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2021 opened a new chapter in Hungary's energy history in several aspects.[1] First of all, the country managed to sign the first-ever long-term gas purchase contract with a Western partner by agreeing with Shell in buying 250 million cubic meters (mcm) of liquefied natural gas (LNG) annually for six years, with the aim of increasing this capacity up to 1 billion cubic meters annually (bcm).[2] Besides, by agreeing to use the Krk terminal in Croatia, not only the supplier but the direction of liquefied gas supply has also widened, opening an alternative gas supply opportunity to Hungary for the first time in 70 years.

Putting the Krk LNG terminal into operation in 2021 provides a chance for reshaping the gas supply market of the region and of Hungary for the first time in decades. The importance of the Krk terminal has aroused a wide range of interests among gas market players in the region, both in terms of its practical and diplomatic value. Hungary has already announced its 250 million cubic meters (mcm) demand from the Krk terminal, as this volume seems almost insignificant in terms of the country's gas demand. However, in the following years, the quantity purchased from there may reach 1 billion cubic meters (bcm), which will mean a significant 10% share of the import gas market in Hungary. At present, the terminal can be called a historical step forward not in terms of its results, but rather its perspective and diplomatic message value as it reduced the region's Russian gas dependence by making the Western and Transatlantic gas supply markets[3] available.

Hungary's Gas Supply - overall picture

In Hungary, natural gas is the most important energy source: its share among the primary energy sources exceeds 40%. Hungary's gas import demand is currently ensured by five cross-border entry points, namely Beregdaróc (Ukraine-Hungary), Mosonmagyaróvár (Austria-Hungary), Drávaszerdahely (Croatia-Hungary), Csanádpalota (Romania-Hungary), and Balassagyarmat (Slovakia-Hungary).

Operating cross-border gas entry and exit points in Hungary, 2021

Source: FGSZ Hungary[4]

In recent years, Hungary's gas supply map has undergone significant changes, whereas most gas supplies from the East (Ukraine) might be taken over by new supplies, partly from Slovakia. The Slovak-Hungarian interconnector launched an operation in 2015, with a capacity of 4.5 billion cubic meters (bcm) of gas going from Slovakia to Hungary.[5] In 2020, the countries' representatives have announced to increase the previous volume of 4.5 billion cubic meters (bcm) of gas to an annual 5.3 billion cubic meters (bcm) from Slovakia to Hungary. Also, they agreed to almost triple

the capacity of the reverse direction from 1.8 billion cubic meters of gas to 5.3 billion cubic meters of gas per year.[6]

In January 2021, the Serbian part of the Turk Stream (Balkan Stream) became operational, which provides another opportunity for Hungary to technically diversify its natural gas imports (as the pipeline will also supply Russian gas).[7] From October 2021, the planned Serbia/Hungary interconnector will contribute to supply with six billion cubic meters of gas annually to Hungary from the South, but only after the Hungarian side finished building its 15-kilometer-long connection pipeline section.[8]

Overall, it can be said that the volume of imports in the near future in Hungary will be not decreased but diversified, as they will arrive through several entering points (interconnectors), launching and defining new directions such as Slovakia, Serbia, and possibly, Croatia.

The Krk terminal

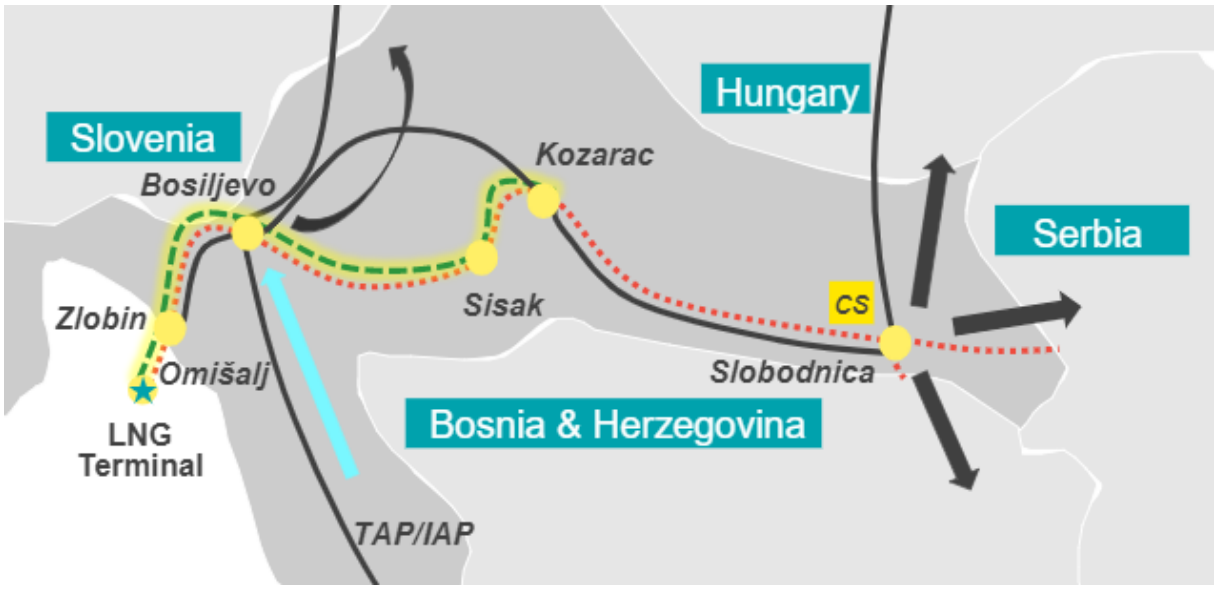
The launching of the Krk gas terminal in Croatia has undeniably received a lot of attention in the gas market of the region. However, the question arises as to whether the opening of the Krk terminal can really bring about a significant transformation in the gas market of Hungary and the CEE region, and if yes, in what sense?

The emergence of Western gas suppliers

The Croatian gas terminal has opened a new chapter in Hungary's energy history, as it managed to sign the first-ever long-term gas purchase contract with a Western partner (Shell).[9]

The significance of the agreement concluded with the Western partner is undeniable in terms of the energy procurement of Hungary and the CEE region, however, regarding the volume of the cooperation, it does not necessarily mean any general changes for the country's gas market in the near future.

For the period from 2021 to 2028, the Hungarian state-owned energy group MVM announced its plans to purchase up to 1 billion cubic meters (bcm) of gas per year via the Krk terminal, which will cover 10% of Hungary’s average gas supply.[10]



LNG transmission routes from the Krk terminal. Source: PlinaCro[11]

The matter of molecule

It is also worth to mention that the second argument in favor of the Krk terminal - the new western gas transmission route - also needs to be supplemented. Compared to the gas previously purchased from several directions, the gas coming through the terminal is much more innovative in its molecular origin in the Hungarian and regional gas market, as it allows the purchase of 'western' molecules as well, and not almost exclusively Russian molecules.[12]

For the sake of accuracy, it should also be added that Hungary had previously purchased 1.75 billion cubic meters (bcm) of gas per year from Romania, which was presumably also "non-Russian" but Romanian gas with its own molecules.[13] In 2021, the perspectives of diversifying the LNG supply chains in sense of their origin (molecule) have widened, and as the countries announced, once gas production in the Black Sea starts, they aspire to significantly increase the capacity of the gas interconnector to 4.4 bcm.[14]

Frameworks of the Krk terminal's realization

Visegrad countries

Diversification of energy suppliers are considered as one of the priority aims of the V4 countries over the past decade, calling for independent sources and routes. The idea of the implementation of the South-North oriented gas supply system, including the

LNG terminal in Świnoujście (Poland) operating since 2016,[15] the Romanian LNG supply opportunity, and the Krk terminal in Croatia are present in the official V4 statements since 2010.[16]

The Three Seas Initiative

The implementation of such a forward-looking project was realized within the framework of the Three Seas Initiative[17] (3SI), a format of a political and economic dialogue and cooperation, established by 12 European countries, including the V4 countries in 2015. One of the declared objectives of the Initiative was to contribute to answering the similar challenges of the region, such as the underdeveloped infrastructure on the North-South axis, as well as the issues of energy security and diversification.

In line with these ambitions, at the 2018 Bucharest Summit, 48 Priority Interconnection Projects were agreed (more than half of them were energy projects), including building the Ionian Adriatic Pipeline (IAP),[18] the construction of LNG Terminal on the Island of KRK,[19] and building the Compressor Station 1 at the Croatian Gas Transmission System.[20] The construction of such facilities significantly contributes to the development of Croatia's gas market, besides, it creates favorable conditions for neighboring countries to implement their diversified gas supply, facilitating the transmission from Krk LNG terminal and IAP.

Establishment of the Krk LNG terminal was first proposed in 1992[21] as a part of the Adria LNG Project, and was followed by a feasibility study in 2007. In 2010, the location permit was applied by the Adria LNG consortium (with share of E.ON Ruhrgas, OMV, and Total), designating the Omisalj port considering its advantageous sea depth, gas network connectivity, and appropriate environmental impact. In the following years, most of the permits have been obtained, but then the project was postponed in 2014 due to an oversupply of natural gas in the market. The project came to the fore again as a part of the EU CEF (Connecting Europe Facility) initiative, recognized as part of the priority projects under the Central and South Eastern Europe Energy Connectivity (CESEC) initiative, aiming to develop energy security in terms of supply for the region. Croatia's first LNG terminal along with its connecting gas pipeline „Omišalj-Zlobin" enables to connect the Croatian national LNG transmission network both with the EU and non-EU states, by providing the transport of gas in the direction of Hungary,

Slovenia, Italy, and Serbia and Montenegro. The Hungarian state-owned MVM energy group became the terminal's largest customer, and as recognizing the opportunity of gas supply diversification, it reserved to receive 1 bcm of liquefied gas per year from the terminal's maximum of 2.6 bcm yearly send-out capacity. This also means that with a total of 6.75 bcm booked regasification capacity, in the next seven years most of the gas will arrive in this port at the request of Hungary – emphasized Péter Szijjártó, Minister of Foreign Affairs and Trade.[22] The sustainability of the Krk project is shown by the fact that despite the difficult investment environment caused by the COVID-19 pandemic, it managed to sell all its capacity by 2023 (as Power Globe Quatar booked all the free capacity of the terminal)[23], eighty percent by 2027, and fifty percent by 2035.

In a broader sense, the Croatian LNG investment contributes to the effective transformation of the region's gas markets, however, in its current volume it is unable to make a breakthrough in the gas supplier status quo. Its significance lies in the fact that in an area dominated by Russian resources for decades, the terminal allows other international players to enter the natural gas market, creating the opportunity for a more balanced and diversified energy supply environment in the future. In the near future, Gazprom will undoubtedly remain the region's dominant supplier, however, greater liquidity by the emergence of the US and Qatar LNG suppliers will facilitate alignment with the global pricing trends and will reduce the negative impacts of the previous negotiation status quo.

Conclusion

The current unique possibility has opened a new orientation for the CEE region's energy supply as well, making the Western and Transatlantic gas supply market available.

The Slovak-Hungarian interconnector already plays a significant role in Hungary's gas supply,[24] and the Austrian, the Romanian, and the Serbian interconnectors could be a promising breakthrough in sense of diversification of gas supplies for the country as well as for the V4 and CEE regions. One of the main motivations for widening the range of the above-mentioned gas supply entering points is the replacement of the Ukrainian gas supply chain, which is a geopolitically sensitive issue since 2014 and would rather be bypassed both by the supplier and consumer levels due to its uncertainty.

The indirect practical benefit of the Krk LNG gas terminal for Hungary may appear upon the renewal negotiations of the Russian-Hungarian gas contract (expiring in September 2021), as the fact of the existence of alternative supply routes and suppliers can contribute to the formation of a more favorable negotiating position on the Hungarian side.[25]

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