



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.05.2000  
COM(2000) 311 final

**REPORT FROM THE COMMISSION**

**on the feasibility of negotiating a Stabilisation and Association Agreement with the  
Republic of Croatia**

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## **1. GENERAL CONTEXT**

The Commission Communication of 26.05.1999<sup>1</sup> established a new framework for closer relations between the EU and the countries of South-Eastern Europe, to be developed through a progressive approach adapted to the specific situation of each country. This new context provides for a wide-ranging partnership, notably through a new category of agreements, the Stabilisation and Association Agreements (SAA).

The opening of negotiations for a SAA depends upon compliance by the specific country with the relevant political and economic conditions. Furthermore, it was decided that prior to considering the opening of negotiations for such an agreement, the Commission would report on the feasibility of this step.

The political developments in the Republic of Croatia following Parliamentary and Presidential Elections in early 2000 have marked a new beginning in bilateral relations. In its Communication of 02.02.2000<sup>2</sup> the Commission already commended early developments occurring in the Croatian political situation and encouraged the new Croatian Government to undertake additional steps in order to enable the enhancement of the relations, notably with the preparation of a feasibility report.

Further to the firm commitments expressed by the new Croatian leadership to pursue democratic and economic reforms, the General Affairs Council of 14-15 February 2000 invited the Commission to prepare a report on the feasibility of negotiating a Stabilisation and Association Agreement with the Republic of Croatia.

This report presents the recent political and economic developments and assesses the state of play in all the sectors of possible cooperation with a view to the opening of negotiations for a SAA.

## **2. BILATERAL RELATIONS BETWEEN THE EUROPEAN COMMUNITY AND CROATIA SINCE 1991 AND THE CURRENT PROSPECTS FOR A MORE ADVANCED RELATIONSHIP**

Since EC recognition of Croatia in January 1992, Croatia has started benefiting from EC assistance. In the period 1991-95 only humanitarian aid and democratisation assistance were provided. As far as the establishment of contractual relations was concerned, once the 1980 Cooperation Agreement and 1991 Transport Agreement with the Former Socialist Federal Republic of Yugoslavia were terminated by a decision of the Council of Ministers in November 1991, it was decided to commence bilateral contractual relations. These were made conditional on Croatian observance of a 'code of democratic conduct' and in light of the political situation, did not get off the ground. Nevertheless, annually renewed autonomous preferential trade measures were agreed and have afforded continuity in trade relations.

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<sup>1</sup> Commission Communication to the Council and the European Parliament on the Stabilisation and Association Process for countries of South-Eastern Europe; Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia, former Yugoslav Republic of Macedonia and Albania. COM (99) 235 final, 26.05.1999

<sup>2</sup> Communication from the Commission to the Council on the Operational Conclusions of the EU Stabilisation and Association process for countries of South-Eastern Europe, Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia, former Yugoslav Republic of Macedonia and Albania COM (2000) 49 final of 02.02.2000

In addition, regular dialogue between the Croatian and the European Parliaments has been facilitated since 1992 through annual Inter-Parliamentary meetings. Eight have so far taken place.

In March 1995 the EC decided to extend the PHARE assistance programme to Croatia and to open negotiations on a Trade and Cooperation Agreement and a Transport Agreement. However, both the assistance and the negotiations were suspended on 7 August 1995 due to the conduct of the military operations in former UN sectors West and North and South, which cast a shadow on Croatia's democratic record and respect for the rule of law. Since 1996 the EC has been providing Croatia with limited assistance for the return of refugees and displaced persons.

From 1996 to 1999 relations with Croatia were developed within the framework of the "Regional Approach" to South-Eastern Europe<sup>3</sup>, further elaborated in the conclusions on conditionality agreed in 1997. In this context, the Commission's periodic reports on compliance with conditionality concluded that Croatia's progress was insufficient to justify an upgrading of bilateral relations. The EU was not satisfied with the Croatian performance in democratisation and respect for democracy and the rule of law. Particularly problematic areas were as follows: full respect for human rights including minority rights, compliance with the obligations under the Dayton/Erduť Agreements, notably with regard to the implementation of the Return process and full cooperation with the International Criminal Tribunal for crimes in former Yugoslavia (ICTY), substantial improvement of regional co-operation, and full democratisation of the Media. Croatia continued to benefit from the EC Autonomous Trade regime, but access to PHARE assistance and the opening of negotiations on contractual relations remained suspended.

In May 1999 the EU policy towards the countries of South-Eastern Europe was further developed within the "Stabilisation and Association Process". The basic set of political and economic conditions, as well as the phased approach were maintained. It was decided to extend extra assistance to education through the opening of the Tempus programme on higher education and cooperation with the European Training Foundation. In addition, the first informal political dialogue meeting at Ministerial level was held in July 1999.

The conduct and results of the Parliamentary and Presidential elections early this year have marked a turning point in Croatia's political situation. A radical renewal of the relations between the EU and Croatia has begun. The EU welcomed the first steps of the new Croatian leadership by reinforcing the political dialogue and establishing an EU/Croatia Consultative Task Force (CTF). The CTF is a joint technical body designed to provide Croatia with an important source of expertise and technical assistance in all the fields of common interest with a view to preparation for negotiations on contractual relations. The CTF has already met twice, on 15 February 2000 and on 12 April 2000.

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<sup>3</sup> Bosnia and Herzegovina, Croatia, Federal Republic of Yugoslavia, former Yugoslav Republic of Macedonia and Albania

### **3. RECENT ECONOMIC AND POLITICAL DEVELOPMENTS IN CROATIA**

#### **3.1. Democratic process and institutional reform**

The advent of a new political leadership has dramatically changed the political scene in Croatia during recent months. The Croatian population by its vote has expressed its strong demand for democratic change.

The new Government was formed smoothly by a coalition of six parties which have a large majority and has rapidly demonstrated that it not only shares the European values of democracy and rule of law, but that its main priority in foreign relations is integration into the Euro-Atlantic structures. To this end, it is firmly committed to tackling outstanding political issues and to starting the necessary structural reforms in order to comply with EU conditionality.

Through its challenging Programme, presented to the new Parliament on 9 February, the Government has committed itself to undertake difficult and brave reforms addressing all the political shortcomings, notably the full respect of human rights, including minority rights, democratisation of the media, full compliance with the Dayton/Erduť agreements, with specific reference to the implementation of the Return process, full co-operation with the ICTY, improved relations with neighbours and in particular radical change of attitude towards Bosnia and Herzegovina. The Programme also plans important economic reforms.

On all these questions fruitful cooperation has started within the framework of the EU/Croatia Consultative Task Force. In the two meetings held so far, it has been possible to agree on joint recommendations on all the outstanding political shortcomings and on the actions needed to fulfil the various requirements. On this basis the Croatian Government has developed detailed programmes of action in order to ensure speedy implementation. "Inter-departmental programmes" established by the Government on 2 March and 5 May respectively, have already started implementation of these recommendations and some important progress in major areas have been achieved.

More specifically, in the field of freedom of expression, the Croatian broadcasting media had been repeatedly criticised. The Government is now committed to undertake the necessary steps to transform Croatian Television into a public broadcasting service. Some progress has already occurred since a new draft Croatian Television Act is under discussion and will be transmitted soon to the Council of Europe for examination. The proposal is expected to be submitted to the Parliament by the beginning of June. Work has also started on the revision of the Telecommunication Act. Finalisation of the proposal will follow the adoption of the new legislative framework for the Croatian Television. Furthermore, a new Director General of the Croatian TV has been appointed and other high level staff replaced. The reform of the monopolistic distribution of the printed press remains a complex practical and economic question and will prove more difficult to solve. Work has been finalised on the amendment of the criminal law to cancel the prosecution *ex officio* of journalists who insult the honour or dignity of high state officials.

With regard to the protection of minorities, amendments to the "Constitutional Law on the protection of human rights and fundamental freedoms and on the protection of the rights of ethnic and national communities and minorities" were adopted by the Parliament on 11 May. It was agreed that this amendments will only cover a transitional period until the adoption, expected in six months time, of a new comprehensive constitutional framework in this field to be prepared by a working group which will closely liaise with the Council of Europe and the

Venice Commission for Democracy through Law. In addition, a Law on the official use of minority languages and a Law on education in minority languages were adopted by the Parliament on 11 May.

Another main area of concern includes full compliance with the obligations under the Dayton/Erdut agreements. Key issues remain full cooperation with ICTY, full implementation of the return process and improved regional cooperation.

Major steps forward can be reported with regard to cooperation with ICTY, a politically sensitive area for Croatia. The new Government is committed to renewed cooperation with the Hague-based Tribunal. The Government substantially reshuffled the Council for Cooperation with ICTY headed by the Vice Prime Minister, and started fruitful discussions with the ICTY Chief Prosecutor. This resulted in the adoption of an important Declaration on Cooperation with ICTY on 14 April in which Croatia acknowledged ICTY's jurisdiction on the 1995 "Storm" and "Flash" military operations and accepted the stepping up of all war crimes investigations.

As far as the return process is concerned, the new Government has committed itself to make all the necessary efforts towards proper implementation of the process, the success of which will, of course, equally depend on the economic future of the war affected return areas. A special Commission for the implementation of the programme of return, with large representation at the highest administrative and political level and with international involvement, was established early in March. The Government has been active in proposing, in cooperation with UNHCR, a programme to facilitate the return of more than 16.000 refugees in the near future. Despite some internal resistance, and after some initial problems, the revision of the legislative framework has started successfully. The amendments to the Law on reconstruction to eliminate the discriminatory provisions passed the first reading in the Parliament on 27 April and is expected to be adopted soon. A proposal for the revision of the discriminatory provisions of the Law on Areas of special State Concern was adopted by the Government on 6 May and Parliamentary procedure is underway. The Government is also determined to monitor the implementation of the legislation and the real progress of the process. To this end, it is committed to issue specific measures which will facilitate a proper implementation at the local level, where the real problems and resistance seem to lie.

### **3.2. Economic stabilisation and reform**

Successful stabilisation efforts in late 1993 allowed Croatia to reach an average annual GDP growth of over 6% during 1994-1997 and a remarkable degree of price stability. In the course of 1997, the economic situation started to deteriorate. With wage increases not fully covered by productivity gains, exports fell by 7.4% compared to the previous year, while imports kept booming at a rate of 14.5%. This led to a widening of the current account deficit from 5.8% of GDP in 1996 to 11.6% in 1997 and caused a sharp increase in external debt, which rose from 23% of GDP in 1996 to 32% of GDP at the end of 1997.

A combination of solvency problems in the banking sector, the build-up of arrears, tight monetary policy, increases in taxes and administered prices, as well as the impact of the Kosovo crisis, contributed to the recession starting in the last quarter of 1998 and continuing through the first three quarters of 1999. In parallel, mounting structural problems increasingly weighed on the economy. The recession appeared to have ended towards the end of 1999, with positive economic growth being achieved in the last quarter of the year. Yet, real GDP is estimated to have contracted by 1% in 1999 as a whole. The economy is expected to remain

on a recovery path this year: improved exports, growth of private consumption and investment are expected to help sustain the upturn.

It was possible largely to maintain price stability in 1999. However, between June 1998 and February 1999, speculative attacks led to a depreciation of the Croatian currency Kuna (HRK) vis-à-vis the Euro by some 10%. The currency depreciation and increase in the prices of petroleum products and telecommunication services led to the emergence of some inflationary pressures towards the end of 1999.

Croatia has so far maintained budget deficits within reasonable limits. However, this hides the underlying steady rise of consolidated general Government expenditure to a level representing 52% of GDP in 1998 (which is the highest of the countries of Central and Eastern Europe). The preliminary outcome of the budget, revised in June 1999, shows a budget deficit equivalent to 1.7% of GDP, which would raise to 6.0% excluding privatisation revenues. In future, revenues from privatisation will dry up and the Government will have to counter a rising debt service, substantial arrears and extra-budgetary state-guaranteed debt.

The fiscal stance will require major corrections to ensure a significant and sustainable reduction of the budget deficit and to allow public debt to remain manageable in the medium term. The budget for the year 2000, which was adopted on 23 March, is a step in the right direction foreseeing a small reduction of expenditures in nominal terms and considerable restructuring. In the medium term, budget consolidation will not be possible without a significant wage cut in the public sector and substantial reforms of the extra-budgetary funds, especially pension and health funds. The tightening of fiscal policy would allow a relaxation of monetary policy, which is likely to stimulate growth.

Croatia has a good industrial base, a qualified and educated workforce and areas with great potential for development such as tourism. Croatian competitiveness on the European market could be greatly enhanced by a coherent and ambitious agenda of structural reforms, whereas under the current circumstances, a significant number of Croatian enterprises still experience difficulties competing in an open economy.

In 1991 Croatia started a process of transformation and privatisation of enterprises, which for the majority of companies has now been completed. The areas in which large public enterprises are still to be privatised are primarily electricity, oil and transport, and in particular rail. The privatisation process has gained some momentum following the end of the Kosovo crisis. In October 1999, a 35% stake in the Croatian Telecom Company (HT) was sold to Deutsche Telekom for US\$ 850 million. A further 21% will be publicly offered this year. Moreover, the previous government offered majority stakes in three banks to strategic investors and the transactions have all been completed by April. It will be essential that privatisation efforts not only continue, but also that corporate governance be improved. The latter suffered from a privatisation policy favouring insiders relative to strategic investors. A Government privatisation strategy should set out the basic principles and future plans in this area.

As regards the financial sector, Croatia has made progress in developing a modern financial sector by rehabilitating the banking sector, establishing money and capital markets and introducing a market-oriented legal framework. However, a financial crisis starting in 1997 has seriously affected the stability and the credibility of the banking sector. Since then, the authorities have implemented a number of measures aimed at strengthening banking supervision and regaining consumer confidence. The deposit insurance scheme set up in 1998 will require substantial resources from the budget to cover losses and further bankruptcies

could represent a serious threat to the budget equilibrium. Even though the main four banks cover a substantial share of the market, the banking sector still has a large number of very small and regional banks and further consolidation is needed.

Finally, a major point on the reform agenda of the new government is the downsizing of the public sector itself. In terms of size, the state in Croatia remains very substantial, and public authorities continue to have a pervasive role in economic activity. The new Government has declared its determination to discontinue the practice of direct state intervention in the economy and bailing out ailing enterprises. This positive political message must be matched by coherent and comprehensive action. The improvement of the judicial system, especially with respect to enforcement of bankruptcy procedures would be a first positive signal of the authorities' determination to move further in the transformation of Croatia into a modern market economy.

The new Government inherited a situation characterised by major structural problems and a substantial isolation of the economic system. The authorities need to establish a comprehensive and credible reform agenda, which can attract the support of the IMF and the World Bank. This is necessary in order to regain the confidence of the international community, which has been eroded in the past few years. In addition, a return to a sustainable path of economic growth and generation of employment are necessary to allow Croatia to continue enjoying the current favourable credit ratings on the international capital markets and to attract foreign direct investments, in particular greenfield investments.

#### **4. PARAMETERS OF A STABILISATION AND ASSOCIATION AGREEMENT**

Taking into account the progress accomplished and the reforms still required with regard to the political and economic aspects reported above, the perspective of a future Stabilisation and Association agreement with the Republic of Croatia will depend on the latter's capacity to fulfil its obligations under this new type of contractual relations.

##### **4.1. Political dialogue**

Despite the absence of a formal framework for bilateral political dialogue between the EU and Croatia, informal political dialogue was started in July 1999. Since the Parliamentary and Presidential elections, official contacts have been substantially increased, notably in the form of Ministerial visits. The EU and Croatia seem to have rapidly achieved a great deal of convergence of positions on regional and international issues. In particular Croatia recognises and accepts its important role in the stabilisation of the region.

The formalisation and enhancement of political dialogue between EU and Croatia within the framework of the future SAA and the development of a supplementary regional format for political dialogue will be a central component.

##### **4.2. Regional cooperation**

Improvement and consolidation of regional cooperation is an important factor of stabilisation in the region. Croatia is pursuing normalisation of political relations with the countries of the Western Balkans and has good relations with all the other Central and Eastern European countries, with which Croatia is actively pursuing reinforcement of commercial ties. The new political leadership seems to have accepted their country's natural links with its southern neighbours and are fully engaged in cooperation towards a long-term stabilisation of the whole region. Early official visits by the President and the Minister for Foreign Affairs to

Slovenia, Bosnia and Herzegovina and former Yugoslav Republic of Macedonia are testimony to the efforts to improve relations and to find negotiated solutions to the outstanding bilateral questions.

Substantial improvement of relations with Bosnia and Herzegovina is a crucial development in the new Croatian foreign policy. The new Government is committed to the establishment of relations with BiH on a proper path, fully supporting territorial integrity and independence of BiH and contributing to the strengthening of central institutions in line with the Dayton obligations. While taking into account the natural strong links between Croatia and the Bosnian Croats, the new Government has begun to establish a transparent policy towards Bosnia and Herzegovina in political, economic, financial and cultural terms, which is evidenced by the recently adopted budget. Cooperation has particularly improved with Republika Srpska, notably on the issue of return of refugees (ref. Joint Statement agreed by Minister Picula and PM Dodik on the two-way return). Progress are also expected in the finalisation or ratification of number of bilateral agreements, including the one on "Double Citizenship" and on "State Border". Notably, the Agreement between Croatia and the Federation of Bosnia and Herzegovina (FBiH) on financial assistance to FBiH and Federal Ministry of Defense was adopted on 6 May.

Bilateral relations between Croatia and Slovenia are also progressing, although continue to be slightly hampered by some unsolved questions, notably border issues, ownership of the Krsko nuclear plant and debts of the Ljublianska Banka. The two countries have agreed to set up a timetable for the solution of the pending issues.

For obvious reasons bilateral relations with the FRY have not recorded major developments, although Croatia maintains good relations with Montenegro.

Positive steps have been taken within the framework of the Stability Pact for South-Eastern Europe, where Croatia has played an active and cooperative role, and with a view to the development of the Adriatic-Ionian initiative.

These developments are a good basis for fostering regional cooperation through the future SAA.

### **4.3. Trade in goods**

Trade relations between Croatia and the EC are based on the Autonomous Trade Preferences (Council Regulation (EC) No. 6/2000 of 17 December, 1999<sup>4</sup>). Textile products originating in Croatia are admitted into the Community exempt from customs duties and charges of equivalent effect without any limits. However, textile products listed in Annexe III B of Regulation (EC) No. 517/94<sup>5</sup> as amended by Regulation (EC) N° 7/2000<sup>6</sup> are submitted to quantitative limits.

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<sup>4</sup> Council Regulation (EC) No 6/2000 of 17 December 1999 concerning the arrangements applicable to imports into the Community of products originating in the Republics of Bosnia and Herzegovina and Croatia and to imports of wine originating in the Former Yugoslav Republic of Macedonia and the Republic of Slovenia. Official Journal L 002 , 05/01/2000 p. 1

<sup>5</sup> Council Regulation (EC) No 517/94 of 7 March 1994 on common rules for imports of textile products from certain third countries not covered by bilateral agreements, protocols or other arrangements, or by other specific Community import rules. Official Journal L 067 , 10/03/1994 p. 1

<sup>6</sup> Council Regulation (EC) No 7/2000 of 21 December 1999 amending Council Regulation (EC) No 517/94 on common rules for imports of textile products from certain third countries not covered by

In terms of trade value, EU exports to Croatia for the years 1998 and 1999 have amounted to 4,4 billion ECU and € 4,0 billion respectively. During the same period Croatian exports to the EU are estimated at 1,8 billion ECU and € 1,9 billion respectively. The Croatian exports are much higher than those of the other Western Balkan countries but strikingly inferior to those of other neighbouring countries including Bulgaria, Romania and most notably Slovenia. In terms of percentages EU exports to Croatia represent – for the same period – around 0.6% of the total EU exports to the rest of the World while Croatian exports to the EU represent 0.25% of the total EU imports from the rest of the World. In both years the EU has enjoyed a clear trade surplus with Croatia amounting to 2,59 billion ECU and € 2.07 billion respectively.

The EU represents 48.8% of the country's exports and 56.6% of its imports (1999). In view of the recent political changes and the progress achieved so far, an asymmetrical further opening of the markets of the EU and Croatia in favour of the latter, with the objective of establishing a Free Trade Area at the end of a transitional period (in the negotiating directives for an SAA with the former Yugoslav Republic of Macedonia it has been proposed that this transitional period should be of 10 years), could be envisaged. All bilateral trade as well as all sectors, including industrial and agricultural goods, should be covered by this arrangement, in accordance with GATT Article XXIV. The country should also gradually be included in the pan-European diagonal cumulation of rules of origin, which would allow further trade expansion.

An early accession to the WTO remains an important political goal. It is viewed as an integral part of the economic reforms Croatia is undertaking to open up and modernise its economy. The EC is strongly supporting the finalisation of the negotiations and hopes that Croatia could become a member of the WTO in the very near future.

Since applying for membership in the WTO six and a half years ago, negotiations have been concluded in all sectors with the exception of the audiovisual. During these negotiations, Croatia has agreed to the implementation of all WTO Agreements upon accession and has undertaken to reduce the duties charged on imported goods to a level close to that applied by many OECD countries. In addition, through accession to the WTO Croatia liberalise its service market.

Furthermore, Croatia is an active supporter of an enhanced regional co-operation through, *inter alia*, the conclusion of Free Trade Agreements. Currently Croatia is bound by FTAs with FYROM and Slovenia, negotiations have reached an advanced stage with Hungary and Croatia intends soon to open negotiations with the other CEFTA countries, the Baltic States, Israel, Turkey and the EFTA countries.

Taking into account the present situation, Croatia should be able to negotiate the commercial provisions of a future SAA provided that further liberalisation of its trade regime is properly implemented enabling it to meet its future obligations.

#### 4.3.1. *Industrial*

Industrial products represent the major part of Croatia's trade and benefit from the Autonomous Trade Preferences with the EC, which gives to Croatian industrial products largely free access to the EU market. The main exports are chemicals, textile products and

shipbuilding. Main imports include machinery and electrical equipment, mechanical appliances and chemicals (see relevant annex).

#### 4.3.2. *Agriculture and Fisheries*

Agriculture contributes about 9% to the Croatian GDP and employs about 13% of the population. The sector is still rather protected, with low competitiveness and high prices. Imports from the EU represent less than 50% of the total agricultural imports, while exports to the EU represent about 10% of the total of agricultural exports. The trade balance on agricultural trade is largely positive for the EU.

Currently trade with the EC is regulated by Council Regulation (EC) n° 6/2000 which provides for unilateral concessions on agricultural products, mostly in sectors such as wine, tobacco, fruit and vegetables originating in Croatia. Most of these preferences represent duty free access, with or without quantitative limits. No fishery concessions are granted in the current trade regime, although fisheries products benefit from the GSP regime.

Taking into account the volume of trade in agricultural products, the particular sensitivity of the markets, the common agricultural policy of the Community and the role of agriculture in the country's economy, with a view to a Stabilisation and Association Agreement further trade liberalisation should be envisaged. The establishment of a future Free Trade Area should involve, from the start, a gradual liberalisation of agricultural trade. This would be based on a realistic assessment of production and trade potential, as well as expansion capacity with an initial asymmetry in favour of Croatia, as stated in the conclusions of the European Council of Lisbon on the Western Balkans. The longer term perspective will require a substantial move towards liberalisation on the part of Croatia. It should be noted however, that within the framework of the negotiations on accession to WTO, Croatia has already accepted the commitment to reduce custom protection by about 30%, to make significant reductions in some tariffs and to abstain from the use of export subsidies. A wine and spirits agreement would take the form of an additional Protocol to the Stabilisation & Association Agreement, as this negotiation is linked to a specific mandate given by the Council on 29 April 1996

#### **4.4. Services, establishment**

Croatia has recently undertaken services liberalisation within the context of its WTO accession negotiations and in view of its approximation to EC legislation. However, major efforts need still to be made to enhance the privatisation process and work on institution building. In the financial sector, privatisation of major state owned banking and insurance companies is underway.

Croatia has abandoned regulatory requirements for foreign investments. Access of foreign companies to the Croatian market has been liberalised by according national treatment to foreign investors. Under Croatian Company Law there are no regulatory differences between domestic and foreign investors in the exercise of their business activities. The new Banking Law (1998) allows the establishment of foreign banking entities on reciprocity grounds although branches of foreign companies are not yet permitted. However, some practical problems linked to the proper implementation of the existing legislation still exist.

In the company and accountancy law areas, approximation to EC *acquis* has already started and a number of appropriate institutions are already operational. Accountancy regulations have started to be harmonised with the International Accountancy Standards and the relevant

EC Directives. However, substantial progress needs still to be made. In certain areas, such as data protection, no legislative framework exists yet.

Croatia should be encouraged to further develop its financial market and the privatisation process of the banking system. It should also enhance the soundness of its financial system as well as its administrative capacity to ensure effective supervisory tasks in the financial sector (banking, insurance and investment services).

These developments have prepared the ground for the start of cooperation in these important sectors within the framework of a future SAA. No major problems are envisaged in the negotiations and, if Croatia continues harmonisation of its legislation and practice, it should be able to meet its future obligations.

#### **4.5. Current Payments and Movement of Capital**

Croatia has already liberalised current payments according to Article VIII of the IMF Agreement and in respect of a future Stabilisation and Association Agreement, would not have any problems with a commitment of free current payments.

Croatia is still applying many restrictions concerning the movement of capital. As regards inward movements, it has already abolished its exchange controls in the field of direct investments (including the repatriation of profits and capital invested) and, with small exceptions, portfolio investments. However, it still maintains restrictions on acquisition of real estate by foreigners, including foreign companies. There are also restrictions which relate both to the establishment of companies and to the operations of companies already established in Croatia. For example, difficulties are experienced in obtaining permits to acquire real estate necessary for business and in engaging key personnel from abroad. An obligation to abolish those restrictions in the context of a future Stability and Association Agreement would assist Croatia in shaping a legal and institutional framework appropriate for carrying out business.

#### **4.6. Approximation of legislation**

Since 1999 Croatia has been working to harmonise its legislation to the Community legislative framework. In September 1999, the Croatian Government adopted an "Action Plan for European Integration" which is the first attempt to provide an overall picture of the Croatian legislative situation particularly in relation to the requirements of EU integration. In addition, Croatia has had an Office for European Integration since 1998, which within the new Government has been transformed into a Ministry.

##### *4.6.1. Technical Standards and Certification*

Croatia has already started its process of alignment of technical standards and certification, through the adoption of a legal basis for the establishment of technical regulations, standards and conformity assessment procedures. The State Bureau for Standardisation and Metrology is an affiliated member of the CEN, CENELEC and ETSI. However, the legal framework is not fully consistent with the European system and the process of approximation is apparently at its beginning and needs to be accelerated. This process suffers as well from an insufficient involvement of economic operators in the area of certification.

No cooperation or technical assistance has been offered by the EC in this field.

Thus, Croatia should elaborate a strategy for further harmonisation, focusing on legislative framework, increased institutional capacity and the status and involvement of the economic

operators in this area, which should delineate responsibilities for the issue of “essential requirements” and foresees functional independence between regulation, standardisation, accreditation and certification. Substantial efforts are still required with a view to the SAA, which should contain provisions for cooperation in this sector, including the implementation of the TBT Agreement and the participation in international standardisation organisations.

#### 4.6.2. *Competition and State Aids*

Croatia has adopted a law on Protection of Market Competition inspired by the European legislation. Work has now started on further harmonisation of the legislative framework. An independent competition authority, the Agency for the Protection of Market Competition, directly responsible to the Croatian Parliament and competent for control of agreements, declaration of abuse of monopolistic and dominant position, control of concentration has been established since. Further efforts will be needed to improve enforcement of this legislation and its full application by all economic operators.

As regards the policy of State aids, there is no regulatory legislation and a strong intervention by the Ministry of Economy for the rehabilitation and restructuring of some companies has still to be reported. However, after the emergency of the war period the Croatian Government is now willing to reform their state aids system and gradually align it to the European *acquis*. First progress are expected during the course of this year towards implementation of a system of horizontal measures applicable to all sectors and companies.

No assistance has been provided in this sector so far. The future SAA should provide for cooperation in these sectors. To this end Croatia needs to continue its efforts with the implementation of the competition policy and make substantial progress in terms of State aids.

#### 4.6.3. *Public Procurement*

The basic rules and procedures for procurement of goods, services and works are regulated by law. This legislation applies to all public administration entities including local authorities and legal entities using budget guarantees and public resources. The relevant law only partially implements EC legislation in this area, therefore further approximation is needed. Existing national preference clauses will eventually need to be abolished. The Department for procurement and informatisation of the Ministry of Finance is the competent authority for the supervision and monitoring of procurement procedures. Croatia is an observer to the WTO Government Procurement Agreement (GPA).

Croatia will need further efforts of harmonisation with a view to meeting its obligations under a future SAA.

#### 4.6.4. *Intellectual, Industrial and Commercial Property*

Croatia has recently adopted (1999) a whole set of legislative measures in this area which are said to be in compliance with WTO/TRIPS provisions, and to a varying extent with the corresponding EC Directives and the European Patent Convention. In 2000 the Intellectual Property Office, created in 1991, will elaborate a comparative study identifying the necessary amendments for full compliance with the EC *acquis*.

Croatia has made major efforts in this area and should be encouraged to continue to make further progress to ensure a level of protection of intellectual and industrial property rights similar to that existing in the EC, including effective means of enforcing such rights. Croatia

should also be encouraged to join international conventions in the IPRs area to which it is not yet party.

#### *4.6.5. Telecommunications and the Information Society*

With regard to the electronic communications infrastructures, the fixed line telephone network in Croatia has been almost fully digitalised and telepenetration has reached the level of 34 lines per 100 inhabitants, which is high compared to other countries of the Region. Measures need to be taken to increase investments in the mobile and Internet services thereby increasing penetration. Some first important measures towards compatibility with the European *acquis* were introduced in June 1999 through the new Telecommunications Law. Further amendments to this law are now under way within the framework of democratisation of the Media. Full liberalisation of the sector is planned for 1 January 2003. The future SAA should support the continuation of this harmonisation process.

As far as the Information Society is concerned, Croatia lags behind in its use of Information Society services as shown for example by the penetration of personal computers. Croatia should therefore be encouraged to adopt specific targets consistent with available resources in order to make progress in this area.

No major problems are envisaged in the future negotiations for a SAA and the obligations it will contain.

#### *4.6.6. Consumer Protection*

The existing legislative framework for consumer protection is rather fragmented. Consumer rights in different fields are only indirectly stipulated in several acts and the legal provision is inadequate for EC standards. A Consumer Protection Act aimed to start harmonisation with the EC *acquis* is under preparation and is expected to enter into force in the course of 2000.

Cooperation in this field through the future SAA will be important to support Croatia's efforts to align its standards of consumer protection with those of the Community. Effective consumer protection is necessary in order to ensure that the market economy functions properly, and this protection will depend upon the development of an administrative infrastructure in order to ensure market surveillance and law enforcement in this field. So far in Croatia there is no specific body designed to ensure consumer protection.

Croatia will be encouraged to make the necessary efforts to rapidly develop a policy of active consumer protection, to harmonise its legislation with that in force in the EC and to ensure effective legal protection for consumers in order to improve the safety and quality of consumer goods and the economic situation of the consumer.

#### *4.6.7. Labour law and equal opportunities for men and women*

The Croatian Government is committed to ensuring conditions for the elaboration of a National Employment Programme. Unemployment has reached a record level of 21.6%, unequally distributed throughout the country with the lowest rate of 9% in Zagreb to the highest rate of over 37% in Vukovar-Sirmium County (eastern Croatia) and different indicators do not announce a reduction in the near future. Negotiations on the amendment of the Labour Law have started.

According to information received by the Croatian administration, equal opportunities for men and women is recognised by the Croatian Constitution and Croatia is participating to

some of the basic international legal instruments for the elimination of discrimination against women. In addition, to ensure the implementation of the Platform for Action issued by the World Conference on Women of 1995, Croatia has established a comprehensive "National Policy for the promotion of the Status of Women". For the systematic monitoring and promotion of the gender equality the Government of Croatia established in 1996 a "Governmental Commission for gender equality issues" under the Presidency of the Deputy Prime Minister. Efforts are made to put in place an active policy to promote participation of women in the public and political life. Civil society is fully involved.

Croatia should not have major problems in negotiating suitable provisions in the field of working conditions, social security and equal opportunities to be integrated in a future SAA.

#### **4.7. Justice and Home Affairs**

First bilateral contacts have recently started with the Croatian Ministries of Justice and of Interior to address the areas of the machinery of justice, police, asylum, external borders, migration, organised crime, corruption and drugs. In the area of judiciary, Croatia faces several general problems linked to qualification/training of judges, lack of expertise/staff as regards legislative drafting and lack of qualified human resources in the police force. Croatia has not adopted yet a specific law on asylum and continue to have border disputes. In addition, confiscation of the proceeds of organised crime is not possible, a comprehensive legal definition of corruption does not exist and no legal provisions on precursors have been adopted. Croatia is a transit country for illegal migrants.

Croatia has started to address many of these issues. Cooperation with the EC in these areas has just started with a first project in the field of judiciary and will be increased. The SAA should provide a useful legal framework for enhanced cooperation in the area of justice and home affairs, although Croatia still needs to make major efforts in order to be able to fulfil the obligations of a future SAA.

#### **4.8. Economic and Financial Cooperation**

Since 1991 total assistance from the EC to Croatia has amounted to € 349M. During the first period (1991-1995) Croatia received only humanitarian and democratisation assistance. The total amount of humanitarian aid up to March 2000 when ECHO finally withdrew from Croatia, was € 293,80M. With regard to support for democratisation around € 3M went to national Croatian projects, while Croatia also participated in some regional projects. An additional sum of € 3,5M was given to support to independent media.

Since 1996 Croatia has received € 47M in assistance under the Obnova programme for the reconstruction of former Yugoslavia. This assistance has been mainly focussed on reconstruction and sustainable return of refugees and displaced people. In 1998 and 1999 special assistance went to de-mining activities (€ 1,5 M). In addition, the Academic year 2000-2001 will see Croatia benefiting from the Tempus programme.

The 2000 programme, whilst continuing to support the Return process, will also provide technical assistance and support to SMEs.

The Commission has just adopted a proposal to resume the activities of the European Investment Bank in Croatia. The proposal is currently under examination by the Council.

The adoption of a new legal basis for assistance to the countries of South-Eastern Europe which will replace the previous financial instruments, will mean that the lifting of the

suspension of Phare for Croatia is no longer required. Croatia will be a beneficiary of the new assistance programme which the Commission has adopted on 10 May 2000 and proposed to the Council. Under this new programme the assistance to Croatia will need to be substantially refocused to provide support to the comprehensive cooperation provided for within the future SAA.

#### *4.8.1. Statistics*

The Statistical System of Croatia has pursued the approximation to the European Statistical System (ESS) and the Central Bureau for Statistics of Croatia (CBS) has observed some of the discussions on improvement of the statistical methodology, although since 1995 this has taken place outside a structured cooperation framework. It is able to conduct statistical surveys and process the results in line with some of EC requirements and will have the capacity to apply EC standards if the relevant knowledge is transferred.

A Statistical Act was adopted in 1997 and already contains some basic rules on data protection and confidentiality that need reinforcement. National accounts are compiled following the European System of Accounts (ESA 95), although some improvements are still needed.

The priority areas to develop in Croatia are the statistical infrastructure, by setting up statistical registers (business register, civil register, farm register and territorial units register), and the adoption of European classifications and nomenclatures (Combined Nomenclature). The index of consumer prices should be harmonised according to EC standards. A plan for the future abolishment of the Payments bureau (ZOP) must take into account the transfer of statistical competencies. The last population census was conducted in 1991 and EU and UN recommendations suggest that a new census should be conducted next year, since important changes in the ethnic distribution and the influx of an unknown number of refugees and internally displaced persons have taken place in the meantime.

Cooperation in this field should be strengthened in the framework of a future Stabilisation and Association Agreement.

#### *4.8.2. Industry and SMEs*

Despite the efforts already made by the Croatian authorities, private sector development is still facing tough challenges in Croatia. The Croatian Government has adopted in 1999 long-term measures and activities aimed at encouraging the activities of private operators, especially small businesses which are of great importance for economic restructuring and job creation.

Some positive results have been achieved with regards to SMEs, but there are still a number of obstacles, which represent a burden to enterprise's businesses and their further development, notably widespread illiquidity, difficulties with the financial institutions, lack of adequate institutional support for enterprises, lack of managerial skills. Croatia needs to make further progress with the implementation of private sector development policy. The Croatian government is preparing a new strategy to boost business development, by improving entrepreneurship promotion, as well as through further financial support, by offering technical assistance and training, supporting economic infrastructure and technological development and adapting the legislation to the specific needs of business.

Regarding industries, one of the main concern for the Croatian government is the rehabilitation process of the shipbuilding sector and the issue of privatisation for shipyards. Technological obsolescence, high fixed costs etc., resulted in negative financial impacts. Due to the importance of this sector in the Croatian economy, the government plans to strengthen the competitiveness of the industry through measures including restructuring, modernisation and privatisation, stable resources for financing as well as subsidies. Of crucial importance is also the tourism sector, of which substantial restructuring is envisaged as an important measure of revitalisation of the Croatian economy.

Bilateral co-operation in these areas has been rather limited. Enhanced cooperation in these sectors of particular importance for the Croatian economy will be crucial and should be pursued within a future SAA.

#### *4.8.3. Customs and Taxation*

Croatia has made a first major step towards harmonisation with the EC customs law with the adoption of a new Customs code, entered into force in January 2000. The Government is now working to the finalisation of a new Customs Tariff Act. The EC has cooperated with Croatia in the customs sector in the framework of the EC Customs Assistance Mission (CAM-ES), assisting the OSCE mission in 1998 and 1999 in the Croatian Danube Region of Eastern Slavonia, Baranja and Western Sirmium.

In the field of taxation some rapprochement to the EC requirements can be reported. In particular, the introduction VAT since 1 January 1998 is the main topic. Within the general framework of the structural economic reforms the Croatian Government is planning a substantial fiscal reform, under IMF guidance.

Croatia has the capacity to sustain enhanced cooperation in these fields which should be provided through a future SAA.

#### *4.8.4. Education and Training*

Croatia currently allocates 4.2 % of its GDP to education and training. The structure of the education system is a legacy of both the Austro-Hungarian empire and the Socialist system of the Former Federal Republic of Yugoslavia. The school system remains centralised and very academic, though with high academic standards.

The Higher Education Act of 1996 which determines the organisation of higher education institutions led to a separation of university studies from shorter professional studies at the newly established polytechnics and at professional higher education institutions. Vocational schools are highly specialised. Quality assessment and assurance are the task of the National Council for Higher Education, an independent body directly appointed by the Parliament.

There is a clear need for a partial decentralisation of the education system, the development of a broader market-oriented curriculum for VET schools, and skills training for teachers and school management.

With regard to university management and curriculum development, management capacities in administration, finance and international relations need to be further developed, as well as the capacity of Croatian higher education institutions to co-operate closely with enterprises in technology transfer and human resources development. While the standard of education in the natural and technical sciences is quite high, continued reform efforts are aimed at curriculum

development and staff training, particularly in the social and political sciences and the humanities.

Following the General Affairs Council of 21-22 June 1999, inviting the Commission to take all necessary measures in order to open Tempus and the activities of the European Training Foundation (ETF) to Croatia, cooperation in this field had been resumed.

A number of activities in support of vocational education and training have been implemented by the European Training Foundation in the framework of Working Table II of the Stability Pact.

Furthermore, Croatia is in the process of being re-included in the TEMPUS Programme for higher education in 2000. Priorities for the TEMPUS programme include the reform of university administration and financial management, the strengthening of international relations offices, the promotion of technology transfer, institution-building for public administration reform and civic society development, as well as curriculum development in the social and political sciences, European Law, European Studies and teacher training.

A National TEMPUS Office will be formally established in the Ministry of Science and Technology at the end of 2000 to prepare for the next selection round. Due to their regional importance, Croatian higher education institutions are expected to make a positive contribution in particular to multi-country co-operation under TEMPUS.

Croatia also actively participates in the Stability Pact Task Force on Education and Youth (Graz Process) established under Working Table I.

Cooperation in this field should be improved within the future SAA. No major problems are envisaged.

#### *4.8.5. Culture and Audio-visual*

Co-operation has been developed with Croatia in the audio-visual sector during the negotiations for its accession process to the WTO. In this context, Croatia's commitments will preserve its ability to adopt and implement Community standards.

#### *4.8.6. Transport*

Croatia is an important transit country for road, rail and combined Community traffic, which has an effect on the functioning of the internal market. In February 1995, negotiating directives were adopted for a Transport Agreement with the EC but discussions were frozen following the suspension of political relations and overall cooperation. Since then, no cooperation has existed in this sector.

Complete liberalisation of transit traffic across Croatia and the Community as a whole, while guaranteeing non-discriminatory treatment for Croatian lorries with reference to the ecopoints system applicable to Community lorries when transiting Austria should be ensured. Particular consideration should also be given to the full implementation of infrastructure projects associated with transit traffic, which have been identified as being of common interest. In addition, a substantial part of the *acquis* relating to road transport charges and technical and social legislation should form part of the priorities in the process of legal harmonisation. Regarding inland navigation and air transport, appropriate conditions for establishment and services should be guaranteed.

Finally, with regard to maritime transport, the application of the principle of restricted access, on a commercial basis, to international maritime market and traffic, should be considered.

A future SAA should include provision to start substantial cooperation in this field. With appropriate assistance Croatia could be able to meet its future obligations in this sector.

#### *4.8.7. Energy*

Croatia has not participated so far in Community activities aiming at promoting regional energy co-operation in South-Eastern Europe. This has resulted in a shortfall in the effectiveness of these activities, given the importance of Croatia in the regional electricity and gas networks.

The country has the potential to assume a crucial role in this field, particularly as regards the development of regional energy interconnections (whether of physical infrastructures or of markets) in the oil, gas and power sectors. Specific provisions in a SAA should help the country to develop this role.

Support should also be provided to assist in restructuring its energy sector (currently dominated by vertically-integrated, state-owned monopolies) in order to prepare Croatia's integration into common European practices in the energy sector.

#### *4.8.8. Agriculture*

Agriculture has an important place in Croatia. Family farms prevail, with a high level of fragmentation of the land and 70% of farm households owning less than 3 ha. Formerly socially owned "agrokombinats" are now in various stages of restructuring, privatisation or restitution. Transition to a market economy, combined with extensive war damages, have had a strong impact on the sector. Delay in the necessary reforms and inappropriate financial support have further contributed to the rather negative developments. The Croatian agricultural sector therefore still needs substantial structural reform. The Government is committed to the necessary modifications of the legislative framework and to adjustment and harmonisation with European standards so as to afford international competition and cope with competitive pressure.

No form of specific bilateral cooperation has been developed in this sector and the future SAA should start intensive cooperation for which substantial reform will still be necessary.

#### *4.8.9. Research and Technological Development*

Croatia is making efforts in the field of RDT which is expected to remain a priority in Government policy. In 2000 €72M (540.5 million Croatian Kuna) are allocated to RTD within the budget, representing 1.12% of total Government budget. About 20% of the RTD budget is allocated to funding postgraduate students attached to RTD programmes. Most research is conducted within the universities and the scientific or industrial institutes is at least partially financed by the Government. Efforts have been made to promote innovation and technology transfer; Government sponsored initiatives include the support for several Technology and Innovation Centres at Split, Rijeka and Zagreb which also involve public companies, local authorities and the universities. Croatia has maintained a functioning research infrastructure which includes skill and experience, particularly within the areas of information systems, biotechnology, pharmaceuticals, food processing and energy technologies. Lack of investment has largely prevented the exploitation of the existing

institutional and legal framework for the full benefit of the economy. However, there are now reasonable prospects for a significant upturn.

Responsibility for RTD is held by the Ministry of Science and Technology (MST). Two advisory bodies are responsible for evaluation of programmes and institutions: the National Science Council evaluates scientific projects financed by the Government through the MST; the National Council for Higher Education evaluates curricula adequacy and quality of the higher education institutions. The two National Councils also collaborate, mainly through the Parliamentary Committee for Science, in the preparation of laws and regulations concerning RTD.

Most regular cooperation with the EU was stopped in 1995. However, Croatia participates in 4 on-going Eureka projects. Croatia is also a member of Cost, and participates in 26 actions.

Cooperation in this field should be pursued within the future SAA. No major obstacles should be encountered, taking into account the present situation.

#### *4.8.10. Environment*

Cooperation in the environmental field was interrupted by the suspension of technical cooperation in 1995. As a result, knowledge of the state of the environment and the institutional framework for ensuring environmental protection has been adversely affected. Steps will need to be taken to re-establish a comprehensive knowledge of the situation as a starting point for harmonisation efforts.

Croatia should be eligible for assistance under the LIFE-Third Countries instrument that specifically targets environmental capacity building. Environmental actions could also be funded out of national assistance programmes.

Croatia is active in the development of the Regional Environmental Reconstruction Plan supported by the Commission in the framework of the Stability Pact for South Eastern Europe and cooperation could be further developed through this mechanism. Consideration may also be given to Croatia participating in the activities of the European Environment Agency.

Given the prominence of environmental issues in the country, full cooperation and assistance in this field should be pursued through a future SAA.

## **5. CONCLUSIONS**

In the light of these considerations the Commission concludes that:

The new Government is committed to full democratisation and long-term stabilisation of the country and has already started serious work in finding appropriate solutions to earlier political shortcomings. These developments foster compliance with EU conditionality for enhanced relations within the framework of the Stabilisation and Association process. Substantial progress can be reported in politically sensitive areas of concern such as refugee and displaced people return, full cooperation with ICTY, improved regional cooperation and democratisation of the media. Political stability will be needed to continue this important reform process.

First encouraging steps in the economic sector have also been taken, although the Croatian economy continues to face problems. The Government is committed to tackling the structural

problems and is working on urgent adoption of a comprehensive economic reform programme.

As far as technical issues are concerned Croatia has started progressive harmonisation with European standards and has the capacity to ultimately fulfil the obligations of a future Stabilisation and Association Agreement. However, major efforts of further rapprochement with the EC *acquis* will be needed. Efforts should focus initially on full implementation of necessary reforms in trade-related sectors of the internal market.

On the basis of this report and in particular taking into account the considerable progress noted under the new Croatian leadership, the Commission considers that the conditions for the opening of negotiations for a Stabilisation and Association Agreement with the Republic of Croatia are met. Therefore, the Commission recommends to the Council to authorise the opening of the negotiations and will shortly present a proposal for negotiating directives for a Stabilisation and Association Agreement with the Republic of Croatia.

ANNEX

**BASIC DATA**

<b>Official name</b>	Republic of Croatia (Republike Hrvatska); Capital: Zagreb
<b>Area</b>	Total: 56.538 km <sup>2</sup> Land: 56.410 sq km Water: 128 sq km Three regions: Mediterranean, Mountainous and Pannonian.
<b>Neighboring countries</b> (border in km)	BiH (932 km), Hungary (329 km), FRY (266 km), Slovenia (501 km)
<b>Population</b>	<b>4, 671.584</b> (last census 1991) Estimated <b>growth</b> 0.13% <b>Age structure:</b> 0-14 years: 17% (male 411.022; female: 389.354) 15-64 years: 68% (male 1.591.716; female: 1.592.485) 65 years and over: 15% (male 262.471; female: 424.536)
<b>Density</b>	79.4 per km <sup>2</sup>
<b>Ethnic profile</b>	Croat 78%, Serb 12.2%, Muslim 1%; Hungarian 0.5%, Italian 0.4%, Czech 0.3%, Albanians 0.3% (last census 1991)
<b>Religions</b>	Catholic 76.5%, Orthodox 11.1%, Slavic Muslim 1.2%, Protestant 0.4%, Others 10.8%
<b>Language</b>	Croatian
<b>Life expectancy</b>	Male: 68.59 years Female: 75.95 years (1991 census)
<b>Currency</b>	Croatian <b>Kuna</b> : 1€ = 7.7 HRK
<b>Inflation</b>	4.2% (1999)
<b>GDP, current prices</b>	(M€ <sup>1</sup> ) 1998 19.391,85; 1999 18.932,34
<b>GDP per capita</b>	(€ <sup>1</sup> ) 1998 4.151,02; 1999 4.052,66

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<sup>1</sup> period average of exchange rate of National Bank of Croatia

<b>Real growth rate GDP</b>	1998 2.5 % 1999 -0.3%
<b>Average monthly net wages</b>	3.179 kuna (February 2000)
<b>Unemployment</b>	21,7 % (March 2000)
<b>Budget</b>	(M €) 1998 5.962,5; 1999 6.448,7
<b>Internal Public Debt</b>	(HRK million) 1998 13. 697,5; 1999 13. 943,98 (M €) 1998 1.919,3; 1999 1.839,67
<b>External Public debt</b>	(M €) 1998 2.958,4; 1999 3.675,29
<b>Total External Debt</b>	(M €) 1998 8.547,2; 1999 9.161,9
<b>Current account balance</b>	(M €) 1998 - 1.381,6 1999 - 1.378
<b>Trade with EU</b>	<u>Imports</u> : 1997 59.5%; 1998 58.9%; XI99 57.3% <u>Exports</u> : 1997 49.7%; 1998 47.0%; XI99 48.9%
<b>Main trading partners (1999)</b>	<u>Exports</u> : Italy, Germany, BiH, Slovenia, Austria <u>Imports</u> : Germany, Italy, Slovenia
<b>Trade balance</b>	( € billion) - 3.696 (1998); - 3.500 (1999, 6.5% of total trade)

## EU 15 TRADE WITH CROATIA

**Table 1 :** Overall developments 1992 – 1999

	Billion € (Billion ECU until 1998)			exp/imp	Annual rate of change		Share of Croatia In extra EU trade	
	EU exp.	EU imp.	Balance	%	EU exp. %	EU imp. %	exp. %	imp. %
1992	0,9	0,8	0,07	109	-	-	0,2	0,16
1993	2,1	1,6	0,41	125	135	105	0,42	0,34
1994	2,9	1,8	1,11	161	42	10	0,54	0,34
1995 (EU 12)	3,2	1,7	1,49	186	11	-4	0,54	0,30
1995 (EU 15)	3,7	1,9	1,85	198	28	5	0,65	0,35
1996	3,9	1,7	2,15	224	4	-8	0,62	0,30
1997	4,8	1,8	3,01	269	23	2	0,66	0,26
1998	4,4	1,8	2,59	242	-8	3	0,60	0,26
1999	4,0	1,9	2,07	208	-17	7	0,52	0,25

**Table 2 :** Most important EU 15 exports in 1999 and corresponding values in 1998

Sector by section of Common Customs Tariff	1999			1998		
	Million €	Share of total %	Change over 1998%	Mio ECU	Share of total %	Change over 1997%
1. Machinery & electrical (XVI)	904	23	-15	1064	22	-11
2. Transport equipment (XVII)	543	14	-16	650	14	-6
3. Textiles (XI)	457	11	-5	483	10	3
4. Chemical products (VI)	427	11	2	418	9	-3
5. Agriculture, incl. Processed (I-IV)	321	8	-12	364	8	-14
6. Base metals & articles (XV)	316	8	-2	322	7	-6
7. Plastic products (VII)	190	5	-9	208	4	-5
<b>SUBTOTAL</b>	<b>3158</b>	<b>80</b>	<b>-10</b>	<b>3508</b>	<b>73</b>	<b>-7</b>
<b>ALL SECTORS</b>	<b>3972</b>	<b>100</b>	<b>-17</b>	<b>4786</b>	<b>100</b>	<b>4</b>

**Table 3 :** Most important EU 15 imports in 1999 and corresponding values in 1998<sup>7</sup>

Sector by section of Common Customs Tariff	1999			1998		
	Million €	Share of total %	Change over 1998%	Mio ECU	Share of total %	Change over 1997%
1. Textiles (XI)	494	26	-3	509	29	6
2. Machinery & electrical (XVI)	251	13	4	240	14	27
3. Wood (IX)	179	9	6	169	10	11
4. Plastic products (VII)	148	8	-10	164	9	-3
5. Foot/head wear, umbrellas. (XII)	145	8	-7	156	9	-8
6. Base metals & articles (XV)	128	7	3	123	7	4
7. Mineral products (V)	109	6	121	49	3	-32
<b>SUBTOTAL</b>	<b>1453</b>	<b>76</b>	<b>3</b>	<b>1411</b>	<b>79</b>	<b>5</b>
<b>ALL SECTORS</b>	<b>1906</b>	<b>100</b>	<b>7</b>	<b>1777</b>	<b>100</b>	<b>-8</b>

<sup>7</sup> In 1998 Chemical prods. were in 7<sup>th</sup> place, Mineral prods. In 10<sup>th</sup> place.

**1991 – 1999 EC ASSISTANCE TO CROATIA**

	Allocations in Millions of euro									
	1991	1992	1993	1994	1995	1996	1997	1998	1999	TOTAL
Obnova						7,02	8,59	15,00	15,00	45,61
Humanitarian aid (ECHO)	204,77				38,43	21,15	14,50	6,95	8,00	293,80
Media				0,09	0,31	0,72	1,67	0,59	0	3,39
Democracy & Human Rights						0,70	2,20	0,60	n.a.	3,50
Demining								1,00	0,50	1,50
Customs (DG TAXUD)									1,00	1,00
<b>Total =</b>	<b>204,86</b>				<b>38,74</b>	<b>29,59</b>	<b>26,96</b>	<b>24,14</b>	<b>24,50</b>	<b>348,79</b>