sector. In Croatia, significant contributions can be expected from the European Structural and Investment Funds and the European Fund for Strategic Investment. The revenues from auctioning of ETS allowances will also contribute to investment in climate and energy.
- *Research and innovation*: The Energy Union's new strategy for Research and Innovation (including an upgrade of the Strategic Energy Technology Plan) can support Croatia's progress on low-carbon technology development.