

Croatia precious Oil Industry INA, owned by Hungary MOL is under long lasting dispute between two countries. New Croatia government is accusing MOL management on miss treatment of assets and neglecting of business. The war got really ugly when Croatia pressed charges against MOL and other investors on suspicion of market manipulation and business fraud. Last year the battle escalated into the international, rather than bi-lateral arena, when MOL turned to the International Center for the Settlement of Investment Disputes to defend its Croatian investments, claiming the government hadn't fulfilled its contractual obligations.

"Constructive atmosphere" is not something you hear often in the context of two countries that have been battling for influence over a good piece of the region's energy sector for years. But that was how Hungary and Croatian energy company executives described their latest peace talks earlier this month. In reality the air is still filled with smoke, but the latest developments suggest a strategy-change on both sides, bringing the two countries largest energy groups closer to a truce. Either that, or they are reloading before the final battle.

The seeds of the conflict date back to when MOL - "the only significant Hungarian-based company on an international level" as Judit Barta, researcher at GKI Energy Research and Consulting Ltd., described it to the Budapest Business Journal - made huge efforts to gain a leading role in the region after it's privatization in the 1990s. Its acquisitions, which included buying up shares in Croatian peer INA and later gaining management control in the energy group, were also part of a plan - backed by the Hungarian government - to "free themselves" from Russian stakeholders, as the expert noted.

The Croatian expansion (which started in 2003 with the purchase of a 25% share in INA, a stake that has almost doubled since) began as a partnership, but has descended into a diplomatic row between the two countries.

"In Croatia, they look at MOL like we looked at Surgutneftegaz [the Russian oil firm whose 21.2% stake in MOL was bought by Hungary's government in 2011]: something to get rid of. So it's a similar kind of freedom fight going on there," Barta explained. This fight started ten years ago, when the then newly elected government of Ivo Sanader accused its predecessors of signing a non-transparent deal with the Hungarians. More questions were raised after the two parties signed an agreement on the divestiture of the gas business into a separate company and its sale to the government. This was amended in 2009, allowing MOL management control, even though it didn't have 50% of the company. This became the subject of several investigations in Croatia, but MOL still managed to raise its stake to 49.08% (Croatia has 44.84%, with the remaining 6.08% is owned by institutional and private stakeholders). These transactions were all subject to yet further investigations, after the Croatians filed a criminal report alleging money laundering.

The war got really ugly when Croatia pressed charges against MOL and other investors on suspicion of market manipulation and business fraud. In June 2011 the by now former Croatian PM Sanader was investigated on suspicion of abuse of office and taking a bribe of EUR10 million from MOL board chairman Zsolt Hernádi in return for allowing the Hungarian company to gain a dominant position in INA. Both denied the allegations, and the Hungarian authorities turned down the request for Hernádi to be questioned. An investigation was started on the Hungarian side, but was dropped after no evidence of any criminal activity was been found. Sanader, however, was sentenced to 10 years prison in November 2012 (he maintains it was a political trial). An Interpol Red Notice and a European Arrest Warrant were issued for Hernádi in October 2013, but later withdrawn.

Last year the battle escalated into the international, rather than bi-lateral arena, when MOL turned to the International Center for the Settlement of Investment Disputes to defend its Croatian investments, claiming the government hadn't fulfilled its contractual obligations. In 2014 two-party talks were resumed, apparently in a "much more friendly tone", but the Croatians refused to continue without first settling the debate over management control. The "friendly tone" rapidly disappeared as the Croatian government filed a claim with the United Nations Commission on International Trade Law to settle the management rights dispute and cancel what it described as the "unlawful" 2009 agreement. The story took another turn in April, when the Croatian government expressed its willingness to solve the dispute in a peaceful way. Possibly the most important step yet was taken by Croatian PM Zoran Milanovic (who came to power in 2011), saying this was a war he doesn't want to fight anymore, adding that MOL had paid a lot of money for its shares - legitimating their control over INA. Earlier, MOL's Hernádi had called on the Croatian state to change its approach to the dispute and made it clear that MOL was willing to keep its stake in INA if the regulatory environment remained favorable and predictable.

The 'peace talks' were resumed in May, but the only thing agreed on was the need to accelerate negotiations - in the above mentioned "constructive atmosphere" - but the main conflict over the control structure of INA and its gas branch is still unresolved. Zagreb insists MOL has failed to invest enough in INA's development and modernization since it became a shareholder, while MOL complains that Croatia is slow in issuing licenses for investment projects and cites Zagreb's failure to take over INA's gas trading business, as agreed in 2008 (and which inflicted major losses on INA). "We are ready to negotiate in good faith but not at any cost," MOL's chief executive József Molnár told journalists after the latest meeting.