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**CROATIA 2007 PROGRESS REPORT**

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TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Enlargement Strategy and Main Challenges 2007-2008**

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# COMMISSION STAFF WORKING DOCUMENT

## Croatia 2007 Progress Report

### 1. INTRODUCTION

#### 1.1. Preface

Since March 2002, the Commission has reported regularly to the Council and the Parliament on progress made by the countries of the Western Balkans region.

This report on progress made by Croatia in preparing for EU membership largely follows the same structure as in previous years. The report:

- briefly describes the relations between Croatia and the Union;
- analyses the situation in Croatia in terms of the political criteria for membership;
- analyses the situation in Croatia on the basis of the economic criteria for membership;
- reviews Croatia's capacity to assume the obligations of membership, that is, the *acquis* expressed in the Treaties, the secondary legislation, and the policies of the Union.

The period covered by this report is from 1 October 2006 to 3 October 2007. Progress is measured on the basis of decisions taken, legislation adopted and measures implemented. As a rule, legislation or measures which are under preparation or await parliamentary approval have not been taken into account. This approach ensures equal treatment across all reports and permits an objective assessment.

The report is based on information gathered and analysed by the Commission. In addition, many sources have been used, including contributions from the government of Croatia, the Member States, European Parliament reports<sup>1</sup>, and information from various international and non-governmental organisations.

The Commission draws detailed conclusions regarding Croatia in its separate communication on enlargement<sup>2</sup>, based on the technical analysis contained in this report.

#### 1.2. Context

The European Council of June 2004 granted the status of candidate country to Croatia. Accession negotiations with Croatia were opened in October 2005. The Stabilisation and Association Agreement between Croatia and the EU was signed in October 2001 and entered into force in February 2005.

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<sup>1</sup> The rapporteur for Croatia is Mr Hannes Swoboda.

<sup>2</sup> Enlargement Strategy and Main Challenges 2007-2008.

### 1.3. Relations between the EU and Croatia

**Accession negotiations** with Croatia have continued. Following the conclusion of the screening process in October 2006, all 33 screening reports have been submitted by the Commission to the Council.

So far, negotiations have been opened on fourteen chapters (science and research, education and culture, economic and monetary policy, industrial policy, customs, intellectual property rights, services, company law, statistics, financial services, financial control, information society and media, consumer and health protection, as well as external relations) and provisionally closed on two (science and research, education and culture)

On ten chapters (public procurement; competition policy; justice, freedom and security; social policy/employment; capital; goods; agriculture; environment; food safety; regional policy) opening benchmarks were agreed by Council and communicated to Croatia. At this stage, the Commission considers only the opening benchmark on justice, freedom and security to be met.

The **political and economic dialogue** between the EU and Croatia has continued. Political dialogue meetings were held in Brussels in April at ministerial level and in June 2007 at senior official level. Economic dialogue meetings were held in Brussels in April at ministerial level and in July 2007 at senior official level. These meetings focused on the main challenges faced by Croatia under the Copenhagen political and economic criteria and reviewed progress being made towards fulfilment of Accession Partnership priorities.

Implementation of the **Stabilisation and Association Agreement (SAA)** has largely continued without major difficulty. The main exception is continued non-compliance with state aid provisions, in particular the need to present acceptable restructuring plans in the shipbuilding and steel sectors. Important efforts have been made to improve implementation of SAA provisions on access to real estate.

The EU provides guidance to the authorities on reform priorities through the **Accession Partnership**. Progress on these reform priorities is encouraged and monitored through the bodies of the SAA. The SAA Association Council met in April 2007 and the SAA Association Committee in December 2006. Seven sectoral sub-committees have been held since November 2006. Based on the Accession Partnership, Croatia adopted its national programme for EU accession in January 2007.

**Financial assistance** is provided under the new Instrument for Pre-accession Assistance (IPA) from 2007. The 2007-2009 Multi-Annual Indicative Planning Document (MIPD) for Croatia was adopted in June. The 2007 IPA national programme amounted to € 141 million. This assistance is concentrated on institution building and preparation for the implementation of the EU's common agricultural policy and cohesion policy. In addition, Croatia continued to benefit from regional and horizontal programmes. The management of pre-accession aid was decentralised to Croatian authorities in 2006, with ex-ante approval of files by the Commission. However, Croatia has exhibited in 2007 some important weaknesses in its implementation of EU assistance under DIS which requires urgent attention.

As regards financial support to civil society, a € 3 million grant scheme will be launched to support **civil society** projects in the following sectors: environment and sustainable development, democratisation and human rights and youth. In addition, a € 12 million

contribution for cross border cooperation with Italy, Slovenia and Hungary will promote dialogue between local and regional authorities. Cross border cooperation will also continue under IPA and will be expanded to neighbouring countries.

Participation of Croatia in Community programmes is also an important tool to implement civil society dialogue.

## **2. POLITICAL CRITERIA**

This section examines the progress made by Croatia towards meeting the Copenhagen political criteria, which require stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. It also monitors regional cooperation, good neighbourly relations with enlargement countries and Member States, and respect for international obligations, such as cooperation with the UN International Criminal Tribunal for the former Yugoslavia.

### **2.1. Democracy and the rule of law**

#### *Parliament*

The parliament has dealt with an increased volume of EU-related legislation over the past year. Parliament also adopted a number of laws addressing outstanding issues related to electoral legislation. In February 2007, the new Law on voters' registers introduced improvements in the maintenance of voter lists. These changes strengthen the legal basis for the proper conduct of elections. However, it is not yet ensured that data on permanent residence, which is the basis for registration in the voters' list, are correct. The current Law on permanent and temporary residence does not provide for an adequate checking and updating of residence records.

Members of the new State Election Commission (SEC) were sworn in March 2007 and the Commission is now operational. However, given difficulties finding adequate staff, a temporary solution was found, whereby the president and two vice-presidents of the Supreme Court were appointed to the SEC. A more permanent solution is needed to allow the Supreme Court to focus more fully on the functioning of the judiciary.

In December 2006, the parliament adopted a Law on the financing of political parties. This is an important step towards transparency and the fight against corruption. Proper implementation will be crucial, including with respect to financing of election campaigns and monitoring and adequate sanctions where breaches are found.

#### *Government*

There have been no changes in the structure of the government. With regard to *local governance*, there has been some progress in addressing weaknesses in the functioning of local government. Amendments to legislation concerning local and regional self government and the election of local officials were adopted in October 2007 with the aim of defining clearly the relations between directly elected prefects or mayors and local assemblies and addressing the issue of blank resignations of local councillors.

## *Public administration*

Limited progress has been made on public administration reform. In January 2007, the government adopted a policy paper covering the underlying principles for the planned new Law on general administrative procedures (GAPA). A project (Hitrorez) aimed at simplifying or removing certain regulatory procedures has been launched. Four further implementing regulations for the Civil Service Law were adopted.

However, two of the thirteen regulations necessary for full implementation of the Civil Service Law remain to be adopted, despite this law being adopted in January 2006. There is still no overall comprehensive strategic framework for public administration reform, which continues to be implemented only in a piecemeal manner. Management and administrative capacity of institutions in charge of public administration reform, particularly the Central State Office for Administration (CSOA), remains weak.

Under the existing GAPA, there are numerous special administrative procedures regulated through sectoral legislation. The wide discretionary scope in legislation has led to inefficiency and legal uncertainty and facilitates corruption. The Administrative Court is unable to cope with its present workload of reviewing administrative decisions. The European Court of Human Rights (ECtHR) ruled in late 2006 that there is no effective remedy for overly lengthy administrative procedures.

There has been some improvement in human resource management in state administration, notably through training and better centralised coordination and guidance. However, widespread weaknesses remain. In many state institutions there is still general resistance towards merit-based personnel policy and career planning. The civil service continues to be politicised. Policy implementation often remains in the hands of political advisors. Undue political influence, even in the recruitment of technical staff, continues.

Concerning the training of civil servants, the Civil Service Training Centre started to implement horizontal training programmes at the beginning of 2007. Sufficient funding was secured for training of civil servants in 2007. Overall, the civil service continues to suffer from high staff turnover and a lack of qualified personnel.

There have been no particular developments in the decentralisation process, which is important in the context of preparing local authorities for their responsibilities under the *acquis*. Police reform has continued. Further improvements are needed, however, especially in terms of career management and the development of a professional, citizen-oriented service.

The allocation of funds for the Ombudsman has been increased. However, the Ombudsman's office still lacks adequate premises and its work continues to be limited by a lack of funding and personnel. In particular, it is difficult to ensure a presence outside Zagreb. The Ombudsman for Children and the Gender Equality Ombudsman have also encountered similar difficulties.

Overall, limited progress has been achieved in the area of public administration reform. It continues to represent a major challenge for Croatia. A clear political commitment and sustained and serious efforts are needed.

### *Civilian oversight of the security forces*

Reform of the security and intelligence system has continued. After much delay, a new head of the Council for civilian supervision of the intelligence services was appointed in July. Laws on data secrecy and on information security were adopted in July 2007, the former having first been withdrawn from parliamentary procedure and revised due to heavy criticism from NGOs. However, while both laws improve the legal framework, some shortcomings remain and the legitimate interest of the state to protect certain information and the right of the public to have access to it are not yet properly balanced.

The question of the intelligence services' conduct and scope of control was again raised when the Government dismissed the Head of the Government's Office for NGOs. Both the Head of the Government's Office for NGOs and the Security and Counter-Intelligence Agency made procedural errors resulting in the violation of human rights of the person checked. The case highlighted shortcomings in the existing legal framework.

Overall, civilian control of the security services is generally assured. However, gaps in the existing legal framework need to be addressed to prevent inappropriate surveillance and security checks and to ensure adequate access to information for citizens.

### *Judicial system*

Some progress has been made implementing the *judicial reform* strategy. Legislative and organisational steps have been taken to improve the functioning of the judiciary. Further progress has been made in reducing the case backlog. However, these improvements are as yet insufficient. Limited progress has been made on improving the accountability, impartiality, professionalism and competence of the judiciary. The case backlog remains large. Limited progress has been made on the rationalisation of the court network.

With regard to domestic prosecutions for *war crimes*, Croatia continues to be active in trying war crimes cases on its own initiative, with around 20 ongoing trials. A more balanced approach seems to be slowly emerging. However, a common standard of criminal accountability is not being applied irrespective of ethnicity. There remains widespread impunity for war crimes committed against ethnic Serbs.

Despite some exceptions, there is a continued need to establish accountability for crimes committed by members of the Croatian armed forces. Many crimes remain unprosecuted, often due to a combination of a lack of evidence, unwillingness of witnesses to come forward and less than proactive approach of police and prosecutors.

A number of cases have thrown light on weaknesses in the system, most frequently concerning equality before the law. Procedural shortcomings and administrative confusion surrounding the lifting of one war crimes suspect's parliamentary immunity as well as the reaction to his hunger strike, underlined weaknesses in the institutional basis for the sound, politically impartial prosecution of war crimes in Croatia.

The confidentiality of witness statements and details of witnesses is not always maintained. As a result, there has been witness intimidation and the integrity of proceedings has been violated. To ensure integrity of the judicial process, protection should be extended beyond the trial period for witnesses and informants, as well as to other sources of information in the pre-trial or investigative phase. There continue to be difficulties with the provision of an adequate



defence by court-appointed counsel. A mechanism to review the verdicts of *in absentia* trials which are based on poor evidence has not yet been established.

Overall, judicial reform is moving forward but considerable efforts are needed to overcome the weaknesses in the judicial system. The performance as regards war crimes' trials also needs further improvement in a number of areas. To ensure progress continues, continued close monitoring will be required.

*(See also Chapter 23 - Judiciary and fundamental rights).*

#### *Anti-corruption policy*

Some first results are appearing in the fight against *corruption*. The anti-corruption programme 2006-2008 is being implemented. The legal framework to combat corruption has been further improved. The Office for the Fight against Corruption and Organised Crime (USKOK) has become more active and become involved in the investigation of some important corruption cases. However, corruption remains widespread. There is a need for greater efforts to prevent, detect and prosecute corruption. No indictment or verdict has been issued in any high-level corruption case. The concept of conflict of interest is little understood. Implementation of the anti-corruption programme lacks strong coordination and efficient non-partisan monitoring.

*(See also Chapter 23 - Judiciary and fundamental rights)*

## **2.2. Human rights and the protection of minorities**

### *Observance of international human rights law*

The **European Court of Human Rights** (ECtHR) issued 31 judgements against Croatia. As in previous years, the majority of judgments are related to the violation of the right to a fair trial and the length of the proceedings under Article 6 of the European Convention for the Protection of Human Rights (ECHR).

In two cases of particular note, the ECtHR ruled that a delay of several years in returning private property allocated by the state to third persons during the armed conflict violated the owners' rights to property. The Court also found that the administrative and judicial remedies for repossession were not adequate.

As regards **promotion and enforcement of human rights**, measures have been taken by the authorities to raise awareness of various human rights issues in Croatia. However, enforcement of rights continues to be negatively affected by a poorly functioning judiciary. More efforts are needed to embody education of human rights in the school system.

### *Civil and Political Rights*

As regards **prevention of torture and ill-treatment** and the fight against impunity, increasing public attention is being paid to questions of impunity for corruption and organised crime, including cases going back to the 1990s. Some steps have been taken to cooperate regionally on war crimes cases to tackle impunity caused by legal obstacles to extradition and the transfer of cases. Limited steps have been taken by the authorities to investigate and prosecute war crimes against Serb civilians. Concerns also remain about the right to a fair trial as regards war crimes, in particular given the continued presence of ethnic bias in cases and difficulties regarding witness protection.

**Access to justice** is still hampered by the lack of a comprehensive system of legal aid. It is also obstructed by high fees for legal services.

As regards the **prison system**, there continues to be room for improvement in prison conditions. There is a lack of prison staff and capacity. Overcrowding continues, with on average a prison population 20% above capacity. The ECtHR ruled in July in a case against Croatia that the plaintiff had been subject to inhuman and degrading treatment given the poor prison conditions and inadequate medical treatment he received.

**Freedom of expression** including freedom and pluralism of the media continue to be provided for in Croatia. Some progress has been made in following up the recommendations of the 2004 joint expert mission for changes to the laws on electronic media and on Croatian radio and television (*See also Chapter 10- Information society and media*). Following a renewed public tender, parliament appointed the remaining four members of the State news agency HINA management board. However, the public broadcaster HRT continues to be subject to occasional political pressure, raising concerns about freedom of expression. There are possibilities for undue political influence on the media at the local level, with much of the media at this level in public hands.

There have been no major difficulties as regards **freedom of assembly and association**.

**Civil society organisations** continue to play an important role in the promotion and protection of human rights and democracy.

There have been no particular difficulties as regards **the freedom of religion**.

Overall, with some specific exceptions, civil and political rights are reasonably well respected in Croatia. However, shortcomings as regards impunity for war crimes, prison conditions and access to justice require further attention.

### *Economic and Social Rights*

As regards gender equality and **women's rights**, the government has taken measures to raise general awareness as part of the national policy for the promotion of gender equality, of which implementation has begun. 33 of 150 members of parliament are women (22%). Four of fifteen Government ministers are women.

However, the gender equality policy needs more effective implementation. The Ombudsman for gender equality has pointed to an increase of complaints regarding family violence. While a working group has been established to draw up an action plan to tackle violence against women and police performance has improved especially in bigger cities, centres for social welfare have not made progress in dealing with family violence. Public awareness is rising but the judiciary is still slow in reacting, especially with regard to enforcing verdicts. An inefficient judicial system and labour inspection department remain important obstacles to exercising women's rights. The main problems women encounter in the labour market relate to child care and maternity care. These rights are guaranteed by law but are not consistently enforced. Further efforts are needed as regards human trafficking.

As regards **children's rights**, the national plan for the benefit of the rights and interests of the child 2006-2012 is being implemented. However, there has been little follow-up of cases of ill-treatment of children in institutions. Better coordination among homes, families and

centres for social welfare is needed. The centres for social welfare often lack proactive staff to respond to the needs of children and to ensure their adequate protection.

There has been some progress as regards **socially vulnerable and/ or persons with disabilities**. In March 2007, Croatia signed the UN Convention on the rights of persons with disabilities. In June, a national strategy on equal opportunities for persons with disabilities was adopted. A pilot project to introduce a system of personal assistants to support persons with disabilities and their families is ongoing. Some advanced models of community services are also being piloted. However, continued efforts are needed in this field. Budgetary constraints also continue to limit the scope of their rights to health and special care and their social integration. Despite the government's de-institutionalisation policy, the number of persons with mental disabilities in institutions has not decreased in the past year. Community-based services are not sufficiently developed as an alternative to institutionalisation, and financial resources allocated to mental health care are scarce. The priorities set out in the joint inclusion memorandum signed in March 2007 need now to be effectively implemented.

There has been limited progress in the area of **non-discrimination policies**. A national strategy and action plan on preventing all forms of discrimination has not yet been adopted. The level of protection against discrimination in practice and its judicial prosecution is still not in line with EU standards. The existing anti-discrimination legislation is not being applied vigorously. Only four cases have been pursued under the hate crime provisions of the criminal code. Measures encouraging tolerance and reconciliation, especially among citizens of the region, should be pursued. A number of homophobic incidents were recorded. Support to the victims of discrimination is marginal.

With regard to **labour and trade union's rights**, there has been limited progress (*See also Chapter 19 – Social policy and employment*). Workers' rights are still negatively affected by weak public administration and the poorly functioning judiciary.

The **right to property** is guaranteed. However, there are certain difficulties in exercising this right. The process of restitution of property that was confiscated after World War II continues to proceed slowly. Provisions discriminating on grounds of nationality have not been removed from the law on the restitution of nationalised property. Weaknesses have also been highlighted both by the Ombudsman and the ECtHR in the compensation scheme for owners of property temporarily taken under legislation in force during the 1991-1995 war.

Overall, legal protection for economic and social rights is partially guaranteed. Implementation of women's and children's rights and protection against all forms of discrimination needs to be improved in practice.

#### *Minority rights, cultural rights and protection of minorities*

Some progress has been made with regard to the implementation of the Constitutional Law on national **minorities** (CLNM). The Central State Administration Office prepared for the first time a recruitment plan for minorities in the state administration. In 2007, it is planned to employ 286 minority members in the bodies of the state administration at the central level and 50 members at the regional level. In 2007, the State council for national minorities received around € 5 million from the state budget for national minority associations, up by 25% compared to 2006.

However, implementation of the CLNM's provisions in practice presents a mixed picture, some provisions are implemented well, others only to a limited extent. There is no overall

action plan covering all bodies concerned by the CLNM to ensure its full implementation. Problems persist, particularly in terms of under-representation of minorities in state administration, the judiciary and the police. A long-term strategy to implement the CLNM's minority employment provisions is lacking. Detailed recruitment plans are missing at all levels of state administration. Some steps have been taken to collect data on ethnic affiliation. However, a civil servants' registry to allow for systematic statistics collection has still to be set up.

Elections for the local councils of national minorities (CNMs) were held in June 2007. The number of candidates increased considerably compared to the 2003 elections. However, voter turn-out was again very low. The government financed the organisation of the elections but made a limited effort to promote them. Moreover, the provisions of the CLNM were not respected in that the elections were called one month later than stipulated and for fewer councils than minorities are eligible to vote for. The capacity of the CNMs to advise local government in relation to minority issues – as provided for under the CLNM – goes unrecognised by the majority of local authorities and many local councils struggle to obtain premises and funding.

With regard to **cultural rights**, education provisions of the CLNM and other laws relevant to minorities are generally being implemented satisfactorily. With regard to the perception of national minorities in the media, negative stereotyping has decreased. However, there has been little progress with regard to the production and/or broadcasting of programmes for minorities in their languages by public radio and TV stations, as envisaged under the CLNM. Also, in many cases bi-lingual rights guaranteed in municipalities and towns where a minority constitutes at least one third of the population are not exercised. Initiatives promoting greater integration, reconciliation and tolerance as well as joint activities within the current system should be further encouraged.

With regard to the *Serb minority*, there have been mixed developments. Generally, the mood in the country continues to move forward, albeit slowly. There have been fewer reports of apparently ethnically motivated attacks against the Serb minority and the Orthodox Church.

However, there are still shortcomings in police investigation and limited prosecutions when such attacks occur. Members of the Serb minority, including those who remained in Croatia during the war, face major difficulties concerning access to employment, especially in the war affected areas. Discrimination continues particularly in the public sector. More efforts are needed to tackle ethnic bias with regard to war crimes.

There has been limited progress on the various outstanding issues regarding **refugees**. Around 3,500 refugees returned to Croatia over the past year. The total number of Croatian Serbs registered as returnees to Croatia increased to 130,000, although the estimated level of actual return could be less than 60% of this figure. Reconstruction of housing has continued. The programme to reconnect public infrastructure in certain return villages is ongoing without major difficulties. Mine clearance operations have continued.

However, a number of obstacles to sustainable return of Serb refugees remain, principal among them being housing, particularly for former tenancy rights holders. Implementation of the Croatian government's housing care programmes within and outside the areas of special state concern (ASSC) for the former tenancy rights holders who wish to return to Croatia continues to be extremely slow. Outside the ASSC, only around 2% of the 4,500 applications for accommodation have been definitively resolved, four years after the programme was

launched. Processing of applications is subject to significant delay. Of 8,320 applications inside ASSC, some 3,736 (44%) families have been allocated an apartment, up just 6% from last year. Croatia has indicated that the current target date of 2011 for full implementation outside the areas of special state concern will be brought forward to 2009. However, political will and a concerted effort from responsible authorities is clearly needed if this deadline is not to be missed.

As regards reconstruction of housing, some 2,000 units were reconstructed leaving perhaps some 2,500 housing units still to be reconstructed. There remain over 10,000 outstanding appeals against negative eligibility decisions, many of which have been pending for four years. There has been almost no progress on the approximately 200 houses/flats that remain to be repossessed and handed over to their rightful owners. There is still no movement on occupied agricultural land. A repair programme covering some 400 houses which were damaged or looted prior to repossession is slowly getting underway. There is limited progress dealing with cases of claims for unsolicited investments in occupied properties. There is a backlog in paying compensation for delays in repossession of properties. Account will need to be taken of the recent ECtHR verdicts.

Apart from housing, other key concerns facing returnees are employment, enduring hostility in certain localities and "convalidation", or the validation of certain documents and rights, including pension rights, of those residing in the parts of Croatia not under Croatian government control during the 1990s. No substantive decision has been taken to settle this issue. Returnees also continue to face difficulties re-establishing their status of permanently residing foreigner.

The position of the **Roma** minority in Croatia is slowly improving and the administration is developing a more positive approach. Progress is being made on the pre-school education of Roma under the government's action plan for the "Decade of Roma Inclusion 2005-2015". Funding is also increasing.

However, overall implementation of the action plan needs to be speeded up. Funding is still not adequate to address the challenges of the action plan if real improvements in the Roma's position are to be achieved. Most Roma remain excluded from mainstream Croatian society and face difficult living conditions. Only 25% of all Roma children complete primary education. Unemployment remains endemic. Discrimination of Roma continues, whether in terms of access to employment, adequate housing, in schooling, or in general attitudes in society. Many obstacles still exist, especially at grass roots level with various efforts aimed at desegregation often met by opposition from the parents of non-Roma children. No solution has yet been found to address the issue of lack of legal status of Roma without citizenship.

There is also a continued unwillingness or inability of some local authorities to finance Roma programmes. Coordination among Roma groups is weak and expertise for effective implementation lacking. The Roma community also needs to make a greater effort to participate in the programmes for education.

Overall, the position of minorities in Croatia continues to improve slowly. Legal provisions for protection of minority rights are in general adequate, but a number of important challenges remain in terms of implementation, especially as regards employment. Croatia also needs to encourage a spirit of tolerance towards the Serb and Roma minorities in particular and take appropriate measures to protect persons belonging to these minorities who may be subject to threats or acts of discrimination, hostility or violence. Progress on important outstanding

refugee return issues has been limited. A more comprehensive policy addressing disadvantage and social exclusion is necessary.

### **2.3. Regional issues and international obligations**

Compliance with the **Dayton/Paris** and **Erdut Peace Agreements** has overall been ensured.

Croatia continues to cooperate with the **International Criminal Tribunal for the former Yugoslavia (ICTY)**. Some difficulties arose during the year in the preparations of one case before the ICTY, but these have been resolved. No particular developments took place on the freezing of assets of those indicted by ICTY; there are no Croatian residents on the current Council lists.

The trial in The Hague of Generals Čermak, Markač and Gotovina has been delayed following the disqualification of three defence attorneys for conflicts of interest. Croatia's requests to act as a "friend of the Court" were rejected by the ICTY. The trial against Rahim Ademi and Mirko Norac, the only war crimes case transferred from ICTY to Croatian jurisdiction, started at the Zagreb County Court in June 2007. The indictment was prepared in cooperation with the ICTY prosecution. Impartial prosecution of this case and other cases conducted in Croatia needs to be ensured.

Croatia has not concluded any bilateral immunity agreements granting exemptions from ICC jurisdiction and its policy regarding the **International Criminal Court (ICC)** is fully aligned with the EU Common Positions on the integrity of the Rome Statute as well as related EU guiding principles.

No decisive progress on implementation of the **Sarajevo Declaration**, aimed at finalising the return process by the end of 2006, has been achieved. The process remains blocked by the lack of political consensus between the signatories. Further efforts are urgently needed to resolve the outstanding issues, namely how to deal with compensation claims of those who lost occupancy and tenancy rights (OTRs) in Croatia, and recognition of pensions and other rights for years spent working in Serb-controlled areas of Croatia during the war.

**Regional cooperation**, a number of bilateral visits, agreements and continued engagement by Croatia in regional initiatives have contributed towards the aim of further improvement of relations between Croatia and its neighbours.

Croatia's chairmanship of the South East Europe Cooperation Process (SEEC) was successful, allowing good progress to be made in transition from the Stability Pact to a more regionally owned framework with a strengthened SEEC and the new Regional Cooperation Council. Croatia actively participates also in other regional initiatives as the Adriatic-Ionian Initiative (chairmanship since June 2007) and the Migration, Asylum and Refugees Regional Initiative - MARRI (presidency since April 2007). Croatia is a party to the Energy Community Treaty and a signatory of the Agreement on the European Common Aviation Area (ECAA). The expanded and modernised Central European Free Trade Agreement (CEFTA) has been ratified by Croatia.

However, in December 2006 the Croatian Parliament decided that the Croatian ecological and fishing protection zone would be applied to EU Member States as from 1 January 2008. This decision deviates from the political agreement reached between the countries concerned in June 2004, referred to in the European Council conclusions of 16-17 June 2004; this issue

remains to be resolved. Efforts are needed to further develop regional cooperation and good neighbourly relations, which form an essential part of the process of moving towards the European Union.

The implementation of the succession Agreement on the former Socialist Federal Republic of Yugoslavia and efforts aimed at reconciliation among citizens in the region have been limited. Croatia has not seized the opportunity to benefit from a system of diagonal cumulation of origin with the EU and its neighbours in the region.

**Bilateral relations with other enlargement countries and neighbouring member states** continue to develop. However, there has been limited progress towards finding definitive solutions to various open bilateral issues between Croatia and its neighbours, particularly as regards borders.

Relations with *Serbia* have continued to improve. The provisional visa-free regime remains in force. The Croatian State Prosecutor and the Serbian War Crimes Prosecutor signed an agreement on cooperation on war crimes prosecution. There has been some progress in cooperation on missing persons. There has been no progress in delimiting the border at the Danube river. Other open matters include property related issues, in particular claims for compensation for lost occupancy and tenancy rights, refugee return, and Croatia's claim for compensation for war damages.

Relations with *Montenegro* have been developing well. High level visits have taken place and diplomatic representations opened. Both sides have indicated a willingness to move towards resolution of outstanding issues. These concern primarily property, refugees and missing persons. Agreement on the border at Prevlaka is still outstanding, although the temporary border regime is running smoothly.

Bilateral relations with *Bosnia and Herzegovina* remain stable and bilateral contacts have been increasing. Bilateral agreements on dual citizenship and border control have been signed. Croatia has submitted a proposal for a new Agreement on the Port of Ploče. However, there has been no progress on border issues. Ratification of the 2005 Agreement on Demarcation of the Land and River Borders remains on hold and the dispute over Veliki Skoj and Mali Skoj remains unresolved, as does the issue of the Una river border. The Peljesac bridge project remains an open political issue. Other unresolved issues include property, refugees and trade.

Relations with *Slovenia*, while generally well developed, continue to be affected periodically by difficulties linked to outstanding border issues. Both sides have begun tentative discussions on various issues which had been stalled for some time, such as the maritime and land borders, Ljubljanska Banka/SFRY Succession Agreement (guarantee of foreign currency deposits), Krško nuclear power plant and the implementing rules for the fisheries aspects of the Border Traffic and Cooperation Agreement. The informal agreement between the Prime Ministers of Croatia and Slovenia to request third party involvement on open border issues constitutes progress and needs to be followed up. Further concrete steps towards reaching permanent solutions are still needed on all these issues. The issue of the non-application of the ecological and fishing protection zone in the Adriatic to EU Member States needs to be resolved.

Relations with *Italy* are good. Temporary disputes such as on different interpretations of World War II events are being settled in the spirit of good neighbourly relations. The issue of

the non-application of the ecological and fishing protection zone in the Adriatic to EU Member States needs to be resolved.

Croatia continues to have good relations with *Albania*, the *former Yugoslav Republic of Macedonia*, and *Hungary*.

### **3. ECONOMIC CRITERIA**

In examining the economic developments in Croatia, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union.

#### **3.1. The existence of a functioning market economy**

##### *Economic policy essentials*

The country participates fully in the EU Pre-Accession Fiscal Surveillance procedure. The third Pre-accession Economic Programme 2007-2009, submitted in December 2006, presents a coherent fiscal framework and an ambitious agenda for structural reforms. If fully implemented, it would further improve the functioning of markets and support sustainable growth and real convergence. The programme with the International Monetary Fund (IMF) was successfully completed in November 2006 and the authorities did not request a successor arrangement. Cooperation with the World Bank remained an important anchor for structural reforms. However, economic policy coordination between various parts of the government was sometimes insufficient. The economic rationale of reforms has not always been communicated effectively to the general public. At times, the limited impact of existing economic expertise on government decision making reduced the scope and pace of structural reform, in particular prior to the 2007 general elections. Overall, consensus on the fundamentals of a market economy has been maintained, but the government has not taken full advantage of its economic expertise.

##### *Macroeconomic stability*

In 2006, real GDP growth accelerated to 4.8% year on year, up from 4.3% in 2005. Growth continued to be largely driven by strong domestic demand. Stronger private investment contributed to an acceleration of total real investment growth to 10.9%, up from 4.8% in 2005. Private consumption grew by around 3.5% in real terms. The growth of exports of goods and services accelerated to 6.9%, but was lower than the increase in imports (7.3%). Economic growth remained robust in 2007. Real GDP growth accelerated further to 6.8% in the first half and industrial production went up by 7% year on year in the first eight months of 2007. Overall, the economic performance remained strong, with real growth rates above potential growth.

Domestic demand and growth led to stronger imports and a slight widening of the trade deficit to 24.4% of GDP. As in previous years, this deficit was only partly offset by the surplus in the trade in services, mainly tourism, which was down slightly at 16.6% of GDP. Moreover, the balance of net factor income fell owing to strong increases in dividend and interest payments as well as higher retained earnings. Also, transfer payments to Croatia from abroad declined as a percentage of GDP. As a result, the current account deficit widened



significantly from 6.4% of GDP in 2005 to 7.8% in 2006 and in the 12 months to June 2007, with no major changes in its composition. External deficits have continued to widen.

Net inflows of foreign direct investment (FDI) almost doubled as a percentage of GDP to 7.4% in 2006 and to 9.2% of GDP in the 12 months to June 2007. Thus, net FDI flows largely financed and recently even exceeded the current account deficit. Due to strong and persistent capital inflows, official foreign reserves increased to around € 9.2 billion, or by 6.5% year on year in July 2007. Gross external debt continued to grow, although at a slower pace, to EUR 30.4 billion in August 2007 or to around 83 of the GDP expected for 2007. At end-2006, the external debt to GDP ratio stood at 84.7%, up from 82.6% in 2005. In sum, capital inflows remained strong, and external debt continued to rise, albeit at a slower pace.

Employment growth accelerated markedly to 3.4% in 2006, up from 0.8% in 2005. Provisional data for 2007 point to a slowdown in employment growth, but subsequent upward revisions are likely. The officially registered unemployment rate showed a marked decline to 13.8% in August 2007, the lowest rate since end-1995, compared to 15.7% in August 2006. Labour force survey data recorded a fall in the unemployment rate to 10.5% in the second half of 2006, from 12.3% a year ago. It declined for all age groups, but still remained high for the young population (29%). The long-term unemployment rate decreased to 5.6% (2005: 6.7%). Overall, the labour market performance improved, but the relatively high unemployment rate and limited job turnover remained a concern.

A sound monetary policy framework of a “managed float” with the primary objective of maintaining price stability remained in place. The Central Bank continued to target broad stability in the kuna/ euro exchange rate without any commitment to a particular exchange rate level or band. A number of factors contributed to significant foreign exchange inflows and a persistently strong demand for kuna. Among those, continued foreign borrowing by banks and enterprises, a government bond issue, the take-over of a domestic company by a foreign investor and increases of capital in some foreign-owned banks played a major role. In an effort to alleviate persistent appreciation pressures, the central bank intervened several times on the foreign exchange market during 2006 as well as in July 2007 to purchase a net total of around EUR 1.3 billion from commercial banks. In 2006, the kuna appreciated by 0.5% against the euro in nominal terms, followed by a slight year-on-year depreciation of 0.8% in August 2007. Overall, exchange rate stabilisation has been successful and remains a key policy priority.

The central bank re-instated, and subsequently tightened, direct administrative credit controls in order to discourage foreign borrowing by commercial banks and to contain domestic credit growth. These took effect in early 2007, in addition to already adopted regulations which had been only partially effective in containing credit growth. Annual growth of broad money accelerated from 16.6% in September 2006 to 19% in August 2007. In the same period, annual domestic credit growth slowed somewhat from 22.4% to 18.7%. Recently, bank credit to households grew stronger than credit to enterprises, but the corporate sector continued to revert to direct external and non-bank sources of financing. Overall, in an attempt to contain credit growth, monetary policy also continued to rely on administrative measures, including additional credit control.

Average annual consumer price inflation declined slightly from to 3.3% in 2005 to 3.2% in 2006. Higher prices for agricultural goods led to an increase of year-on-year consumer price inflation from 2% in December 2006 to 2.6% in August 2007. Annual average inflation declined further to 2% in the first eight months of 2007. Lower price rises for energy, a stable

exchange rate and increased competition in retail trade have contributed to price stability. Core inflation, which excludes agricultural products, energy and other administrative prices, dropped from 3.1% in 2005 to 2.5% in 2006 and slightly increased to 2.6% in annual average terms in the first eight months of 2007. Overall, price stability has been maintained.

In line with policy targets, the budget deficit<sup>3</sup> in 2006 was markedly reduced to 2.2% of GDP (3.9% in 2005). Total revenues rose 9% on the back of particularly strong growth in direct taxes, VAT and social contributions. Current spending (government consumption, subsidies and social transfers) rose by 7.1%, but its share of GDP fell by 1.4 percentage points to 44.8% of GDP. Capital spending as a share of GDP declined by 0.4 percentage points, albeit from the relatively high level of 4% of GDP in 2005. Strong economic performance contributed to favourable fiscal developments in the first half of 2007. Revenue growth exceeded expectations and accelerated to 13.1% year-on-year, with total spending growing by 6.8%<sup>4</sup>. A supplementary budget for 2007 with major revisions was adopted in July. It includes additional revenues of 2% of GDP, part of which is to be used to settle financial obligations, particularly in the health sector. The revision also allowed for an increase in current spending, including for education, subsidies, and social benefits. The deficit was reduced only slightly, to 1.6% of GDP, from the 1.8% planned in the original budget. There was a marked slowdown in the growth of general government debt and the debt ratio fell to 40.7% at the end of 2006 (from 43.7% in 2005). Overall, fiscal consolidation continued as planned, while recent levels of revenue above expectations have led to an expansion of current spending.

The rationalisation of public spending remained a key public finance objective. The government adopted a social welfare reform to streamline numerous benefits and achieve a better targeting of social assistance through the wider application of means-testing. However, a new population policy adopted in late 2006 partly contradicts these objectives. Initial reforms to the financing of health care, which were adopted in mid-2006, have so far not been complemented by more ambitious steps to fully address the sector's financial difficulties. Recent increases in pensions and the lowering of the early retirement "discount" partly reversed earlier important parametric reforms of which aimed at improving the financial sustainability of the "pay as you go" system. Important quasi-fiscal operations added uncertainties to the overall fiscal stance. These included debt repayments to pensioners, debt write-offs in the context of privatisations, state guarantees for restructuring companies and the operations of the State Development Bank. Public finances continued to be faced with significant risks, and ensuring lasting fiscal consolidation remains an important challenge.

Progress has been made in enhancing analytical capacity for setting up medium-term fiscal frameworks. Budget planning capacity and procedures have improved, with wider use being made of fiscal impact assessments. The link between strategic planning and the budget process remained generally weak. The reform of the treasury system continued, but a number of extra-budgetary funds still remain outside the single treasury account, undermining effective budget control. Although efforts have been made to reconcile fiscal statistics with ESA 95, local governments were still only partially included in fiscal reporting. Procedures for recording public debt have improved and become more transparent. However debt management continues to be beset by considerable operational shortcomings, weak segregation of duties and a significant key person risk. Overall, there has been a further

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<sup>3</sup> Budget numbers in this paragraph refer to the consolidated general government deficit as defined under ESA 95.

<sup>4</sup> Growth rates refer to year on year growth in the first quarter.

strengthening of analytical and institutional capacity in some important areas of the Ministry of Finance.

Stabilisation of the high and rising external debt has remained an important policy target. The general orientation of macroeconomic policies has, on the whole, been appropriate to contain potential external vulnerabilities. Given the limited scope for monetary policy discretion under the circumstances of currency substitution, fiscal policy continued to play an important role in containing the savings-investment balances in the economy. So far the authorities have not taken advantage of the generally benign economic environment to pursue a more ambitious path of fiscal consolidation. However, there may be a strong argument for such consolidation as a way to reduce external risks, increase the flexibility of fiscal policy and make more room for greater private sector initiative. In sum, the macro-economic policy mix has generally been appropriate, but there is still scope for a more ambitious fiscal policy.

#### *Interplay of market forces*

The private sector's share of output has continued to rise, to an estimated 70% of GDP. The private sector's share of total employment grew from 67.8% in 2005 to 68.8% in 2006. At the same time, state intervention and ownership remained significant in important industrial sectors, such as in the shipbuilding industry.

The State's 17% shareholding in the national oil company INA was successfully sold in late 2006. Recently, the government decided to sell a further 7% of shares to the company's former and current employees at a reduced price. More than half of the remaining government shares in the telecommunication company (32.5%) were sold off through public tendering at the end of September 2007. Up to September 2007, the State Privatisation Fund had sold a total of around 100 companies; however, the remaining portfolio still comprised around 880 companies, and the State had a majority holding in 100 of them. A major corruption investigation led to the dismissal of the Fund's management in June 2007 which affected the pace of privatisation. Overall, the privatisation process has been uneven and sometimes hampered by legal problems, institutional weaknesses and unrealistic conditions of sale.

#### *Market entry and exit*

Company registration procedures have been further simplified through the gradual establishment of additional one-stop shops throughout the country. The average time and number of procedures needed to set up a business, as well as average registration costs, have been reduced. New company registrations grew by 7% year on year in the first half of 2007 and the stock of active businesses increased by 7.4% year-on-year in June. Following earlier changes to the law, business exits benefited from more efficient and simplified bankruptcy procedures. Preparatory steps were taken to reduce the burden of legislation in the context of the "Regulatory Guillotine" project, however its implementation has not yet started. Procedures for obtaining licences and building permits remain cumbersome. Overall, there has been some progress in removing bureaucratic obstacles to market entry and exit, but significant administrative inefficiencies remain.

#### *Legal system*

Some progress was made in reducing the backlog of cases before Croatian courts. However, the backlog is still a large one and the judicial system has continued to suffer from slow and inefficient court proceedings, poor case management and low professional capacity. These

circumstances may discourage economic actors from taking cases to court and undermine effective enforcement of creditor and property rights.

#### *Financial sector development*

The banking sector represented slightly more than three quarters of total financial sector assets in mid-2007. Some 96% of banks are privately owned and the share of foreign ownership remained high at 91%. In 2006, the number of banks fell by one to 33, which is still high in relation to the overall market size. The degree of market concentration remained moderate and generally has not been an impediment to market competition. The five largest banks together accounted for a market share of around 72% at the end of 2006, slightly down on 2005. The spread between average kuna lending and deposit rates fell by 1.2 percentage points during 2006 and an additional 0.4 points in the first seven months of 2007. Domestic private credit rose to 71.5% of GDP in 2006, up from 62.9% in 2005. The share of non-performing assets declined further to 3.2% in 2006 (from 4% in 2005), although this indicator may understate portfolio risks during periods of strong asset growth. The banking system still has to contend with foreign-exchange induced credit risks arising from un-hedged balances in the non-financial sector. Overall, the largely privately-owned banking sector remained generally sound, amid a rapid credit expansion.

The share of non-banking financial sector assets in total financial sector assets increased from 21.4% at end-2005 to 23.6% at end-2006 and above 26 % by mid-2007. This was primarily due to strong asset growth of investment funds, leasing companies and mandatory pension funds. The shares of other market segments (voluntary pension funds, saving cooperatives, housing savings banks, insurance) have not changed significantly. There has been a further increase in bond market capitalisation, which rose to around 17% of GDP by end-2006 (2005: 14.3%), owing to a large number of new emissions, primarily by the corporate sector. Stock market capitalisation rose markedly - to around 80% of GDP - at the end of 2006, but this was more a reflection of the big increases in share prices rather than of an expansion of the stock market. In general, equity and bond markets remained relatively shallow.

A number of measures have been taken to strengthen the supervision of the financial sector, in particular with a view to closer monitoring of currency-induced credit risk. Reserves for the fastest growing banks were also increased. Prudential regulation led to a stronger recapitalisation of banks, which has been conducive to financial sector stability in general.

### **3.2. The capacity to cope with competitive pressure and market forces within the Union**

#### *Existence of a functioning market economy*

Macroeconomic stability has been maintained and has allowed economic agents to make decisions in a climate of stability and predictability, thus supporting the functioning of market mechanisms. However, external imbalances and fiscal risks bring vulnerabilities, and private sector development has been rather slow.

#### *Human and physical capital*

Reforms in the education sector continued. Further steps were taken to improve the quality of education at all levels. Attempts were made to enhance the scope and quality of adult education, but participation rates in life long learning remained low, at 2.5% in 2006 (2005: 2.3%). The education sector generally still suffers from out-dated curricula and poor

equipment. Students as a percentage of the population stayed low, at 3%, and only a small proportion of students are graduating in science and research. The government adopted an annual programme for employment promotion in 2007, which plans to continue the active labour market policy measures introduced in 2006. The programme includes training and employment subsidies for young people without work experience, the long-term unemployed, older persons and vulnerable groups. However, although there was a slight increase in employment and participation rates, the levels remained relatively low - at 56.6% and 63.5% respectively in the second half of 2006. Overall, the labour market continued to suffer from a mismatch between supply and demand.

Investments - driven in particular by stronger private investment - continued their strong growth in 2006 and early 2007, and the fixed investment ratio reached 30% of GDP in 2006 (2005: 28.6%). Total spending on research and development remained relatively high, at around 1% of GDP. Public investment in transport remained strong. It resulted in a further expansion of the extensive motorway network by some 100 km to over 900 km. However, the road network continued to suffer from a significant maintenance backlog. The core main lines of the rail network are sufficiently well maintained to allow a competitive freight transport business.

Net inflow of foreign direct investment (FDI) almost doubled as a percentage of GDP to 7.4% in 2006; this growth was mostly due to direct equity investments. The takeover of a pharmaceutical company, recapitalisation of some foreign-owned banks and the acquisition of two domestic banks contributed significantly to this. The financial sector accounts for the largest share of cumulative FDI inflows (31.1%), followed by manufacturing (27.2%), then post and telecommunications (13.5%). There has still been little greenfield investment, and private investments in the processing and manufacturing industry have remained relatively low, limiting technological change and export potential. To conclude, strong levels of investment continued to be largely concentrated in transport infrastructure and the services sector.

#### *Sector and enterprise structure*

Progress was made in the restructuring and privatisation of the two loss-making, state-owned steel mills and the aluminium company (TLM). Following repeated tendering procedures, the two steel mills were sold and an investor for TLM was chosen. In the area of shipbuilding, draft restructuring plans for each shipyard were submitted to the European Commission, but these – together with a national restructuring strategy for shipbuilding - have still to be finalised by the government. The privatisation of the first shipyard has been further delayed. The government's commitment to a comprehensive restructuring of the sector to ensure its long-term economic viability remained rather low. The remaining agricultural conglomerate subject to a tendering process, but has not yet been sold. Overall, progress with the restructuring and privatisation of large loss-making state-owned companies has been rather slow (*See also Chapter 20-Enterprise and industrial policy and Chapter 8- Competition*).

The restructuring of the large railway carrier by separating its subsidiaries continued, creating scope for further staff reductions and efficiency gains. However, the railway sector continued to consume high levels of budget support, amounting to around 1.3% of GDP in 2006. Relatively low productivity and high unit labour costs are undermining its long-term viability, in particular once the network is opened up to competition. Five railway subsidiaries have been tendered for privatisation, but have not yet been sold. The liberalisation of the telecommunication industry continued, but network access needs to be further improved.

Croatian Telecom continued to be the dominant supplier. New fixed line operators entered the market, raising their market share from 4% to a - still modest - 13%. Stronger competition in the mobile phone sector led to significantly lower prices. The restructuring and liberalisation of the energy sector is advancing gradually. Preparations for the privatisation of the large electricity company have made no progress. Overall, the reform of network industries made headway, but the railway sector needs much deeper restructuring to ensure its long-term viability and competitiveness.

The already large service sector maintained its share of total output at around 61%. Agriculture's share of output declined further to 7.4% in 2006 (from 7.6% in 2005). The construction sector increased to 7.1% (6.8%), while industry's share dropped to 24.5% (from 24.8%). Agriculture's share of employment showed a marked fall to 14% (2005: 17%), while industry rose slightly to 29% (2005: 28%) and the services sector posted a more pronounced rise to 57% (2005: 55%). Given the already large service sector, there were only marginal shifts in the sector structure of the economy.

The small and medium-sized enterprise (SME) sector continued to grow in 2006, representing 40% of the corporate sector's total assets, 98.5% of the total number of firms and 55% of total employment. SMEs generated more than 44% of GDP and almost one quarter of total exports. SMEs continued to benefit from support initiatives and subsidy schemes at various government levels. However, the sector continued to suffer from a cumbersome regulatory framework and inefficiencies in public administration. Access to longer-term financing remained difficult, particularly for newly established businesses. Overall, the SME sector has gained in importance, despite the remaining administrative obstacles.

#### *State influence on competitiveness*

There has been further progress in strengthening the role of the Competition Agency in monitoring and controlling state aid. Communication and cooperation with potential state aid providers, including national and regional administrations, has improved. However, the relatively low levels of staffing and budgetary resources allocated to the Agency, somewhat hindered a more effective state aid control. Total state aid reportedly increased, from around 2.3% of GDP in 2005 to 3.4% in 2006. In 2007, restructuring aid to loss-making enterprises increased significantly, which may undermine the implementation of the government's subsidy reduction plan. The latter provides for the gradual reduction of subsidies as a share of GDP. A large share of subsidies continued to go to specific sectors, such as the railways and the shipbuilding, steel and aluminium industries. Horizontal aid accounts for only a small share of state aid. Overall, state intervention in the enterprise sector remained substantial.

#### *Economic integration with the EU*

Croatia is an open economy with total trade in goods and services representing more than 100% of GDP. In 2006, there was a further increase in both imports and exports as a percentage of GDP. Apart from the export of transport equipment (mainly ships), tourism continued to be the biggest source of export revenue, representing almost 18% of GDP in 2006. In 2006, the EU has continued to be the most important trading partner with a slightly higher share of around 63.5% in Croatian exports (from 62% in 2005) and an unchanged share of 65% in imports. At the same time, Croatia has expanded its trade with neighbouring countries as well as with Russia and China. Around 95% of FDI inflows originate from EU Member States. Overall, integration with the EU in the areas of trade and investment is very high, and trade with neighbouring countries has grown.

The 2.9% growth in real wages was less than that of average labour productivity (3.9%), with the result that real unit labour costs fell by 1%. The nominal effective exchange rate of the kuna appreciated by 3.4% in 2006, largely due to strong upward movement of the kuna against the US dollar. In real effective terms<sup>5</sup>, the Kuna appreciated at a lower rate (2%), as producer prices rose faster abroad than on the domestic market. Overall, standard indicators suggest no significant changes in export price competitiveness.

Average per-capita income in 2006 rose to 50% of the EU-27 average<sup>6</sup> from 47% in 2005.

#### 4. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

This section examines Croatia's ability to assume the obligations of membership – that is, the *acquis* as expressed in the Treaties, the secondary legislation and the policies of the Union. It also analyses Croatia's administrative capacity to implement the *acquis*. The analysis is structured in accordance with the list of 33 *acquis* chapters.

##### 4.1. Chapter 1: Free movement of goods

Some progress can be reported regarding alignment on **general principles**. Croatia needs to continue its efforts to ensure that its legislation is compatible with Articles 28 to 30 of the EC Treaty and the related case law, including both distinctly and indistinctly applicable measures. An Action Plan for compliance with Articles 28 to 30 including milestones for revising domestic legislation and administrative practices as well as for introducing mutual recognition clauses, remains to be adopted. This is one of the key elements for the accession negotiations on this chapter.

As regards **horizontal measures**, progress can be reported with the revision of the framework Act on technical requirements for products and on conformity assessment, which was adopted in July 2007.

As regards *standardisation*, the Standards institute (HZN) had transposed 8,933 harmonised European standards (of CEN and CENELEC by August 2007. By mid-June 2007, the number of HZN staff stood at 54. HZN is an affiliate member of the European Committee for Standardisation (CEN) and the European Committee for Electro-technical Standardisation (CENELEC). The reorganisation of the technical committees' infrastructure is underway

Concerning *conformity assessment*, no progress can be reported on the establishment of a network of independent certifying bodies and laboratories

In the area of *accreditation*, the Croatian Accreditation Agency (HAA) has continued to promote accreditation among governmental institutions responsible for harmonisation under the new and old approach directives. The HAA has made progress on developing new accreditation schemes in various sectors. By September 2007, it employed 21 staff and had accredited a total of 95 conformity assessment bodies. In March 2007, the HAA applied for signatory status of the multilateral agreement of the European Cooperation for Accreditation (EA) in the fields of calibration laboratories, testing laboratories, certification bodies for

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<sup>5</sup> As measured on the basis of producer prices.

<sup>6</sup> In purchasing power standards.

quality management systems, products, personnel and bodies and certification bodies for environmental management systems and inspection bodies.

As regards *metrology*, an amended Law on metrology was adopted by Parliament in October 2007. This lays the basis for developing and reorganising Croatia's metrology infrastructure. Pursuant to this law, legal and scientific metrology would be separated by establishing two institutions, the State Office for Metrology (DZM) and the Croatian Metrological Institute (HMI). All EU directives on metrology have been transposed, but their alignment with the *acquis* remains to be confirmed. The DZM is preparing a strategy for metrology which will lay the basis for investing in metrology infrastructure and for financing its development. In 2007, the DZM became an associate member of the European Cooperation in Legal Metrology (WELMEC) and signed the European Collaboration in Measurement Standards Mutual Recognition Agreement with EUROMET.

Regarding *market surveillance*, some progress can be reported on the State Inspectorate's administrative capacity and enforcement measures. Preparations are being made for an internal reorganisation of the State Inspectorate.

In terms of administrative capacity, the Department for internal market coordination within the Directorate for trade and the internal market in the Ministry of Economy, Labour and Entrepreneurship (MELE) has been reorganised and now employs six persons in 2 separate sections. This level of staffing is insufficient, particularly because the department is responsible for overall policy coordination with other ministries and agencies and for application of Articles 28 to 30 of the EC Treaty as well as for the introduction of the mutual recognition principle in the Croatian legal system.

Overall, as regards horizontal measures, basic structures for harmonisation with EU legislation are in place. Further, adequate capacity building measures are required to enable Croatian institutions to become full members of the relevant European organisations. Adoption and implementation of the revised horizontal framework legislation is a key element of the accession negotiations on this chapter, along with segregation of tasks between the various functions.

There has been some progress in sectors covered by the **old approach product legislation**. In 2006, Croatia adopted fifteen new ordinances meant to provide for alignment with four type-approval directives on motor vehicles, two- or three-wheeled motor vehicles and agriculture or forestry tractors. Measures meant to align with twelve directives were adopted in 2007. However, further progress is needed in the legislative alignment with old approach *acquis*. Substantive efforts are required on chemicals, pharmaceuticals, cosmetics, legal metrology and the remaining motor vehicles directives.

With regard to *pharmaceuticals*, a new Law on medicinal products entered into force in October 2007. This aims at transposing the Community *acquis* on medicinal products for human use, on implementation of good clinical practice in clinical trials on medicinal products for human use, on traditional herbal medicinal products, and on orphan medicinal products. Its alignment with the *acquis* remains to be confirmed. Work on new ordinances related to transparency of measures regulating reimbursement decisions and pricing of medicinal products is well advanced. Moreover, the veterinary Law, adopted in May 2007, has introduced changes with regard to imports of veterinary medicinal products.



As regards the **new and global approach product legislation**, progress can be reported on legislative alignment.

Progress can be reported with regard to recreational crafts. Amendments to the Ordinance on boats and yachts and to the Rules for statutory certification of boats and yachts have been prepared. Progress can be noted with the Ordinances on measuring instruments and non-automatic weighing instruments. Preparatory work for further alignment in the field of cableway installations, radio and telecommunications terminal equipment and electromagnetic compatibility, is well advanced.

Overall, major efforts are still required to ensure further alignment with the new approach *acquis*, both through framework legislation and through sector alignment measures.

Concerning **procedural measures**, the EU directive on the control of the acquisition and possession of weapons has been transposed by the new weapons Act, although its alignment with the *acquis* remains to be confirmed.

### *Conclusion*

Some progress has been made on alignment of legislation with the *acquis* on free movement of goods. Still, many elements of the *acquis* are not yet in place. Adjusting the conformity assessment infrastructure and market surveillance activities to the requirements stemming from the new and global approach remains a major challenge. Alignment with the *acquis* in this chapter is underway. Considerable efforts are still required to align legislation with the *acquis* and to implement and enforce it effectively.

## **4.2. Chapter 2: Freedom of movement for workers**

Some progress has been made in the area of **access to the labour market**. In July 2007, Parliament adopted amendments to the Act on Foreigners which aim, *inter alia*, at abolishing work permits as a condition for EU nationals and their family members to work in Croatia. These amendments will enter into force by accession.

No specific progress can be reported on future participation in the **EURES** network. Gaps remain especially in the language skills of potential EURES advisers and, with a view to the required connection to the EURES Job Mobility Portal upon accession, in ensuring that all job vacancies of the Public employment services are displayed on its public website and can therefore be made available for publication on the Portal. In this area, Croatia is already moderately advanced.

There has been no progress on **coordination of social security systems**. Sufficient administrative capacity has not yet been developed to apply the *acquis* in this field.

No progress can be reported with introduction of the **European health insurance card** in Croatia. Preparations in this area are at an early stage.

### *Conclusion*

Some progress has been made on this chapter. A satisfactory level of legal alignment has been reached. However, Croatia's legislation is not yet fully in line with the EU rules on access to the labour market, and the administrative capacity for coordination of social security systems

is not yet sufficiently developed. Increased efforts are required to align legislation with the *acquis* and to implement and enforce it effectively.

#### 4.3. Chapter 3: Right of establishment and freedom to provide services

Limited progress can be reported on the **right of establishment**. In the tourism sector, nationality restrictions for bed-and-breakfast operators were repealed by the new Hospitality and Catering Industry Act adopted in December 2006. The Act on the Provision of Tourism Services and the Act on Amendments to the Sojourn Tax Act were adopted with the aim of reaching further compliance with the *acquis*. However, numerous restrictions on the right of establishment remain in many sectors, the main obstacles being citizenship and residence requirements, disproportionate language requirements, the requirement that certain economic activities need to be carried out without an interruption longer than six months and the one-office rule. Furthermore, the Law Practice Act has not yet been brought in line with Croatia's commitments under Article 49 of the Stabilisation and Association Agreement (SAA) so as to unambiguously allow for the establishment of branches of Community law firms providing those legal services to which Croatia under international agreements committed to grant market access.

There has been some progress regarding the **freedom to provide cross-border services**. Croatia adopted a new Aliens Act in July 2007 (*See also Chapter 24 – Justice, freedom and security*), under which upon Croatia's accession to the EU citizens of EEA Member States and their family members may work and provide services in Croatia without a work permit or operating licence. However, several restrictions that hamper cross-border provision of services still remain in both horizontal and sectoral acts.

No further progress has been made towards legislative alignment in the field of **postal services**, where the level of alignment is already relatively high. Despite the recruitment of two additional staff during the reporting period, the level of funding and administrative capacity of the Council for Postal Services (the national regulatory authority) is still low.

Some progress has been made on **mutual recognition of professional qualifications**. The amendments to the Act on the Recognition of Foreign Educational Qualifications adopted in December 2006 introduced a distinction between recognition of academic and professional qualifications. However, several sectoral acts still impose citizenship and disproportionate language requirements in order to gain access to regulated professions, both of which are incompatible with the *acquis*.

#### *Conclusion*

Some progress has been made on this chapter, particularly regarding freedom to provide cross-border services and mutual recognition of professional qualifications. However, further work is required in order to fully align Croatia's legislation with the *acquis* in these areas. Substantial obstacles to the right of establishment and freedom to provide services remain in both horizontal and sectoral legislation. Overall, alignment with the *acquis* is at a reasonable level, although considerable efforts are still required in some areas.

#### 4.4. Chapter 4: Free movement of capital

Good progress can be reported concerning **capital movements**. The amendments to the Foreign Exchange Act that entered into force in December 2006 fully liberalise portfolio

investment. Changes the same month to the Securities Market Act and the Savings and Loan Cooperatives Act further liberalised the capital market for institutional investors. Some provisions discriminating between investment into domestic and foreign assets remain in Croatian legislation, however.

The administrative capacity of the Ministry of Justice has been reinforced in order to expedite the processing of applications for the purchase of real estate by foreigners. This is starting to have a noticeable impact and the backlog of cases is being reduced. Good progress is thus being made towards streamlining of procedures for the authorisation on a non-discriminatory basis of real estate purchases by EU nationals. Croatia was also able to determine that its nationals are free to acquire real estate in Italy and Slovenia, thereby facilitating the application of reciprocity when processing applications from these Member States. The number of backlog cases remaining to be definitively settled remains high however. Croatia has not yet been able to ensure applications are generally dealt with in line with the target turn-around time of 30-60 days.

There has been no progress in the area of **payment systems**.

As regards the **fight against money laundering and combating terrorist financing** (AML/CTF), the Croatian government has still to adopt a comprehensive action plan aimed at reinforcing the national AML/CTF legal and institutional framework, which is a key element for the accession negotiations in this chapter. An Inter-Institutional Working Group was established in March 2007 bringing together representatives from 11 governmental institutions and agencies involved in AML/CTF. Its aim is to contribute to fulfilling the strategic and operational goals in the prevention of money laundering and terrorist financing, through, inter alia, identifying weaknesses and risks and removing obstacles to progress. The Croatian FIU concluded bilateral agreements with its Georgian and Moldovan counterparts.

There has been no progress on further legislative alignment with the AML directives as well as the standards of the Financial Action Task Force. Institutional capacity needs to be strengthened. Monitoring and supervision of reporting entities remains inadequate, especially outside the banking sector, and the enforcement record (including convictions, confiscations, seizures and asset freezing) is still weak. Moreover, further efforts are required in improving anti-money laundering legislation, ensuring effective implementation, strengthening the FIU and improving inter-agency cooperation.

### *Conclusion*

There has been some progress in this chapter, mainly as regards liberalisation of the capital account, including with respect to SAA obligations on the acquisition of real estate by EU nationals. Further progress is necessary to align legislation, improve administrative capacity and strengthen enforcement concerning the fight against money laundering and combating terrorist financing. Overall a reasonable level of alignment has been achieved.

## **4.5. Chapter 5: Public procurement**

Little progress can be reported in the areas of **general principles** and **award of public contracts**. A new Public Procurement Act was adopted in October 2007. However, work is continuing with a view to adoption of a new Concessions and Public-Private Partnerships Act.

Regarding *administrative capacity*, the Public Procurement Office (PPO) slightly increased its staff in 2007, which still falls short of the target of 24. The PPO has stepped up its efforts on training for contracting authorities and published a procurement manual in February 2007. Following the recruitment of a training coordinator in January 2007, the PPO delivered various training programmes as well as awareness-raising activities for their staff and contracting authorities. Expert support and training for contracting authorities, also in relation to practical implementation of the Act on public procurement, remains weak.

The Ministry of Finance has been designated as the focal point for concessions policy. In March 2007, the Croatian government adopted guidelines on the development of concessions policy for 2007-2009. The Trade and Investment Promotion Agency remains the focal point for public-private partnerships. In February 2007, the government adopted a regulation on issuing pre-approvals for public-private partnership contracts.

A single leading body for procurement responsible for coherent policy-making, coordination and implementation in all areas related to public procurement, which is a key element for accession negotiations in this chapter, has not been established. Croatia has not yet adopted a national strategy on development of the procurement system. Moreover, in view of the PPO's potential role as the focal point for procurement policy, its staffing levels are insufficient both quantitatively and qualitatively, including at managerial level.

Major gaps in the application of the basic principles and the overall legal framework on public procurement, particularly on concessions, remain.

There have been no developments on legislative alignment in the area of **remedies**.

The State Commission has continued to demonstrate a solid track-record of dealing with complaints from tenderers, although their staff recruitment target has not been achieved. Nevertheless, the State Commission managed to significantly reduce the average duration of review procedures (from 40 days in 2005 to 15 days in 2006). The State Commission enhanced the transparency of its work and improved the system of legal protection in public procurement, including publication of two manuals, one targeted at contracting entities, the other one at tenderers.

### *Conclusion*

Some limited progress can be reported on this chapter. However, administrative capacity remains inadequate at all levels of the procurement system. Overall, alignment is underway, but very considerable efforts are needed to design a comprehensive strategy covering all areas of the procurement system, including concessions and public-private partnerships, and to task an organisation responsible for coherent policy-making and implementation in all these areas.

## **4.6. Chapter 6: Company law**

Further progress has been recorded in the field of **company law**, where the Croatian legislation is largely aligned with the *acquis*. A Corporate Governance Code was issued in April 2007, based on the "comply or explain" approach, which covers many aspects of good corporate governance based on OECD principles. The amendments to the Court Register Act, adopted in March 2007, partly align Croatian legislation with the disclosure rules foreseen in the First Company Law Directive, including introduction of electronic procedures plus sanctions for late or non-disclosure of financial reports.

A project is underway to implement the IT infrastructure necessary for electronic filing and availability of documents and particulars in the Court Register. The amendments to the Court Register Act also introduce the possibility – upon the accession of Croatia to the EU – to register as a European company or European economic interest group (EEIG). In October 2007, the Parliament adopted the Act on the Take-over of Joint Stock Companies as well as the Act on the Introduction of the European Company and of the EEIG. However, some amendments to Croatian legislation remain necessary.

There has been some progress in the field of **corporate accounting**. The new Accounting Act was adopted in October 2007. Croatia's legislation is not yet aligned with the *acquis* on, *inter alia*, layouts, preparation of annual reports and consolidated accounts. Publication of financial reports is mandatory for public limited liability companies only. Disclosure of financial reports by Croatian companies and enforcement thereof by the competent authorities, remain weak.

There has been limited progress in the field of **auditing**. Work is underway to prepare amendments to the Audit Act. The Chamber of Auditors adopted the ordinance on external quality assurance and the Code of Ethics as planned in June 2007, which aim to further align with the *acquis*. Further efforts are required to establish an effective external quality assurance system and public oversight of the auditing profession.

### *Conclusion*

Overall, some progress can be reported in this chapter. Alignment with the *acquis* is on track, but continued efforts are required for implementation of the recently adopted amendments and for corporate compliance with the requirements concerning the disclosure of financial reports.

## **4.7. Chapter 7: Intellectual property law**

There has been good progress in the field of **intellectual property rights**. Amendments to the Copyright and Related Rights Act, adopted in July 2007, have filled the key remaining gaps in the legislation, which is a key element for the accession negotiations in this chapter. This concerns also the exhaustion of rights, and implies that Community exhaustion will apply from the date of Croatia's accession to the EU. However, some further adjustments are necessary to align with the *acquis*.

There has been good progress on **industrial property rights**. Amendments to the Patent Act, the Designs Act and the Trademark Act have filled the key remaining gaps in Croatia's legislation, including on exhaustion of rights, compulsory licensing of pharmaceutical patents and the availability of special protection certificates. They also provide for extension of the Community trademark and of the Community design in Croatia following its accession to the EU.

Some progress can be reported on **enforcement**. The abovementioned amendments to the substantive acts almost fully align Croatia's legislation with the Enforcement Directive, although some further minor adjustments are required. The report on implementation of the national strategy was adopted by the government in April 2007. Over the reporting period, some 260 misdemeanour trials were requested on the basis of investigations by the State Inspectorate. The role of the judiciary in handling IPR cases and systematic collection of statistics are addressed in the national strategy but specialised training for the judiciary and overall commitment remains at a low level.

As regards administrative capacity, the abovementioned amendments to the substantive acts introduce from June 2008 an internal appeal board within the State Intellectual Property Office (SIPO), empowered to hear appeals against all administrative decisions taken by SIPO. The coordination between the enforcement bodies at central and regional levels has improved but remains weak, particularly in terms of policy. Light sanctions for criminal offences in the field are also a cause for concern, since they have little or no deterrent effect in terms of preventing crime. In addition, they are evidence of a rather low recognition of the economic and social effects of counterfeiting. A sufficient administrative capacity and a satisfactory track record of implementation are key elements for the accession negotiations in this chapter.

### *Conclusion*

Good progress can be reported both on legislative alignment and on enforcement. Alignment with the *acquis* is well on track, but continued efforts are required regarding administrative capacity to enforce rights in the fight against piracy and counterfeiting and to establish an enforcement track-record.

## **4.8. Chapter 8: Competition policy**

In the area of **anti-trust**, including **merger control**, the shortcomings identified in 2006 have not been addressed. Announced legislative changes needed to make anti-trust control more effective have not been adopted. In particular, an efficient system for imposing fines to allow CCA decisions to have a deterrent effect, but also leniency and judicial control have not been remedied. Also, Article 266 of the General Administrative Procedure Act (GAPA), which allows the government to overturn anti-trust decisions, has not been repealed. There is also a need to ensure uniform application of the Croatian Competition Act by bodies other than the CCA which have powers with respect to anti-trust and mergers in specific sectors.

As regards administrative capacity, the CCA continues to make progress with its case-management and analysis. However, this progress is being slowed down by the low budget allocated to the CCA and the absence of tools such as the power to set fines,, leniency and effective appeal mechanisms which hamper its overall effectiveness.

As regards the *anti-trust enforcement* record, the Competition Agency (together with the Croatian National Bank in the case of the banking sector) adopted 93 substantive decisions in 2006, including 5 on restrictive agreements, 3 on abuse of a dominant position, 26 on merger control and 59 advocacy decisions. The enforcement record should increasingly focus on preventing the most serious distortions of competition, in particular restrictive horizontal agreements and abuses of a dominant position.

In the field of **state aid**, some progress can be noted. Changes to the State Aid Procedural Bylaw adopted in 2006 provide a satisfactory basis for implementation. The main legislative and administrative challenges for aligning with the *acquis* now lie in related fields of legislation (fiscal and sector specific legislation) and require active cooperation from the grantors of aid and strong political support, thus ensuring that the CCA is involved early on in the alignment of all existing aid schemes and the design of new aid schemes.

The CCA is Croatia's national authority for monitoring and controlling state aid. In terms of administrative capacity, the CCA has made progress on the dialogue with grantors of state aid, with the national administration and with regional governments. Further significant

improvements are nevertheless hindered by the low staffing levels and budgetary resources allocated to improving control of state aid.

There has been some progress on the *state aid enforcement* record. In 2006, the CCA handled 91 state aid cases (decisions and opinions). The majority of cases either were not considered state aid as defined in the Law or were approved as compatible aid. Only four cases were found to be incompatible with the Law.

Some progress can be reported in the area of *fiscal aid*, which is a key element of the accession negotiations. The draft Free Zones Act has not been aligned with the *acquis*. A new Investment Promotion Law and its implementing provisions, aligned with the *acquis*, entered into force in 2007. However, the actual disbursement of aid under this type of schemes requires the adoption of a regional aid map, which is missing.

As regards the *shipbuilding sector*, which is a key element of the accession negotiations, Croatia has made moderate progress. The major shipyards are experiencing difficulties and benefit from state aid in the form of debt write-offs, operating aid and extensive guarantees, in breach of Article 70 of the SAA. In February 2007, the Ministry of Economy and Labour (MELE) notified the CCA about restructuring aid for five shipyards in difficulty. Drafts of individual restructuring plans for the shipyards were also sent to the European Commission for information. These restructuring plans should identify the measures needed to restore long-term viability, the undertakings' own contributions to the restructuring and measures compensating for the aid received. In view of the fact that the shipyards are in difficulty and are kept afloat thanks to operating aid, these plans remain to be finalised as soon as possible and integrated in a national restructuring programme approved by the government.

In the case of the *steel industry*, some progress has been achieved. The National Restructuring Programme for the steel industry, which is a key element for the accession negotiations, was adopted by the government in February 2007. Although this meets the formal requirement of the SAA, insofar as it includes final restructuring aid for the steel sector within the deadline, some elements remain to be finalised following the privatisation in July 2007 of the Split and Sisak steel mills. This includes the finalisation of their respective individual business plans and the updating of the National Restructuring Programme for the steel industry, leading to long-term viability under normal market conditions without distortions of competition.

### *Conclusion*

Some progress has been achieved on this chapter, both as regards anti-trust and state aid. However, there is a need for further legislative alignment and for strengthening administrative capacity. Alignment with the *acquis* in this chapter is underway, but considerable efforts are still required, in particular in relation to the restructuring of the steel sector and of the shipyards in difficulty.

## **4.9. Chapter 9: Financial services**

There has been some progress in the field of **banks and financial conglomerates**. The Credit Unions Act and the related amendments to the Banking Act adopted in December 2006 paved the way for turning savings and loans cooperatives into either credit unions or savings banks, both of which fall under the supervision of the National Bank (HNB). So far, 43 savings and loans cooperatives have announced plans to turn into savings banks and 36 into new credit unions, while 18 have announced that they are winding up. The process should be completed

by the end of 2007. Some adjustments have been made to the capital adequacy requirements for credit institutions and investment firms. The National Bank is continuing to work towards adopting a new Credit Institutions Act and to draft necessary secondary legislation with the aim of fully transposing the new capital requirements framework. A new Leasing Act was adopted in December 2006, bringing leasing companies under the supervision of the Financial Sector Supervisory Authority (HANFA). *Inter alia*, it forbids leasing companies from granting credits on their own account.

As regards *administrative capacity*, the National Bank's Banking Supervision and Regulation Department hired six additional staff in April 2007. The National Bank also continued to develop its cooperation with foreign and domestic supervisors.

There has been some progress on **financial market infrastructure**. Croatia adopted and published a new Financial Collateral Act.

Limited progress can be reported in the field of **insurance**, where Croatia's legislation already largely complies with the EU *acquis*. Some implementing measures have been adopted by HANFA, notably concerning supervision of insurance groups, establishment of a guarantee fund and calculation of solvency margin and technical reserves. In the field of occupational pensions, legislative amendments were adopted in June 2007 with the aim of aligning the pension system with the IORP Directive.

Some progress can be reported in the area of **securities markets and investment services**. The amendments to the Securities Market Act adopted in December 2006 brought derivatives trading within the scope of the Act, while also addressing the operating conditions of authorised companies and regulated public markets. HANFA has also adopted a number of implementing measures, *inter alia* rules on conduct of business, licensing of investment firms and prevention of market manipulation, along with several measures implementing the new Investment Funds Act, notably regulating the issuing of the prospectus and simplified prospectus for open-ended investment funds.

As regards *administrative capacity*, HANFA has taken robust enforcement action in a number of recent high-profile cases, notably the takeover of the pharmaceutical company Pliva and the flotation of shares in INA. Nevertheless, some weaknesses remain. Disclosure of financial statements by listed companies remains inadequate. The rules to prevent market abuse are not always clear and enforcement of these rules needs to be further strengthened. More generally, HANFA's administrative capacity and its arrangements for consultation with the private sector still need further reinforcement.

### *Conclusion*

Some progress can be reported on this chapter. Alignment with the *acquis* is well underway, particularly in areas such as insurance and investment funds. Increased efforts are required to strengthen banking supervision and the Financial Sector Supervisory Authority's arrangements for supervision of the non-banking sector and to meet the overall requirements of the EU *acquis* on financial services.

## **4.10. Chapter 10: Information society and media**

There has been some progress in the field of **electronic communications and information technologies**. The sector has continued to expand with the mobile market representing the



driving force behind the development of telecommunication services in the country, with a penetration rate of about 104.8 % in March 2007. Price decreases of about 22% on national calls and 2.6% on international calls have been observed. However, persistent difficulties in network roll-out with the third player have slowed down this progress. There has been some progress on fixed line liberalisation. However, with 87% market share, the incumbent operator dominates the market and a level playing field is still to be established and enforced. A broadband strategy has been presented and its action plan is being implemented. However, alternative operators in the broadband market are facing difficult pricing and non-pricing conditions in the incumbent's DSL offer.

The Croatian Telecommunications Agency has reinforced its organisation and engagement on the market and is improving transparency of its activities. It has begun to make some progress implementing important competitive safeguards such as rights of way and facility sharing. Work is in progress but not yet complete however, also in other areas such as carrier selection, accounting separation and cost accounting systems, reference unbundling offer, leased lines wholesale offer and pricing.

Number portability in the fixed and in the mobile network has been available since October 2006. Some progress has been made in partially harmonising the concession agreement between the State and the incumbent with the current Telecommunications Act. Guidelines have been issued regarding the shared use of ducts. Guidelines for drafting the new Electronic Communications Act have been adopted by the Government and are under public consultation. However, in order to align with the *acquis*, a new primary law will need to be drafted and existing secondary legislation simplified and amended. Particular attention will need to be paid to the Agency's independence and tasks, market competition and SMP regulation, the authorisation regime, including replacement of licensing and concession agreements, infrastructure development, rights of way and facility sharing.

There has been no particular progress in the area of **information society services** and electronic commerce. Croatia does, however, have a well-defined timetable to align its legislation with the corresponding *acquis*.

There has been some progress in the field of **audiovisual policy**. In July 2007, the parliament adopted a new Law on electronic media introducing an improved regulatory framework and provisions further aligning with the Television without Frontiers Directive. However, the nomination procedure for appointment to the Council for Electronic Media (CEM) has not been changed and a broad civil society role in this procedure is still lacking.

Some political interference in the media landscape has continued. Both the Council for Electronic Media and the Croatian Radio and Television and its Programme Council should be able to work independently and free from political pressure. A review of media legislation has been announced by the Government with the aim of strengthening the role of civil society in the election procedure to both the CEM and the HRT Programme Council and minimising the possibility of political pressure.

### *Conclusion*

Some progress has been made in this chapter. Further steps have been taken towards liberalisation of the electronic communications market and some new media legislation introduced. However, further efforts are needed for effective liberalisation of the market, including introduction of a new primary law and further strengthening of the Agency.

Regulatory independence and safeguards against political interference in the media need to be assured. Overall, Croatia has reached a good level of alignment with the *acquis* in this chapter, but competition in the fixed line telephony market remains limited.

#### 4.11. Chapter 11: Agriculture

With regard to **horizontal issues**, preparations have continued for the establishment of the Integrated Administration and Control System (IACS) and the Land Parcel Identification System (LPIS). The work is however still at an early stage and needs to be intensified. A plan for setting up a Farm Accountancy Data Network has been prepared but its implementation has been delayed compared to the initial timetable. Substantial staff and financial resources will be needed to ensure the necessary administrative capacity for the Common Agricultural Policy.

Concerning **common market organisations**, limited progress can be reported. The existing system for supporting and regulating the agricultural sector in Croatia differs substantially from the reformed Common Agricultural Policy, in particular as regards the support to farmers by payments coupled to production. Substantial efforts will be required to ensure that all elements of the Common Agricultural Policy will be fully in place at accession, such as market intervention, quotas, price reporting and monitoring, and in particular the EU's system of decoupled direct payments. A clear timetable for this work will need to be established. A vineyard register in line with EU standards needs to be established.

With regard to **rural development**, Croatia has made good progress related to the implementation of the Special pre-Accession Programme for Agriculture and Rural Development (SAPARD) although substantial efforts still need to be made to ensure efficient and effective use of the funds. Good progress has been made in preparation for the IPARD programme. However, it is crucial that progress continues, in particular concerning the development of a set of mandatory standards for the agri-environment measure, as well as with regard to the setting up of IPARD structures.

Preparations are well advanced with regard to **quality policy** where Croatian legislation has been amended with a view to harmonisation with EU *acquis*. Further efforts are needed with regard to the inspection system.

Preparations are well advanced in the field of **organic farming**. Croatian legislation in this field already has a high level of compliance with EU requirements. Croatia has the necessary register of organic operators, authorised testing laboratories and technical inspections.

#### *Conclusion*

Croatia has continued to make progress under this chapter. Preparations are well advanced with regard to quality policy and organic farming. Good progress has been achieved with rural development although preparations need to be intensified with IPARD. Considerable efforts are required for the establishment of IACS and LPIS and to ensure the correct implementation of all elements of the reformed Common Agricultural Policy.

#### 4.12. Chapter 12: Food safety, veterinary and phytosanitary policy

Progress has been made in the field of **general** foodstuffs policy by the adoption of the new Food Act. The Act takes over fundamental principles and requirements of EU food law and designates the Ministry of agriculture, forestry and water management (MAFWM) as the

competent authority responsible for food safety issues in Croatia. Substantial efforts will be required to prepare secondary legislation and to ensure the full implementation of the Act, for instance as regards the responsibility of food and feed operators and traceability. Croatia will need to strengthen its administrative capacity to fulfil the obligation of registration of establishments and implement the new approach of food and feed controls.

Progress has been made with regard to **veterinary** issues as Croatia adopted the new Veterinary Act that will allow the transposition of parts of the veterinary acquis. Substantial efforts are still required with the preparation of secondary legislation and the strengthening of the administrative capacity.

Croatia has continued to make progress with regard to animal identification and registration. However, there is still a need for further improvement to set up a compliant system for identification and registration of bovines and their movements as well as for caprine and ovine animals and pigs.

With regard to veterinary checks on third country borders some progress has been made. There is a substantial need for infrastructure investments and upgrading of staff qualifications as regards the eight external border inspection posts pre-selected by Croatia. Croatia's non-vaccination approach for Classical Swine Fever (CSF) represents a positive development with a view to EU requirements but there is a need for intensified efforts of monitoring and control based on a national plan for the fight against CSF.

With regard to the **placing on the market of food and feed**, some progress can be reported. Croatia started the process of classification of establishments producing food of animal and non-animal origin based on EU legislation. A national plan for upgrading of agri-food establishments has been prepared, together with an action plan. The large majority of food processing establishments, such as slaughterhouses, meat processing plants and dairies, do however in general not comply with EU requirements and substantial efforts will be needed to bring them into compliance. There is also a need for further improvement of laboratory capacity in the food safety field. The progress in this field is closely linked to the finalisation and implementation of the Food Safety Strategy.

In the field of **animal welfare**, only limited progress has been made.

No development can be reported in the areas of **specific rules for food** and **specific rules for feed**.

Good progress has been made in the area of **phytosanitary** issues, although further efforts are still required to finalise implementing legislation and to enhance the administrative capacity. Progress can be reported in enhancing staff numbers and qualifications as well as the general administrative capacity. The new Plant Health Act takes over important parts of the acquis and has formed the basis for the adoption of a substantial number of implementing legislation. Thus, controls of harmful organisms were enhanced, in particular with regard to systematic surveys for certain harmful organisms and the density of controls was increased. Phytosanitary border inspection posts that will remain after accession need to be improved with regard to infrastructure and staff qualifications.

Good progress has been made in the field of plant protection. The Plant Protection Products Act that entered into force in 2007 aims at harmonisation with the EU *acquis* on the marketing of plant protection products. Implementing legislation was issued on evaluation of

active substances, authorisation and labelling of plant protection products. Some progress was made with regard to the area of seed and plant propagation material as implementing legislation was adopted.

### *Conclusion*

Progress has been made overall, in particular with the adoption of framework and secondary legislation. Considerable efforts are however required in order to accelerate the preparations of secondary legislation and ensure that the administrative capacity is further strengthened.

#### **4.13. Chapter 13: Fisheries**

Little progress can be reported in the areas of **resource and fleet management** and **inspection and control**. Croatia adopted one implementing regulation which should improve data collection on landings and first sales of catches. A new implementing regulation *on* logbooks and submission of data has been adopted aimed at further harmonising the Croatian logbook with the EU requirements. Work has started on establishing and entering data into the fishing fleet register. Some differences from the *acquis* remain in the Croatian technical measures for resource management. Gaps in the area of fleet management remain with regard to certain fleet management measures and a satellite-based vessel monitoring system (VMS). The administrative capacity and equipment of the fisheries inspection services require substantial strengthening. Overall, preparations in the area of resource and fleet management and inspection and control have started but are still in the early stages.

Limited progress can be reported with regard to **market policy**. Wholesale fish markets are being developed in Rijeka and Poreč. These are the first steps towards organising fish markets in Croatia. Croatia does not yet have producers' organisations and currently uses different marketing standards. Preparations in this area have only just started.

There has been no particular progress on **structural actions** and **state aid**. Croatia still needs to put in place the administrative structures necessary to implement the EU's structural policy. It will also have to remove state aid which is incompatible with the *acquis*, such as the current fleet modernisation programme.

No particular developments can be reported in the area of **international agreements**. Croatia is generally implementing the recommendations issued by the relevant international fisheries organisations such as the GFCM and ICCAT.

### *Conclusion*

Croatia has made some progress in the field of fisheries. Overall, preparations have started but are at an early stage. Gaps remain in the areas of fleet management, inspection and control, structural actions and state aid. Croatia will need to step up its efforts to close these gaps.

#### **4.14. Chapter 14: Transport policy**

There has been some progress in the area of **road transport**. The Dangerous Goods Transport Act has been adopted. The Act aims to achieve full compliance with the *acquis*. Following adoption of the relevant secondary legislation, the Act should be applied by the end of 2007. Translation and revision of the International Agreement on the Transport of Dangerous Goods by Road are in their final stage. A working group on introduction of the digital tachograph has started work and is drafting the relevant legislation. As regards administrative capacity, a new

regulation on organisation of the Ministry of the Sea, Tourism, Transport and Development (MSTTD) is in the process of adoption. This regulation will provide for an increase in the number of road inspectors and regulate working conditions and budgetary resources. Preparations in this area are advancing.

Significant progress can be reported in the **rail transport** sector. With effect from January 2007, the railway company HZ was restructured into four operators under the umbrella of a holding company. The daughter companies are responsible for traction, passenger transport, and freight transport and infrastructure management. Business plans for each of the four companies are currently being prepared. The State has taken over all previous loan commitments entered into by the former integrated railway company up to the date of the restructuring. Legislation to establish a *regulatory body* has been adopted. A Railway Transport Safety Act was adopted in March 2007. Revision of border crossing agreements to make them compliant with Community railway *acquis* has started. Subordinate regulations remain to be drafted in order to achieve alignment with the *acquis* on safety and interoperability. The Act provides for transferring powers to adopt regulations from the railway company to the MSTTD. Furthermore, the Railway Transport Safety Act has created the legal basis for establishing a railway safety authority, an investigative body and a notified body. Preparations in this area are well underway.

Progress has been limited in the area of **inland waterways transport**, where Croatia's legislation is only partially aligned with the *acquis*. Differences remain in the provisions on market access, recognition of documents issued outside Croatia, access to the profession, boat masters' certificates and vessel certification. A new Act on Navigation and Inland Ports aimed at alignment with the *acquis* is in the final stages of preparation. Croatia has started development of river information services. Preparations in this area are underway.

Progress can be reported in the area of **aviation**. The Act amending the Air Traffic Act was adopted in April 2007, with the aim of alignment with the *acquis* concerning licensing, working times of mobile crews and the single European sky. The Act introduces the concept of "operating licence" into Croatian legislation. It also provides the legal basis for establishment of an independent civil aviation agency. Croatia has adopted an ordinance on continuous airworthiness testing of aircraft and aeronautical products and on the authority of the organisations and staff involved in these operations plus an ordinance on flight time limitation. The existing ordinance on licensing and authorisation of helicopter pilots has been amended.

Croatia is a party to the multilateral agreement establishing the European Common Aviation Area Agreement (ECAA) and has applied it at administrative level since its signature, in line with the Salzburg Declaration of 12 May 2006. However, significant parts of the ECAA first transitional phase aviation *acquis* remain to be implemented. Croatia needs to ratify the Montreal Convention as soon as possible and an independent aviation accident investigation body needs to be established. The amended Air Traffic Act reflects the priorities of the ECAA. The new national security programme was adopted at the end of 2006. This sets the course for further alignment with the EU measures for implementing the common basic standards on aviation security. Implementing legislation regarding limitations on liquids permitted on board entered into force in December 2006. Alignment with the *acquis* in this area is well advanced.

There has been good progress in the area of **maritime transport**. Croatia has ratified the International Convention on Civil Liability for Bunker Oil Pollution Damage and the

International Convention on the Control of Harmful Anti-Fouling Systems on Ships. Rules have been adopted on technical supervision of seagoing ships, in particular on control of harmful anti-fouling systems and safety management. Two ordinances have been adopted on roll on-roll off vessels (on mandatory safety surveys and stability requirements) plus a further ordinance on investigation of marine casualties. The Maritime Code was amended to provide a legal basis for secondary legislation on common rules and standards for ship inspection and survey organisations. Croatia is taking part in the activities of the European Maritime Safety Agency (EMSA). Preparations in this area are well underway although legislation on maritime cabotage remains unaligned to the *acquis*.

### *Conclusion*

Overall, Croatia continued to make good progress on alignment with the *acquis*, in particular in the areas of rail and maritime transport. Increased efforts are needed, however, and adequate administrative capacity needs to be ensured for most transport sectors.

## **4.15. Chapter 15: Energy**

There has been progress on **security of supply**. On 1 July 2007 Croatia held compulsory oil stocks equivalent to 60 days' consumption. A contingency plan for dealing with disruptions of supply is being developed. Preparations in this area are underway but legislation on authorisations for prospecting, exploration and production of hydrocarbons remains to be aligned with the *acquis*.

Significant progress can be reported in the area of the **internal electricity market**. The electricity market and balancing rules entered into force in January 2007. In December 2006 the transmission system operator adopted the rules on allocation and use of cross-border transmission capacity. Monthly auctions of trans-border transmission capacity on all borders except with Montenegro have commenced. Since July 2007 the market has been opened for all non-household customers, although in practice HEP remains the only supplier of electricity in the country. Preparations in this area are advanced.

There has been good progress regarding the **gas market**. In April 2007 a new Gas Market Act was adopted, regulating storage and distribution of gas, LNG, security of supply, unbundling and allocation and use of cross-border capacity. It also specifies in greater detail the rights and obligations of customers (eligible and tariff). The state gas company INA has been privatised, but still holds a dominant position in supplies and imports of gas. Preparations in this area are advancing.

Croatia is a full member of the Energy Community Treaty. With effect from July 2007 it is therefore bound to apply the relevant EU energy *acquis*, except for the provisions on market opening, to which a special timetable applies. Croatia has made good progress towards implementing this obligation but needs to pay particular attention to public service obligations, customer protection and cross-border trade mechanisms. The administrative capacity of the Croatian energy regulatory agency (CERA) requires further strengthening. The government sets energy prices, while the regulatory agency provides tariff methods and gives an opinion on the price to the line ministry. Alignment with the *acquis* in this area is well advanced.

There has been some progress in the areas of **energy efficiency** and **renewable energy sources** (RES). Implementing legislation has been enacted on the minimum share of

electricity to be produced from RES and co-generation, the tariff system and the incentive fee for RES and co-generation. However, the system is still not operating in practice since the legislative package and incentive system are not complete. Also, to align with the *acquis*, Croatia's target for the share of renewable electricity must include all hydropower. The 2007 target for biofuels has been set at 0.9% of all fuels on the domestic market. Technical regulations concerning heat retention, windows and doors in buildings have been enacted. Administrative capacity on renewable energy and energy efficiency remains to be strengthened. Preparations in this area are underway.

In the field of nuclear energy, the Parliament adopted in October 2007 a new act intended to provide for financing to the decommissioning of the Krsko Nuclear Power Plant (NEK) and the disposal of NEK's radioactive waste and spent nuclear fuel.

Progress has been good in the area of **nuclear safety and radiation protection**. A law on protection from ionising radiation and safety of ionising radiation sources has been adopted. This is supplemented by a package of implementing legislation relating to ionising radiation and exposure to such radiation. In addition, a package of implementing legislation has been enacted, relating to nuclear activities, nuclear material and organisations involved in tasks related to nuclear security. Administrative capacity remains low and fragmentation of responsibilities between the Ministry of Health and Social Welfare and the two state offices for radiation protection and nuclear safety persists.

### *Conclusion*

Overall, there has been good progress. However, continued efforts are needed on alignment with the *acquis*, especially in the area of energy efficiency. Special attention must be paid to strengthening administrative capacity as a condition for proper implementation and enforcement of the *acquis*.

## **4.16. Chapter 16: Taxation**

No progress can be reported in the area of **indirect taxation**. Croatia's legislation on *VAT* and *excise* duties remained partially aligned with the *acquis*. Deviations from the *acquis* in the field of VAT include certain reduced or zero rates applied in Croatia, the scope of the reduced rates and of exemptions, the exclusion of free zones from the fiscal territory, the special schemes and the lack of legislation for VAT refunds to non-established traders. The system of excise duties requires substantial changes to, for example, product coverage, rates and duty suspensions. In addition, the current excise duty regime for cigarettes results in a de-facto discrimination against imported products and would thus be incompatible with the SAA. In the area of indirect taxation Croatia has not addressed its priorities.

Very limited legislative progress has been made in the area of **direct taxation**. The amendments to the Law on Profit Tax entered into force. These amendments aim to align certain special tax arrangements to the state aid *acquis* (See Chapter 8 - Competition) and with the code of conduct for business taxation. Divergences from the Merger, Interest and Royalties, and Savings Directives persist. In the area of direct taxation, Croatia has only very partially addressed its priorities.

Limited progress can be reported with regard to **administrative cooperation and mutual assistance**. Croatia has started to participate in the Fiscalis 2007 programme.

There was some progress with regard to **operational capacity and computerisation**. The tax administration adopted an IT strategy setting policy objectives and providing for staff increases in order to ensure interconnectivity with the EU systems upon accession. Work on operational and IT capacity continued, albeit with some delays. The tax administration is heavily dependent on external expertise but it has started to reinforce its in-house IT department. Overall, preparations in this area are at an early stage.

### *Conclusion*

In the area of taxation, Croatia made very limited progress. The overall structure of the tax legislation is similar to the *acquis*. However, alignment of the Croatian tax legislation is far from complete and the excise duty problem on cigarettes needs to be resolved. Substantial efforts are also required to strengthen the administrative capacity, including regarding IT interconnectivity.

## **4.17. Chapter 17: Economic and monetary policy**

Substantial progress can be reported on alignment with the *acquis* governing **monetary policy**. In December 2006, Parliament adopted amendments to the Law on the Croatian National Bank (CNB), which significantly strengthened the independence of the CNB. Furthermore, the CNB adopted a secondary objective that allows general economic objectives of the European Community to take precedence over Croatia's domestic objectives. In addition, rules and structures relevant to integrating the CNB into the European System of Central Banks by the time of EU accession have been incorporated. The amended CNB Law more comprehensively prohibits monetary financing of the public sector. The definition of "public sector" has been changed and now also includes extra-budgetary funds, local self-government units and other public bodies. The provisions that permitted the Croatian government to cover any shortfalls between the income and expenditure of the CNB that are larger than the CNB's general reserves either from the state budget or by issuing bonds have been revoked. A new law on credit unions and amendments to the act on compulsory and voluntary pension funds were adopted in respectively December 2006 and July 2007 and restricted privileged access for public authorities to financial institutions.

However, Croatia has not yet completed its legal alignment in order to ensure full central bank independence. Furthermore, there are still provisions in the Croatian legislation that give rise to privileged access for public authorities to financial institutions. Overall, preparations in the field of monetary policy remain well on track.

In the area of **economic policy**, the country has made some progress in its alignment with the *acquis*. Croatia submitted its third Pre-Accession Economic Programme, covering the period 2007-2009, in December 2006. It presents a sound and coherent medium-term macroeconomic and fiscal framework and a broad agenda for structural reforms. Croatia submitted its third fiscal notification in March 2007. Reporting of fiscal data on the basis of ESA 95 has improved. Some further progress has been made in enhancing the institutional capacity for economic policy formulation and implementation. However, several ministries and government agencies have varying degrees of responsibility in key and interrelated economic policy areas. The wide fragmentation of responsibilities has hampered the effectiveness of policy formulation and at times led to delays in implementation. Overall, in the field of economic policy Croatia is making progress.



## Conclusion

There has been significant progress in the area of economic and monetary policy. However, Croatia has not yet completed the necessary alignment, in particular in the cases of privileged access for the public sector to financial institutions and of full independence for the Central Bank. Overall alignment with the *acquis* in the area of economic and monetary policy is well advanced.

### 4.18. Chapter 18: Statistics

Some progress can be reported concerning **statistical infrastructure**. The Annual Implementation Plan for Statistical Activities in 2007 was adopted in October 2006. With regard to administrative capacity, the Central Bureau of Statistics (CBS) has been reorganised as the first step towards increasing its institutional capacity. This included establishment of a Project Implementation Unit and an Internal Revision Unit. Cooperation between the CBS and the other main producers of official statistics has improved.

In order to enhance the institutional capacity of the CBS, a Statistical Master Plan was finalised in June 2007. Its main objective is to develop a long-term strategy for adjusting the organisation and production of the CBS with a view to its integration into the European Statistical System. However, the risk is that due implementation of the new strategies and the new organisation could continue to be hampered by a long-term senior management vacancy (since June 2005). Furthermore, there is still no training policy for CBS staff, and reorganisation of regional statistical offices has not yet taken place. A proper dissemination policy on statistics has not been developed. Preparations in this area are advancing only moderately.

Progress has been good in the area of national **classifications** which are compatible with international standards. In May 2007 the Government adopted a resolution on the national classification of activities in accordance with the EU's NACE Rev. 2 classification. However, the quality of the business register is far from satisfactory. Preparations in this area are well on track.

In the area of **sectoral statistics**, good progress has been made on developing social statistics, where the *acquis* is, to some extent, in place. The Survey of Income and Living Conditions is not yet implemented. Some progress has been made with further alignment of agricultural statistics, in particular with a view to obtaining comparable agricultural structure, agromonetary and dairy data. Nevertheless, the methodology and organisational set-up for collecting agricultural statistics are not in line with the *acquis*. In the area of macro-economic statistics, key national accounts indicators and the methodology used are not in line with the *acquis*. These are, together with agricultural statistics, key elements for the accession negotiations on this chapter. The structural business statistics are being revised with the objective of providing data on all sectors, including at regional level. However, alignment of the business statistics with the *acquis* has not yet been completed.

## Conclusion

Overall, good progress has been made on modernising the statistical infrastructure. A satisfactory level of legal alignment has been reached. However, gaps remain in terms of strengthening the administrative capacity for producing statistics. In the case of sectoral statistics, agricultural and macro-economic and business statistics are not yet in line with the

*acquis*. Continued efforts are required to align legislation with the *acquis* and to implement and enforce it effectively.

#### 4.19. Chapter 19: Employment and social policy

There has been some progress in the area of **labour law**. Legal alignment has continued, as amendments to the Air Traffic Act with the aim of transposing the *acquis* in the field of working hours for mobile workers in civil aviation, as well as amendments to the Railway Safety Act aiming at transposing the *acquis* in the area of working conditions of mobile workers in the railway sector were adopted in April 2007. As regards administrative capacity, a new Regulation on the internal organisation of the Ministry of Economy, Labour and Entrepreneurship (MoELE) was adopted in February 2007. It aims at changing the organisational structure of the Directorate for Labour and the Labour Market and at hiring additional staff in 2007. The short-term priority of the Accession Partnership has therefore been partially met. Specialist training has been provided for judges and court councils for labour disputes. In general, however, shortcomings persist as regards legal alignment and administrative capacity.

Good progress can be reported in the field of **health and safety at work**. Legal alignment has continued with the adoption of legislation aiming at transposing the *acquis* on mineral-extracting industries, carcinogens and mutagens as well as asbestos. The short-term priority of the Accession Partnership has therefore been partially met. Also the Law on Occupational Diseases has been amended. Funds have been earmarked, in the State budget for 2007, for establishment of the State Institute for the Protection of Health and Safety at Work by merging the present Croatian National Institute of Occupational Medicine and the Institute for Safety at Work within the MoELE. However, implementation and enforcement capacity is still not sufficiently developed, and sufficient funding of implementation remains a problem. The Labour Inspectorate is not sufficiently mobile either. Preparations in this area are well underway.

As regards **social dialogue**, there has been limited progress. Awareness-raising activities have been carried out, and training activities have taken place on settling individual labour disputes and at local government level. Representativeness criteria for participation by the social partners in the Economic and Social Council are being discussed. However, the main pending issues for social dialogue in Croatia remain: the lack of a sufficiently developed bipartite dialogue, poor social dialogue at sectoral level, scarce capacity on the part of social partners, unclear representativeness criteria for social partners, especially for employers' organisations, and fragmentation of trade unions. In general, the influence of social dialogue on the decision-making process and policy design remains weak. The contribution by the tripartite dialogue remains modest.

Good progress has been reached in the area of **employment policy**. In March 2007 the Government adopted the Annual Plan for Employment Promotion in line with the National Employment Action Plan for 2005–2008. Active labour market measures have contributed to the upward trend in the employment rate. Significant results were achieved in 2006, both in terms of coverage of unemployed persons and in the number of employed persons. Measures were taken to boost entrepreneurship and self-employment along with employment of persons in a difficult position on the labour market. Work under the Joint Assessment of Employment Policy Priorities (JAP) is nearing completion. However, the unemployment rate remains high (10.5 % in the second half of 2006 compared with 12.3 % in the second half of 2005).

Regional disparities are still considerable, and the qualification and skills levels of the Croatian labour force are lower than in the EU. Preparations in this field are advancing.

There has been some progress in the preparations for the **European Social Fund**, although administrative and management capacity is not yet sufficiently developed with a view to its future implementation. A decree adopted by the Government in February 2007 established the management structures for IPA component IV (Human Resources Development). The Head of the Operating structure is located within the Labour and Labour Market Directorate of the MoELE with the objective of using this structure as a ‘pre-cursor’ for building the required capacity for the future management and implementation of the ESF. This new department is expected to employ 10 staff, of whom 7 have already been mobilised in two separate units. Preparations in this field have started.

Good progress can be reported in the field of **social inclusion**. The Joint Inclusion Memorandum (JIM) between the EU and Croatia was signed in March 2007, and the first JIM follow-up seminar was held in July in Zagreb. The follow-up activities for 2007–2008 focus on a strategy on decentralisation of social services and on a de-institutionalisation action plan. In April 2007 the Government adopted a strategy for the reform of social benefit spending which aims at facilitating access to social rights by streamlining numerous benefit schemes. However, in the case of people with disabilities, budgetary constraints continue to limit the scope of their rights to health and special care and their social integration. Preparations in this area are advancing.

Some progress can be reported in the field of **social protection**. The Parliament adopted in July 2007 amendments to the Law on Pension Insurance increasing, *inter alia*, the level of minimum pension and of old-age early retirement pension. However, the pension and health care systems are not yet financially sustainable or socially effective. Preparations in this field have started.

There has been limited progress in the field of **anti-discrimination**. A National Plan to Combat Discrimination is being drafted. However, legislation in this field is not yet fully in line with the *acquis*, and the required equality body has not yet been established. Vulnerable groups and ethnic minorities, particularly the Serb and the Roma minorities, continue to face significant discrimination in economic and social life (*See Political criteria – Economic and social rights*). The limited statistics currently available do not allow monitoring of discrimination on different grounds, as required by the *acquis*.

Some progress can be reported on **equal opportunities**. The National Policy for the Promotion of Gender Equality for 2006–2010 was adopted by the Government in October 2006. Production and dissemination of gender-segregated statistics has advanced. Awareness-raising activities have been organised among social partners on equal pay. However, the legislation in this field is not yet fully in line with the *acquis*, and the required gender equality body has not yet been established.

### *Conclusion*

Some progress has been made on this chapter. A good level of legal alignment has already been reached. Specific gaps remain in relation to completing legal alignment and particularly to strengthening administrative capacity which is a key element for the accession negotiations on this chapter. Increased efforts are required to align legislation with the *acquis* and to implement and enforce it effectively.

#### 4.20. Chapter 20: Enterprise and industrial policy

Substantial but uneven progress has been made in the area of **enterprise and industrial policy principles**. Croatia adopted a comprehensive industrial strategy.

With regard to privatisation, developments can be reported concerning large state-owned companies and utilities outside the portfolio of the Croatian State Privatisation Fund. An initial public offering of 17% of INA, the oil company, was completed in November 2006. Similarly, a further 32.5% of Croatian Telecom (HT) was privatised in September 2007. five subsidiaries of the Croatian Railways (HŽ) were put out to tender but none has been sold so far. The buyers for the two steel mills plant have been selected and purchase contracts were signed. There have been no developments concerning privatisation of the state-owned shipyards or the one remaining agricultural conglomerate. The activities of the State Privatisation Fund continued but their pace was affected by the dismissal of the management following a major corruption investigation (*See also economic criteria*).

Good progress has been made in the field of the business environment and notably on various aspects of SME policy. Croatia has invested substantial efforts in the regulatory guillotine project. In this framework, a review of business regulations and formalities led to recommendations which – once implemented – will cut the number of obsolete or inefficient pieces of legislation and reduce the burden which administrative barriers place on businesses. With regard to company registration, the legal framework for electronic signature and online registration is now in place. Further efforts are now required to convert this into faster procedures on the ground and to ensure proper resourcing and monitoring of the "HITRO.HR" agencies. Croatia has continued successfully to implement the European Charter for Small Enterprises. It has put in place a comprehensive and promising SME policy and support framework, addressing a wide range of policy requirements to improve the business environment for small companies. It is also increasingly investing in innovation and competitiveness. Overall, preparations are advancing in the area of enterprise and industrial policy principles.

Some progress has been made on **enterprise and industrial policy instruments**. Croatia has finalised most formalities for effectively participating in the EU's new Competitiveness and Innovation Programme. Croatia is already largely aligned with EU legislation on combating late payments in commercial transactions, but further work is required to ensure full alignment. Croatia is well advanced in this area. Croatia has made good progress in developing online applications for SME's. More progress could be made in harnessing entrepreneurship education and training in the formal curriculum. Access to finance has also improved but will require further efforts particularly in areas of micro-credit, venture capital and business angels.

Limited progress has been made with regard to **sector policies** in some of the economic fields of key importance for the accession negotiations and, more broadly, on the competitiveness of Croatian industry and services. In the case of the steel sector, some positive developments can be reported. Croatia adopted the National Restructuring Programme for the steel industry and two decisions on restructuring aid in February 2007. Some elements of the plan, however, remain to be finalised, such as clarification of the results of privatisation and long-term viability with the minimum amount of state aid necessary, which is also required in order to determine compensatory measures. On shipbuilding, work has started but no tangible progress has been made. Croatia has not yet presented sufficiently detailed and comprehensive individual restructuring plans to the European Commission. These programmes need to be

adopted urgently in order to comply with the state aid rules and SAA obligations (*See also Chapter 8 – Competition policy*). Preparations in this area have started in some sectors but are lagging behind in others.

### *Conclusion*

Croatia has made good but uneven progress on this chapter. There has been good progress on SME policy and the "regulatory guillotine" mechanism as well as with the industrial strategy and restructuring of the steel industry. In other sectors, such as shipbuilding, progress has been limited. Overall, Croatia has achieved a reasonable alignment with the *acquis* in this chapter.

#### **4.21. Chapter 21: Trans-European networks**

Croatia has made good progress in the development of the trans-European networks of transport. It has continued to participate in the development of the Core Regional Transport Network and in the South East Europe Transport Observatory (SEETO) and has approved the Second Rolling Five Year Multiannual Plan 2007-2011 (MAP). The implementation of the priority projects, the coordination of investments and the annual revisions of the MAP require continued cooperation in the framework of SEETO.

Activities to simplify procedures at border crossings are based on Croatia's Integrated Border Management Strategy and the related Action Plan. An inter-departmental working group, led by the Ministry of the Interior, has been set up by the government to implement the Strategy, with a view to coordinating activities and improving inter-agency cooperation. Preparations in this area are well underway.

There has been progress in the area of **energy networks**. Croatia is a signatory to the Energy Community Treaty. Croatia's priorities include development of a liquefied natural gas terminal on the Adriatic coast and of access to gas from the Caspian region through Turkey. Croatia is also giving priority to gas and electricity interconnections with its neighbours. A letter of intent was signed between the Croatian and Hungarian transit system operators. This concerns construction of a new interconnection line from Ernestinovo (Croatia) to Pecs (Hungary). This line is on the list of projects of common interest in the TEN guidelines. A consortium has been formed for construction of the LNG terminal in the Adriatic. The objective is to construct an LNG reception terminal in two phases. Preparations in this area are underway.

There has been progress on **telecommunications networks**. The Information and Communication Technologies Policy Support component of the Competitiveness and Innovation Framework Programme has been put on the priority list of Community programmes in which Croatia wishes to participate.

### *Conclusion*

Overall, Croatia has made good progress with strategic development of the transport and energy networks in line with the design and objectives of the TEN–Transport network and TEN–Energy network. The relevant legislation cannot be put into practice until accession.

#### 4.22. Chapter 22: Regional policy and coordination of structural instruments

Limited progress can be reported on the **legislative framework**. Croatia's draft law on regional development needs to be simplified and streamlined to avoid potential contradictions of the regulations governing cohesion policy. Croatia also needs to amend and extend its legislative framework to allow multi-annual budget planning, financial management and control. Coherence between the national and Community legislation in the areas of public procurement, competition, state aid and the environment still needs to be ensured. Alignment with the *acquis* is at an early stage in this area. Croatia has prepared a revised provisional classification for establishment of three statistical and planning regions at Nomenclature for Territorial Statistical Units (NUTS) II level, which is in line with the relevant regulations and with the Commission's suggestions.

There has been good progress with the **institutional framework**. The Central State Office for Development Strategy is operational and is performing a coordinating function for the IPA. Croatia has identified the operational structures for implementation of the IPA and has indicated that they will be incorporated directly into the future system for implementation of the Structural Funds. Further thought is needed in order to ensure a coherent structure for coordinating future structural and cohesion funding and to identify the appropriate level for implementation of regional programmes and the related management structures. Preparations in this area are advancing.

There has been some progress in the area of **administrative capacity**. Croatia is carrying out a systematic analysis of the organisational, staff and training needs for the Structural Funds in order to meet the key requirements of the *acquis* in this area. However, capacity building needs remain large in some ministries and strengthening administrative and absorption capacity remains a priority for Croatia. The current lack of institutional capacity has directly influenced absorption capacity with respect to ISPA. In order to successfully absorb IPA and Structural Funds in the future, significant strengthening is required. Preparations in this area are nevertheless advancing.

Progress has been good in the area of **programming**. Inter-ministerial working groups under the coordination of the Central State Office for Development Strategy have drawn up a Strategic Development/ Framework and a Strategic Coherence Framework, which have been agreed by the Commission. Croatia has also produced a range of operational programmes. Croatia still needs to prepare a comprehensive and quality project pipe line for implementation under future Structural Funds. The lack of capacity here needs to be dealt with. Preparations in this area are at an early stage and lack coordination.

There has been some progress regarding **monitoring and evaluation** and **financial management and control** (*See also Chapter 32 – Financial control*). Croatia is in the process of establishing an electronic monitoring system but substantial work still lies ahead. It needs to build up evaluation capacity. Croatia also still needs to set up an efficient financial management and control system for implementation of the Structural Funds. Preparations are starting.

#### *Conclusion*

Some progress can be reported in this chapter. Croatia needs to make continued efforts to establish the necessary institutional and administrative capacity to meet the regulatory and

operational requirements stemming from Community cohesion policy. Overall, Croatia is partially aligned with the *acquis* in this chapter.

#### **4.23. Chapter 23: Judiciary and fundamental rights**

There has been some progress in the area of the **judiciary**.

As regards *independence* of the judiciary, new rules of procedure for the State Judicial Council (SJC) adopted in February 2007 introduced a new procedure for the selection of judges that includes the possibility of interviewing candidates. However, the SJC does not have the capacity to systematically interview all candidates pre-selected by the local judicial councils. For each interview, all 11 members of the SJC have to be present and they are assisted only by two administrative staff. Limited use of this possibility has been made so far. In 85% of cases, the SJC follows the decision of the local judicial council which has no specific rules of procedure and does not apply objective criteria. There is therefore no uniform, objective and transparent assessment of judges and judicial trainees wishing to enter the profession.

The Supreme Court has played a greater role in the appointment of court presidents, with the Ministry of Justice increasingly leaving the Supreme Court to decide in sensitive cases. However, procedures still lack transparency and the use of objective criteria limited.

The Supreme Court adopted framework criteria for the performance of judges. The development of qualitative and quantitative criteria is necessary for the re-appointment of about 300 judges whose 5 year probation ends in 2007. Since June 2006, the 13 judges evaluated have been re-appointed. Between June 2006 and May 2007, the State Judicial Council conducted 8 disciplinary proceedings against judges. In six cases judges resigned after judicial inspections highlighted deficiencies in their work.

Amendments to the Law on the State Prosecutor's Office adopted in January 2007 introduced some significant changes. More objective criteria for the evaluation of state prosecutors were introduced as well as improvements in the internal supervision of their work. These and new procedures and criteria on the nomination and dismissal of State Prosecutors and their deputies will now have to be implemented. The composition of the State prosecutorial council, however, remains the same. The continued presence of two members of Parliament in this council might negatively influence the independence of the prosecutors. Provisions on penal *immunity* for judges have not been re-assessed in line with the need for transparency and accountability within the judiciary.

As regards the *impartiality* of the judiciary, the Supreme Court in December 2006 adopted a Code of Judicial Ethics in order to enhance the impartiality and professionalism of the judiciary. However, it is not clear how breaches of the Code would be punished. Since its adoption there have not been any disciplinary cases based on the code. A Code of Ethics for Prosecutors has not yet been adopted. The statute of limitations for the conduct of disciplinary proceedings against State Prosecutors has however been extended to three years. In 2006, two disciplinary procedures were initiated and one resulted in the dismissal of the prosecutor.

Amendments to the 2005 Law on Courts adopted in January 2007 widen the obligation to submit property declarations to all judges. In March 2007 an Ordinance on the content and manner of handling property declarations of judges, state attorneys and deputy state attorneys was adopted.

As regards *professionalism and competence* in the judiciary, a senior level Advisory Board was established in November 2006 with responsibility for providing the Judicial Academy with strategic direction on training. A Programme Committee was also set-up to design the training curricula. However, apart from a belatedly adopted programme for the second half of 2007, no multi-annual strategy and training curricula has been designed to date. No progress was made on pre-service training. The budget of the Judicial Academy was reduced even though its expenses increased and there has been no increase in the number of permanent staff. The Academy does not have a full time director.

In relation to the *efficiency* of the judiciary, serious efforts have been made to reduce the backlog of pending cases of which there are now around 1 million compared to 1.23 million last year. The biggest reductions were achieved in reducing the backlog of enforcement cases. The Supreme Court has taken the lead for monitoring the backlog in view of reducing the length of proceedings. The Supreme Court has continued to order the transfer of cases to less burdened courts (around 10,000 cases per year). Amendments to the Law on Courts from January 2007 allowing the temporary transfer of judges to overburdened courts are not yet implemented as they are subject to challenge at the Constitutional Court

The excessive length of proceedings remains a serious problem in Croatia, however. The backlog remains high and considerable efforts will be required especially taking into account the very high annual in-flow of cases. The ECtHR continues to issue judgements against Croatia for violations of the European Convention of Human Rights regarding the length of proceedings. The State continues to contribute to the backlog by engaging in litigation even when there is little chance of success. Parties continue to abuse procedural rules in order to delay a final decision and its enforcement. Little use is made of existing possibilities for judges to control the number of hearings and the length of the procedure and they often fail to sanction abuse by the parties and their lawyers. It is too early to assess the effect of the shift in jurisdiction from the Constitutional Court to second instance courts for individual complaints regarding the length of proceedings. There remains no effective remedy for the length of proceedings in administrative cases. Streamlining of the court document delivery system and tackling divergences in case law across the country is also required.

There has been limited progress in the rationalisation of the court network. The pilot mergers of misdemeanour courts with municipal courts launched in 2006 did not achieve the desired results in terms of efficiency. In April 2007, the Ministry of Justice therefore adopted a plan for the merger of courts of the same type, which would see the number of courts reduced from 253 to 130. However, so far the Government has only put forward legislation to merge twenty municipal and misdemeanour courts into five of each type. There are no clear indications of the next steps and calendar for the rationalisation of the other courts. Although judges and prosecutors strongly support the rationalisation process, the commitment from the Government is limited, particularly when it comes to decisions on closure of courts.

The system of judicial inspections is beginning to show results. Judicial inspectors conducted 33 inspections of municipal courts, resulting in a change of 8 court presidents (2 resigned, 3 not reappointed, 3 removed from their position). The Ministry of Justice received 11,846 complaints about the work of courts in 2006, of which 30% were considered well founded.

As regards infrastructure and equipment of courts, there has been limited progress. Pilot testing of the integrated case management system (ICMS) has started in a small number of courts. However, roll-out of ICMS more widely is delayed as is its adaptation for the State Prosecutors' offices.



Guidelines for the reform of criminal proceedings were adopted by the government in March 2007. The main aim of the reform, to be implemented in 2009, is to abandon the current system of judicial investigations, with investigative tasks being completely transferred to the State Prosecutor. A new misdemeanours law was adopted in October 2007 which aims to streamline misdemeanour procedures.

There has been progress in promoting the use of alternative dispute resolution. The Commercial Court in Zagreb set up an efficient court mediation structure. Building on this model, the Ministry of Justice set up mediation centres in eight municipal courts. Attention should continue to be paid also to developing out-of-court mediation.

Implementation of the *judicial reform* strategy and the related action plan has continued, covering the majority of issues outlined above. However, despite the achievements to date, severe shortcomings in the functioning of the judicial system remain. The financing and precise deadlines for the implementation of the judicial reform strategy remain unclear. The Action Plan lacks sufficient detail to allow for proper monitoring. The Department for Strategic Planning within the Ministry of Justice has been allocated further staff but in view of the scope of the reform challenges, further reinforcement is necessary not only in terms of monitoring but also of political support at the highest level.

There has been some progress in the area of **anti-corruption** policy and measures.

The legal framework to combat corruption is largely in place. Amendments to the law on the Office for the Prevention of Corruption and Organised Crime (USKOK) adopted in July 2007 extended its mandate to cover abuse of office. The obligation to submit assets declarations was extended to all judges and to State Prosecutors and their deputies in January 2007. Legislation on the financing of political parties was amended the same month with the aim of introducing greater transparency. Particular attention will now need to be paid to implementation in practice, including with respect to financing of election campaigns as well as adequate monitoring and sanctions where breaches are found.

Other shortcomings in the legal framework remain to be addressed. Sanctions under the Law for the Prevention of Conflict of Interest need to be made more effective, and the supervisory role of the Commission for the Resolution of Conflict of Interest reinforced. There is no public written, interpretative guidance of the current prohibitions for public officials in this respect. As regards assets declarations, there is in practice often confusion over what exactly is to be declared and supervision is lacking. There remain contradictions between the Law on Access to Information and other acts relating to secrecy in public administration, where there is a need for increased transparency. Measures to actively investigate illicit enrichment in line with the UN Convention against Corruption (that has been ratified by Croatia) have not been transposed into national legislation.

Following last year's reinforcement of USKOK, the number of cases prosecuted by the office increased substantially (71 cases in 2005, 156 in 2006). USKOK has been involved in the investigation of some important cases of corruption. Of particular note is the "operation Maestro" case, which led in June 2007 to the arrest of 8 senior officials of the Croatian Privatisation Fund. USKOK has also initiated a first case under the new abuse of office provisions.

The total number of corruption cases prosecuted is still limited and, with some exceptions, concern petty corruption. The exclusion hitherto of the criminal offence of "abuse of office"

within USKOK's competence has made it difficult for the Croatian prosecution authority to employ USKOK in high level corruption cases, which still receive insufficient attention. Law enforcement agencies and other state bodies involved in the fight against corruption continue to be more reactive than proactive. Some bodies are not providing reports to USKOK as required by law. Inter agency cooperation requires further improvement.

The National Anti Corruption Programme 2006-2008 is being implemented. Many activities set out in the Programme are being carried out, such as awareness raising, training and increased transparency through use of the internet. A National Council for the Fight against Corruption responsible for monitoring implementation of the Programme has been established and has been meeting regularly. This body comprises a chairman and ten members, including representatives of the Parliament, employers, trade unions, media, NGOs and independent experts.

However, the mini action plans of the different authorities responsible for implementing the National Programme are not sufficiently detailed. The Strategic Unit in the Ministry of Justice tasked with monitoring implementation of the Programme (as well as the Judicial Reform Strategy) is understaffed and has limited capacity to pro-actively and effectively follow-up issues. The National Council itself interprets its mandate in a very restrictive way and does not see it as their role to make any proposals to improve the implementation of the National Programme but merely to monitor it. No corrective measures to increase the efficiency of the programme's implementation have been proposed.

Overall, corruption at the political, economic and institutional level, including the judiciary, as well as the general tolerance of petty corruption remains widespread. Corruption in Croatia is aided by a lack of good governance, transparency and accountability in public administration and by a lack of ethics codes and codes of conduct in the public and private sectors. The promotion of integrity within the public administration needs to be further strengthened. Awareness-raising activities coordinated between all bodies involved in the national anti corruption programme should be further pursued.

As regards **fundamental rights**, there has been some progress (*See also under political criteria*).

Conditions for the functioning of the *Ombudsman* have improved. The allocation of funds has been increased. However, the office still lacks adequate premises and the work of the Ombudsman continues to be limited by a lack of funding and personnel. In particular, it is difficult to ensure the presence of the Ombudsman outside Zagreb. The Gender Equality and the Children's Rights Ombudspersons have encountered similar difficulties in their operation. According to the Ombudsman annual report, the majority of complaints continue to relate to pension insurance, reconstruction, construction and urban planning, obstacles faced by returning refugees as well as the non-response of administrative bodies within the legal time. In general, and despite some positive developments, the institutions set up to protect fundamental rights have not yet fully established their role in the Croatian system. The Government Office for Human Rights and the Government Office for National Minorities should be reinforced and given adequate authority in order to be in a position to fulfil their mandates within the legal deadlines.

As regards, the *prohibition of torture and inhuman or degrading treatment or punishment*, this right is generally respected in practice. However, the ECtHR ruled against Croatia in the Sestic case for violation of Article 3 of the Convention (see above). There continues to be

room for improvement in prison conditions. There is a lack of prison staff and capacity. Overcrowding continues, with on average a prison population 20% above capacity.

The Croatian internal legal framework, together with the ECHR, provide for the *respect for private and family life and communications*. However, following a recent incident involving allegedly inappropriate vetting by the security services of candidates for positions on the National Council for NGOs, some legislative weaknesses have been highlighted. Following this incident, the Government announced that it plans to amend the relevant legislation in order to strengthen control of security services. In so doing, clarity in law should be achieved on the question of who is authorised to carry out security vetting of citizens and for what purpose.

As regards the right to protection of personal data, full alignment with the Data Protection Directive and the Council of Europe instruments, such as the recommendation regulating the use of personal data in the police sector, remains to be completed. The Croatian Personal Data Protection Agency was granted observer status with the Article 29 working party on data protection (an independent European advisory body) in June 2007 and a representative of the Agency is now participating in the working party.

There have been no particular difficulties as regards *freedom of thought, conscience and religion*.

*Freedom of expression including freedom and pluralism of the media* continue to be provided for in Croatia. However, the public broadcaster HRT continues to be subject to occasional political pressure, thus raising concerns about freedom of expression. There are possibilities for political influence on the media at the local level, with much of the media at this level is in public hands.

As regards *freedom of assembly and association, including the right to form political parties, the right to establish trade unions*, no significant problems have been reported in practice.

As regards *the treatment of socially vulnerable and persons with disabilities and the principle of non-discrimination*, budgetary constraints continue to limit the scope of the rights to health and special care and the social integration of the socially vulnerable and/or persons with disabilities. Public awareness regarding these issues needs to be raised.

There has been limited progress in the area of non-discrimination. A national strategy and action plan on the suppression of all forms of discrimination has still not been adopted. The level of protection against discrimination in practice and its judicial prosecution is still not in line with EU standards.

There have been no particular difficulties as regards *the right to education*.

As regards the *right to property*, the process of restitution of property that was confiscated after World War II continues to proceed slowly. Provisions discriminating on grounds of nationality have not been removed from the Law on the Restitution of Nationalised Property.

As regards *gender equality and women's rights*, the government has taken measures to raise general awareness as part of the national policy for the promotion of gender equality, of which implementation has begun. Gender equality policy needs more effective implementation, however. The main problems encountered by women in the labour market are in the field of child care and maternity care. The Ombudsman for Gender Equality has

pointed to an increase of complaints regarding family violence. Whereas police performance has improved especially in bigger cities, the centres for social welfare have not made progress in dealing with family violence (*See also Chapter 19- Social policy and employment*).

As regards the *rights of the child*, the National Plan for the Benefit of the Rights and Interests of the Child 2006-2012 is being implemented. However, there has been little follow-up of cases of ill-treatment of children in institutions. Better coordination among homes, families and centres for social welfare is needed. The Centres for social welfare often lacks proactive staff to respond to the needs of children and to ensure their adequate protection.

As regards *liberty and security* as well as the *right to a fair trial*, a draft Legal Aid law was presented to Parliament in July 2007, but discussions were inconclusive. The law aims to ensure a comprehensive legal aid system for both criminal and civil proceedings is put in place by 2009. Sufficient training and funds will need to be provided for its implementation.

There has been some progress in the area of *minority rights and cultural rights*. For the first time, a recruitment plan for minorities in the State administration has been prepared, albeit at a certain level of generality and only for the year 2007. Funding for minority organisations has continued to increase; increased funds for implementation of the Roma Action Plan have also been made available. However, a number of important challenges still remain, especially in terms of implementation. The Serb and Roma minorities face significant difficulties. There are also still obstacles to the sustainable return of Serb refugees, such as enduring hostility in certain localities, and remaining housing concerns, mainly those involving former tenancy rights holders as well as problems with validation of pension rights. Implementation of the Constitutional Law on the Rights of National Minorities provisions in practice presents a mixed picture, some provisions are implemented well, others only to a limited extent. Particular attention needs to be paid to its employment provisions as well as to tackling discrimination more widely, especially in the public sector.

As regards **EU citizens' rights**, there have been no developments.

### *Conclusion*

Croatia has made some progress on this chapter. Reform of the judiciary is moving forward but significant challenges remain, especially to improve judicial efficiency. Some progress has been made in the fight against corruption, with further legislative strengthening and first results in some important cases handled by USKOK. However, corruption remains a widespread problem and considerable efforts are still needed. Measures are generally in place to guarantee fundamental rights. However, further efforts are required, especially as regards implementation of minority rights, including refugee return. It will be important not to neglect the rights of other socially vulnerable groups.

#### **4.24. Chapter 24: Justice, freedom and security**

Good progress can be reported as regards **Schengen and external borders**. The updated Integrated Border Management Action Plan, which was adopted in November 2006, is a key element for the accession negotiations on this chapter and provides a comprehensive framework for Croatia's preparations to meet the Schengen *acquis*. Furthermore, the Schengen Action Plan and an IT Strategy for the Ministry of the Interior were adopted in the first quarter of 2007. The State Border Act was revised by Parliament in April 2007 to bring it into line with the *acquis* on passenger data. The National Border Management Information

System (NBMIS) is now operational at several border crossing points, including Zagreb airport. The border police are also benefiting from further investment in a communications system. However, there are still big needs for further investment, including in basic equipment and to extend the NMBIS to the external border.

Serious efforts to train the border police staff can be reported. However, the staff shortage persists and the number of border guards stood at just more than 5,000 in October 2007. Inter-service cooperation between the border police and customs authorities needs to be improved. Some progress has been made on cross border cooperation on the eastern border, particularly with Serbia.

Nonetheless further improvements are needed. The border police needs to achieve full autonomy in terms of setting policy, human resources and budget, albeit within the current police institutional structure. Croatia still has a large number of border crossing points (189), but the IBM Action Plan indicates that by December 2007 the high-level inter-ministerial working group established to analyse the situation, will make proposals to rationalise the number of border crossing points.

Some progress has been made on **visa policy**. In December 2006 Croatia adopted a plan for alignment with EU visa arrangements. The exemption of visa requirements for citizens of Serbia and Montenegro was extended to the end of 2007. IKOS, the information system of the Ministry of Foreign Affairs and European Integration, has now been introduced in 56 out of 71 diplomatic missions and consular posts and staff are being trained. The final deadline for introducing IKOS in all diplomatic missions and consular posts is the third quarter of 2008.

An increasing number of visas are being issued at the borders, 5,289 for 2006 and 4,274 up to July 2007 (including 1132 for transit and 4480 for travel visas). The procedure for issuing visas currently differs, depending whether the visa is issued at the border or at a consulate or diplomatic mission. Overall, a coherent system for issuing visas still has to be established. Croatia needs to prepare for the introduction of biometric identifiers in passports and travel documents.

Some progress has been made as regards **police cooperation**. Croatia is well placed with the reform of its police force. Following the entry into force of the operational cooperation agreement with Europol, a Europol section has been formed within the Department for International Police Cooperation. Croatia is preparing to post a Liaison Officer to Europol. Croatia is actively involved in regional cooperation initiatives, including with the specialised regional centre SECI. A project to reform the criminal police is underway. The automated fingerprint information system has been fully installed at five locations, and a communications system has been installed on the Adriatic coast and islands and in Zagreb. However, further investments are needed, particularly at local level, for example in IT equipment. The community policing project has been further implemented during the year, at new locations. A cooperation agreement has been signed between the police and USKOK. The Ministry of the Interior adopted a national intelligence model. An action plan to implement intelligence-led policing has been adopted by the police services. This now needs to be implemented.

However, further progress is needed on adopting and revising key legislation, notably the Police Act, the Secrecy Act and the Criminal Procedures Act. The human resources system still lacks transparency in terms of career development. A proper system for recruitment and promotion needs to be put in place and training also needs to be addressed. An overall

strategy for the Croatian police is missing. Decision-making continues to be highly centralised. All these elements are undermining pro-active efforts by middle management to improve or modernise the police, sector by sector.

Regarding **organised crime**, the Criminal Code has been amended. "Extended confiscation of pecuniary gain" has been introduced, *inter alia*, in Croatia's criminal legislation. The amended Criminal Code entered into force in October 2006. The legal framework has become stricter for the following criminal offences: international terrorism, abuse of narcotic substances, illegal transfer of persons across the state border, international prostitution, abuse of children or minors for pornography and child pornography in the computer system. Efforts to combat cyber-crime are underway.

As regards **trafficking of human beings**, the Criminal Code has been amended, expanding the scope for penalties. An accommodation centre for children was set up during the reporting period. Specialised training on trafficking in human beings has been made part of the curriculum at the police and judicial academies. In June 2007, Croatia ratified the Council of Europe Convention on Action against Trafficking in Human Beings.

As regards **firearms**, a new Weapons Act entered into force in September 2007. This marks an improvement, but neither bans the use of military-style weapons for sporting purposes nor introduces prison sentences for illegal weapons possession. A survey on small arms was concluded in December 2006. A control strategy has been drafted since then.

In the field of **drugs**, Croatia is preparing for participation in the work of the European Monitoring Centre for Drugs and Drug Addiction. For the purpose of alignment with the *acquis*, the government amended the Regulation establishing the Office for Combating Narcotic Drugs Abuse. Under the amendment two internal units are to be set up for performing duties within the remit of the Office. These are the Department for General Programmes and Strategies and the Department of the National Focal Point for Narcotic Drugs and International Cooperation.

On **terrorism**, a stricter framework for the criminal offence of international terrorism has been introduced. A new protocol on cooperation and establishment of an inter-departmental working group for the prevention of money laundering and the financing of terrorism was signed in February 2007. An inter-departmental working group has been set up to develop a National Counter-terrorism Strategy in line with the corresponding UN and EU strategies. Croatia ratified the International Convention for the Suppression of Acts of Nuclear Terrorism on 30 March 2007.

In the field of **migration**, a Migration Policy Strategy for 2007-2008 was adopted in July 2007. A proper action plan remains to be developed to implement the Strategy. The new Aliens Act was adopted in July 2007. The main amendments to the Aliens Act cover temporary and permanent residence. Temporary residence could be granted for family reunion and humanitarian purposes (to victims of trafficking in human beings, abandoned minors from a foreign country and victims of crime). Granting of a work permit or opening of a company in Croatia will no longer automatically mean that temporary residence would be granted.

The **illegal migration** deportation centre at Jezevo remains overcrowded 1719 aliens in 2006 and 885 up to July 2007. The number of illegal migrants increased slightly in 2006 when 5,564 illegal border crossings were registered compared with 5,406 in 2005. Because of the

lack of staff and equipment at some border crossings only a fraction of actual cases are detected. Croatia has 24 readmission agreements in force, of which 7 are not in line with the EU forms. Further readmission agreements are being prepared with Slovakia, Ukraine, Moldova and Cyprus.

The **new Asylum Act** was adopted in July 2007. Implementation will start in January 2008, to leave enough time for drafting the bylaws and putting in place enforcement mechanisms. The new Asylum Act is aligned with the *acquis*. It introduces a number of improvements, including subsidiary protection, definition of vulnerable groups and safe country of origin, introduction of the right to work for asylum seekers after one year in Croatia, extension of the right to education for asylum seekers, introduction of free legal assistance for second-instance cases, extension of the right to family reunification and an appeals procedure. However, secondary legislation for implementation of the Asylum Act has not yet been adopted and enforcement mechanisms remain to be established.

In November 2006, Croatia granted asylum status for the first time, to a refugee woman from Sudan. The number of persons seeking asylum in Croatia decreased in 2006 to 105 applications compared with 210 in 2005. Preparations for Croatia's participation in the DublinNet and Eurodac systems are underway.

As regards **judicial cooperation in criminal and civil matters**, the Second Additional Protocol to the European Convention on Mutual Assistance entered into force in July 2007. The quality of transposition and implementation of the *acquis* in the area of judicial cooperation in both civil and penal matters depends closely on the efficiency and reliability of the justice system. Croatia is negotiating an agreement for cooperation with Eurojust.

Regarding international legal assistance in civil matters, in November 2006 standardised forms in English, French and Croatian were introduced plus instructions for applying the Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters.

### *Conclusion*

Progress can be reported on this chapter, particularly in the areas of border management, migration and asylum. However, the integrated border management action plan remains to be implemented as planned and equipment upgraded. Alignment with the *acquis* in this chapter is well underway, but considerable efforts are needed to ensure administrative and enforcement capacity, particularly in terms of inter-agency cooperation including law enforcement authorities, the customs service, prosecutors and the judiciary system, as well as to prevent corruption and to fight organised crime.

## **4.25. Chapter 25: Science and research**

Croatia has made good progress with designing a **research policy**. It has adopted amendments to the Act on Science and Higher Education. These amendments relate to the evaluation of research institutions and incentives for research and development. Croatia has presented a draft Action Plan for Implementation of the National Science and Technology Policy for 2006-2010. This includes a list of priority activities, implementing agencies and progress indicators. Further efforts are required to ensure effective implementation of the Action Plan presented. Croatia has improved the evaluation and selection procedures and

introduced a peer review system for national research grants. Further efforts are required to develop a fully transparent system.

Good progress has also been made on participation in the EC **Framework Programmes**. The grants awarded under the 6th Framework Programme for Research and Technological Development (FP6) have demonstrated Croatia's increased absorption capacity since it became associated with FP6. Croatia is continuing to take action to facilitate greater participation in the Framework Programmes. Croatia has signed the Memorandum of Understanding on association with the 7th Framework Programme (FP7) and has applied for association with the EURATOM Research Framework Programme. A good level of alignment with the *acquis* has been achieved.

With a view to further integration into the **European Research Area**, Croatia has presented a draft "National 3% Action Plan". Croatia has also taken several preparatory steps to improve its human resources capacity and ensure mobility of researchers. All these measures and activities confirm Croatia's further integration into the European Research Area and demonstrate that a good level of alignment with the *acquis* has been achieved.

### *Conclusion*

Good progress has been made on this chapter. However, further attention will need to be paid to implementation of research policy, activities and plans. The system for awarding national funds for research grants will need to be further improved to ensure scientific excellence and participation in the EC Framework Programmes on a competitive basis. Overall, a good level of alignment with the *acquis* has been achieved.

## **4.26. Chapter 26: Education and culture**

Some progress has been achieved in the field of **education, training and youth**. Croatia is continuing the education reform process under the Education System Development Plan for 2005-2010 and is participating in the EU Education and Training 2010 Work Programme. The process of modernisation of the vocational education and training system was initiated by the adoption of a White Paper. The Agency for Adult Education has become operational with satisfactory staff and resources at its disposal. The Adult Education Act has been adopted, but the related implementing legislation is still outstanding. Croatia adopted a basic concept for a national qualifications framework (NQF). Implementation of the Bologna process in higher education is continuing, and Croatia has adopted amendments to the Act on Science and Higher Education which introduce incentives for investment by enterprises in higher education.

The principle of non-discrimination in access to education for EU citizens has been introduced in higher education by the amendments to the Act on Science and Higher Education. However, the planned amendments to incorporate the non-discrimination principle into the Act on secondary education are still outstanding. The same goes for the planned amendments to the Act on primary education relating to alignment with the Directive on education of children of migrant workers.

In February 2007, Croatia adopted the **Youth** Council Act which aims to promote the participation of young people in public life.



Preliminary steps have been taken to establish the National Agency which will be in charge of managing the Community Lifelong Learning and Youth in Action Programmes. However, the legal and administrative frameworks need to be completed and the capacity of the Agency built up, staff trained and preparatory measures implemented with a view to future participation in these programmes.

In the field of **culture**, good progress can be reported. Croatia has ratified the Memorandum of Understanding on participation in the Culture Programme. The Memorandum of Understanding on Croatia's participation in the Europe for Citizens Programme was signed in September 2007.

### *Conclusion*

Good overall progress has been made in the area of education, training, youth and culture. A good level of alignment has been achieved. However, measures envisaged in Croatia's alignment plan to guarantee non-discrimination between EU and Croatian nationals in secondary education and alignment with the Directive on education of children of migrant workers have not been completed.

## **4.27. Chapter 27: Environment**

There has been some progress with the **horizontal legislation**. Croatia has ratified the Kyoto Protocol and the Aarhus Convention. The new Environmental Protection Act was adopted by the Parliament. There have been limited developments on practical implementation of the emissions trading scheme and of the national greenhouse gas (GHG) registry, with the exception of implementing legislation on monitoring GHG emissions in Croatia. The 2nd, 3rd and 4th national communications to the UNFCCC (United Nations Framework Convention on Climate Change), all presented in a single document, were sent to the Convention Secretariat, together with the national inventory report for GHG emissions for 2006. Administrative capacity in the area of climate change and horizontal legislation remains limited. Transposition of some provisions on Strategic Environmental Assessment, environmental liability, Environmental Impact Assessment (EIA), access to information and public participation procedures remains outstanding. Preparations in this area are underway.

Good progress can be reported on **air quality**. Croatia has ratified two protocols (on POPs and heavy metals) to the Convention on Long-range Transboundary Air Pollution. In addition, implementing legislation has been enacted on limit values for pollutants from stationary sources. Technical standards have been adopted on the environment protection from volatile organic compounds from petrol storage and distribution. However, transposition of directives on national emission ceilings and consumer information is still at an early stage. No integrated system for air quality monitoring and analysis has yet been fully developed. One of the prerequisites for such a system has been adopted in the form of implementing legislation on exchanges of data from the air quality monitoring network, supplemented by an alert system for cases where pollutant thresholds are exceeded (so far for SO<sub>2</sub>, NO<sub>2</sub> and O<sub>3</sub>). The government continues to decide annually on the quantity of fuel on the market that does not comply with the prescribed quality standards. The national oil and gas company (INA) has started investments to achieve technical conformity of refineries. Preparations in this area are advancing.

There has been good progress with **waste management**. A significant amount of legislation and implementing legislation has been adopted for transposition of the *acquis* in this area.

Croatia has also adopted a decision reducing the proportion of waste tyres that may be used for energy purposes from 50% to 30% from 2007 on. A Regulation to control transboundary movements of waste, based on the Basel Convention on Hazardous Wastes, has been enacted. A national waste management plan was adopted. Activities to develop the regional waste management centres to be organised under the waste management strategy are advancing in every county. Remediation and closure has been completed at 28 out of the 234 existing landfills and at 217 out of the 512 illegal landfills for which co-financing is to be provided from the Environmental Protection and Efficiency Fund. Preparations in this area are advancing.

Little progress can be reported in the **water sector**. The Water Management Strategy has not yet been adopted. The national monitoring programme is being prepared. A programme of monitoring bathing water quality has been launched. The Ordinance on Limit Values for Indices of Hazardous and Other Substances in Waste Water was not enacted by the end of 2006, as had originally been planned. Preparations in this area require substantial efforts.

There has been some progress on **nature protection**. The Animal Protection Act has been adopted. Implementing legislation on the registry of "protected natural values" has also been enacted. Following the establishment of the Lastovo nature reserve, 6.07% of the total surface area of Croatia is now protected. However, the Natura 2000 network still needs to be established. Administrative capacity remains low in this sector, especially at local level. Preparations in this area are advancing.

Some progress has been achieved in the area of **industrial pollution control and risk management**. With the adoption of legislation on emission limit values from stationary sources, transposition of the Large Combustion Plants Directive has been completed. Transposition of the Solvents Directive is nearly complete. Implementing legislation has been enacted on protection of workers from risks related to asbestos exposure, and the first phase of the clean-up of the only asbestos cement factory in Croatia has begun. Transposition of the IPPC Directive (Integrated Pollution Prevention and Control) remains outstanding. Significant efforts are needed to build administrative capacity in the area of industrial pollution control. No inventory of risk installations has yet been compiled. Preparations in this area are at an early stage.

Good progress can be reported on **chemicals and genetically modified organisms (GMOs)**. Croatia has ratified the Stockholm Convention on Persistent Organic Pollutants (POPs) and the Rotterdam Convention, adopted an act on biocide preparations and enacted implementing legislation on the register of dangerous chemicals and on submission of data to the register. In relation to GMOs, implementing legislation has been passed on assessment of the risks related to the deliberate release of GMOs into the environment. Implementation of the *acquis* in relation to chemicals is still largely lacking. Administrative capacity needs to be strengthened. Preparations in this area are advancing.

Limited progress can be reported in the area of the **noise-related *acquis***. Implementing legislation relating to noise mapping methods and action plans has been adopted. Preparations in this area are still at an early stage.

In relation to **forestry**, a Forestry Advisory Service has been set up in Croatia. In addition, some implementing legislation has also been enacted.

Efforts have been made to strengthen *administrative capacity*. New staff has been recruited in the Ministry for Environmental Protection, Physical Planning and Construction, other ministries in charge of environment-related issues and in the Croatian Environment Agency (CEA). However, administrative capacity, in particular at regional and local level, remains insufficient and requires further strengthening to ensure proper and timely implementation of the *acquis*. The enforcement capacity has been reinforced by recruiting new inspectors at local, regional and national level. Trainings with a particular focus on IPPC and Seveso II Directives have been provided. An agreement on cooperation between inspection services in the field of environment has been signed. However, further significant efforts are needed to strengthen enforcement capacity and ensure coordination of work. A comprehensive plan for putting in place the necessary capacity and financial resources to implement the *acquis*, setting targets and deadlines, needs to be developed. An overall environmental investment strategy needs to be drafted.

### *Conclusion*

Overall, good progress has been achieved on this chapter, especially in the areas of horizontal legislation (climate change), air quality, waste management and chemicals. Administrative capacity needs significant strengthening, especially at local level. A comprehensive plan for putting in place the necessary administrative capacity at national, regional and local level, as well as financial resources to implement and enforce the *acquis* needs to be developed. Responsibility for environment-related issues continues to be split between several ministries and other bodies. Coordination of their work requires improvement. Croatia needs to take steps to integrate environmental protection requirements into definition and implementation of all other policies and to promote sustainable development. Given the scope and nature of the *acquis* in this chapter, very considerable efforts are needed to fully meet EU requirements.

#### **4.28. Chapter 28: Consumer and health protection**

There has been good progress in the field of **consumer protection**. A new National Consumer Protection Programme for 2007–2008 was adopted in July 2007 and 2007 was declared the Year of Consumer Education in Croatia. As regards administrative capacity, the Consumer Protection Department in the Ministry of Economic Affairs, Labour and Entrepreneurship has been reorganised and its staff has been increased to nine. In February 2007 the Central Information System for Consumer Protection was put in place with the aim of increasing the efficiency of the State Inspectorate. As for consumers' access to justice, the new Consumer Protection Act adopted in July 2007 aims at improving the mechanisms for out-of-court settlement of consumer disputes, in particular by introducing consumer representation in the court councils. However, application and enforcement of the *acquis* in this field are not yet sufficiently efficient. Consumer movements are not sufficiently supported and alternative channels for settling consumer disputes are not sufficiently developed. Preparations in this field are well on track.

Good progress can be reported in the field of **product-safety related issues**. Amendments to the General Product Safety Act, which is a key element for the accession negotiations on this chapter, were adopted by the Parliament in October 2007. A regulation on the system for exchanging information on products posing a risk to the health and safety of consumers, with a view to Croatia's participation in the Community's Rapid Alert System for non-food products (RAPEX), was adopted in December 2006. However, no RAPEX contact point has yet been established. Preparations in this field are well on track.

Good progress has been made in the area of **non-safety related issues**. A new Consumer Protection Act was adopted in July 2007 aiming at ensuring further alignment in many areas of the *acquis*, such as unfair terms in consumer contracts, price indication, doorstep sales, distance sales, distance marketing of financial services, consumer credits, misleading/comparative advertising, unfair commercial practices, timeshare and package travel. This is a key element for the accession negotiations on this chapter. Preparations in this field are well advanced.

Good progress can be reported in the area of **public health**. In the area of **communicable diseases**, a new Act on the Protection of the Population from Communicable Diseases was adopted in July 2007 aiming at completing legal alignment, *inter alia* with the EU list of communicable diseases and case definitions. Preparations in this field are well advanced.

As regards **blood**, legislation has been adopted with the aim of transposing the Commission implementing directives on the quality and safety of blood and blood components. This is a key element for the accession negotiations on this chapter. Preparations in this field are well underway.

No progress can be reported in the fields of **tissues and cells** and **tobacco**, where legal alignment is still outstanding. This is a key element for the accession negotiations on this chapter. Facilities for handling blood, blood components, tissues and cells have not been upgraded and restructured to meet EU technical requirements. The WHO Framework Convention on Tobacco Control has not been ratified yet. Preparations in this field are underway.

Little progress can be reported in the field of **mental health**. A Mental Health Promotion Strategy is being drafted. However, community-based services are not sufficiently developed as an alternative to institutionalisation, and financial resources allocated to mental health care are scarce. Preparations in this field are starting.

### *Conclusion*

Overall, there has been good progress in the area of consumer and health protection. A good level of legal alignment has already been reached. However, the legislation in the field of public health, in particular on tobacco and on tissues and cells, is not yet in line with the *acquis*. Continued efforts are required to align legislation with the *acquis* and to implement and enforce it effectively.

## **4.29. Chapter 29: Customs union**

Croatia has continued its good progress in the area of **customs rules**. Amendments to the Croatian Customs Act and two related implementing regulations entered into force in January 2007. They aim at further alignment with the Community Customs Code, in particular regarding invalidation of customs declarations, certain provisions on transit, repayment of customs duties and certain reliefs from duty. A new implementing regulation on the export of cultural goods was adopted in December 2006 with the objective of further alignment with the relevant *acquis*. In January 2007 an implementing regulation on customs tariffs entered into force, aligning Croatia's customs tariff with the 2007 Combined Nomenclature.

Some discrepancies from the *acquis* remain in areas such as rules of origin, transit, duty relief, drug precursors, cash controls, customs valuation, mutual assistance and cooperation, as well

as fees related to customs services and fees collected by customs for the use of border crossing points. Adopting legislation in the limited remaining areas requiring further alignment is a key requirement in the accession negotiations. Overall, in the area of customs rules, alignment with the *acquis* is well on track.

Some progress can also be reported in the area of **administrative and operational capacity**. A Code of Ethics for Customs Officers was adopted in November 2006 and an Ethics Board was established which will monitor its implementation. A campaign on raising awareness of corruption as a criminal offence was started. The Customs Training Centre became fully operational, stepped up its activities, and a specific plan on professional training was adopted. Work has continued on computerisation and interconnectivity, a key requirement in the accession negotiations, albeit with some delays. More generally, the Croatian customs administration remains weak on IT-capacity and heavily dependent on external companies. It has very limited in-house capacity to guarantee the continuity of its IT services. This situation is still a cause for concern. More generally, the Croatian customs administration will require further strengthening to ensure that it will be able to manage and apply the *acquis* in a consistent and homogenous way, which is a key requirement in the accession negotiations. A uniform system for risk analysis needs to be developed and rolled out to the customs offices. Overall, in the area of administrative and operational capacity, Croatia has started to address its targets and priorities.

### *Conclusion*

Croatian customs legislation is already well aligned with the *acquis* and Croatia has made some progress on legislative alignment. Croatia has also continued its efforts to improve its administrative capacity and develop IT systems but in these areas preparations are still at an early stage, in particular with regard to IT interconnectivity. Increased efforts are needed to align legislation and to implement and enforce it effectively, as well as to implement an effective risk analysis system.

### **4.30. Chapter 30: External relations**

There has been some progress in the field of the **common commercial policy**. In line with a key partnership priority, a protocol introducing tariff quotas for sugar entered into force in January 2007 and negotiations on an Enlargement Protocol to the SAA to take account of the accession of Romania and Bulgaria were concluded in July 2007. Croatia will need to continue to cooperate and coordinate closely with the Commission and to align with the policies and positions of the EU towards third countries and within international organisations, particularly the World Trade Organisation.

With regard to export insurance, Croatia amended its legislation and on this basis introduced a new regulation aimed at alignment with the relevant *acquis*. In relation to dual-use goods, Croatia joined the Australia Group and continued to align to with the revised list of dual-use items and technology. Croatia needs to continue to work on the remaining legislative adjustments and on enhancing its administrative and control capacity for dual-use goods. Overall, preparations in the area of the common commercial policy are well on track.

In the area of **bilateral agreements with third countries**, an enlarged and modernised Central European Free Trade Agreement (CEFTA) including Croatia was signed in December 2006. The new CEFTA agreement replaced and upgraded the network of existing bilateral FTAs into a single regional FTA. It was ratified by Croatia in May 2007 and implementation

started in August 2007. A bilateral investment treaty with Moldova came into force in March 2007. Croatia still has to finalise its analysis of all its existing agreements and, in particular, will need to bring all investment and trade-related agreements into conformity with the *acquis*. Preparations in this area have started.

Some progress can be reported on **development policy** and **humanitarian aid**. The inter-departmental working group for development policy assessment, established by the government in September 2006, has started operating. The Ministry for Foreign Affairs and European Integration has started preparations for establishing a new department responsible for development policy. The Department for Humanitarian Aid and Cooperation with Civil Society Organisations has been established in the Ministry of Health and Social Welfare but is still not operational. Preparations in this area have started.

### *Conclusion*

Croatia has made some progress on this chapter. Provided Croatia continues preparations as scheduled and improves its administrative capacity, it should be able to apply the *acquis* and participate in the common commercial policy upon accession. Continued efforts are also needed in the areas of development policy and humanitarian aid.

## **4.31. Chapter 31: Foreign, security and defence policy**

The regular **political dialogue** between the EU and Croatia has continued to cover foreign policy issues. *Concerning neighbourly relations with other enlargement countries and member states, see the section under Political Criteria.*

Concerning **Common Foreign and Security Policy (CFSP)**, Croatia has continued to systematically align itself with EU common positions, declarations, and statements. With regard to administrative capacity, further training activities have taken place in order to develop future capacity to work with the EU CFSP structures. The post of "Political Director" in the Ministry of Foreign Affairs and European Integration has not been formally established.

In the area of **restrictive measures**, legislative alignment remains advanced. However, a continued strengthening of interagency coordination is required.

With regard to the area of **non-proliferation**, Croatia became a member of the Australia Group in April 2007. While the legislative framework for arms control is robust, there remains a need to further strengthen implementation and enforcement capacity as well as transparency of arms related information. A survey on small arms and light weapons in Croatia was conducted in December 2006 aimed at providing the basis for a comprehensive National Strategy for the Control of Small Arms and Light Weapons. Croatia is party to the UN Convention on Chemical Weapons.

With regard to the **cooperation with international organisations**, Croatia has, as a member of UN, OSCE and the Council of Europe, been fully involved in the policy making of these organisations. *As regards the International Criminal Court, see Political Criteria – Regional Cooperation and International Obligations.*

With regard to the **security measures** (classified information), the Law on Data Secrecy and the Law on Information Security were adopted by the Parliament.

Croatia has remained committed to the development of the **European Security and Defence Policy (ESDP)** including through further training and administrative capacity building. Following its earlier commitments on the military side, Croatia in October 2006 expressed its intention to also actively participate in civilian operations within the ESDP in order to strengthen the EU's crisis management capacity. For 2008, Croatia offered a total of 86 civil servants. Croatia has continued to take part in international peacekeeping efforts and has increased to 39 its personnel currently participating in nine UN peacekeeping missions. Moreover, 149 Croatian armed forces personnel are deployed in Afghanistan (ISAF).

### *Conclusion*

Croatia has continued to make progress in this chapter. Overall, Croatia has reached a good level of alignment in the area of Foreign, Security and Defence Policy. In order to be fully prepared for accession, Croatia needs to strengthen implementation and enforcement of arms control and to further improve capacity for full implementation of CFSP-ESDP.

### **4.32. Chapter 32: Financial control**

There has been good progress in the area of **public internal financial control (PIFC)**. The PIFC Framework Law was adopted in December 2006. It provides a clear basis for upgrading the PIFC system. In April 2007 Croatia adopted a PIFC action plan, which updates the original action plan in the government's 2005 policy paper. A first consolidated annual report on PIFC, covering 2006, was adopted in May 2007. Training and certification of internal auditors is in progress under the responsibility of the Central Harmonisation Unit. The revised programme for the qualification of certified public-sector internal auditor was adopted by the Minister of Financial Affairs in March 2007. The continuous training programme on financial management and control has been running since the end of 2006. A manual for Financial Management and Control systems has been published. However, adoption and implementation of PIFC legislation and the related policies needs to be supported by adequate implementation capacity. The Budget Law and existing internal audit regulations still need to be made consistent with the new PIFC Framework Law. The concept for functional independence of internal audit still needs to be strengthened. The development and role of financial inspection need to be reviewed so as to avoid any interference with the managerial accountability. This also needs to be reflected in relevant legislation.

There has been progress with **external audit**. The State Audit Office has formally adopted the INTOSAI standards and has produced audit manuals, strategies and guidelines. Pilot audits have been conducted to test the new methods. The State Audit Office set up a working group to analyse the results of its Strategic Development Plan for 2003-2007. The plan for 2008-2012 is being prepared. Croatia will have to make appropriate proposals on how to comply with the need to consolidate the independence of the State Audit Office. Preparations in this area are advancing.

There has been some progress in the area of **protection of the EU's financial interests**. In December 2006 the Bureau for the Prevention of Irregularities and Fraud was set up within the Budget Supervision Division of the State Treasury to act as Croatia's anti-fraud coordination structure (AFCOS). In February 2007 the Minister of Financial Affairs approved an action plan for preventing irregularities and fraud for 2007. No rules are yet in place on cooperation during on-the-spot checks by EU investigators or on safeguarding evidence. Croatia still has to align its legislation with the PIF Convention and its protocols. Preparations in this area are underway.

Some progress can be reported on **protection of the euro against counterfeiting**. The Law amending the Law on Foreign Exchange Transactions was adopted in November 2006. It lays down rules prohibiting production of medals and tokens similar to euro coins. It also handed the Croatian National Bank the responsibility to establish ways and means of handling suspected counterfeit foreign bank notes. Alignment with the *acquis* remains to be confirmed. Croatia still needs to designate national analysis centres for coins and notes. Preparations in this area are underway.

#### *Conclusion*

Overall, there has been progress on this chapter, notably as regards public internal financial control. Efforts have to be maintained to ensure comprehensive implementation of a strong and adequate PIFC system. In the case of protection of the EU's financial interests, the anti-fraud coordination service will need to become fully operational.

#### **4.33. Chapter 33: Financial and budgetary provisions**

There has been some progress on this chapter. In December 2006, a unit for the coordination and management of the own resources was established within the Bureau for Macroeconomic Analysis and Planning of the Ministry of Finance.

Although the *acquis* in this area does not require transposition, Croatia will need to build the capacity of this coordination unit and adopt implementing rules so as to ensure from accession the correct calculation, collection, payment and control of own resources and reporting to the EU in line with the *acquis*. Croatia needs to continue its efforts in underlying policy areas linked to the application of the own resources system, in particular customs, taxation, statistics and financial control. This includes setting up effective instruments to combat customs duty and VAT fraud so that the financial interests of the EU can be protected.

#### *Conclusion*

There has been some progress in this chapter, notably the establishment of a coordination unit for own resources. Overall, Croatia has reached a good level of alignment with and capacity to implement the *acquis*. Administrative capacity of the coordination structure needs to be built up and rules and procedures for implementing own resources put in place.



## STATISTICAL ANNEX

### STATISTICAL DATA (as of 5 October 2007)

#### Croatia

Basic data	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Population (thousand)	1)	4 533	4 537	4 528	4 490	4 437	4 445	4 443	4 442	4 444	4 443
Total area of the country (km <sup>2</sup> )	2)	56 542	56 542	56 542	56 542	56 542	56 542	56 594	56 594	56 594	56 594

National accounts	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross domestic product (GDP) (million national currency)	3)	123 811	137 604	141 579	152 519	165 640	181 231	198 422	214 983	231 349	250 590
GDP (million euro)		17 789	19 272	18 677	19 955	22 138	24 448	26 216	28 677	31 260	34 212
GDP (euro per capita)		3 891	4 282	4 101	4 492	4 989	5 501	5 902	6 456	7 034	7 700
GDP (in Purchasing Power Standards (PPS) per capita)	1)	7 000e	7 400e	7 400e	8 200e	8 600e	9 300e	9 800e	10 600f	11 100f	11 700f
SI: GDP (in PPS per capita, EU-25=100)	1)	41.5e	42.0e	40.0e	41.3e	41.8e	43.7e	45.6e	47.0f	47.9f	48.1f
SI: Growth rate of GDP (national currency, at constant prices, % change on previous year)	4)	6.8	2.5	-0.9	2.9	4.4	5.6	5.3	4.3	4.3	4.8
SI: Employment growth (national accounts, % change on previous year)		3.2	-3.0	-3.3	4.0	-5.4	4.2	0.6	:	:	:
Labour productivity growth: GDP growth per person employed (% change on previous year)		3.2	5.8	2.6	-1.2	10.4	1.6	4.7	:	:	:
SI: Unit labour cost growth (national accounts, % change on previous year)		-3.0	0.9	4.2	-3.3	-5.3	1.5	2.4	:	:	:
SI: Labour productivity (GDP in PPS per person employed, EU-25=100)	1)	49.8e	51.8e	52.1e	50.5e	55.3e	55.5e	57.5e	58.4	59.4f	59.1f
Gross value added by main sectors (%)											
Agriculture		9.3	9.4	9.6	8.8	9.0	8.7	7.0	7.5	7.3	7.1
Industry		25.9	25.0	24.6	24.7	24.3	23.0	22.8	23.4	23.8	23.5
Construction		7.1	6.6	5.3	4.6	4.9	5.3	6.3	6.6	6.5	6.8
Services		57.8	59.0	60.4	61.9	61.8	63.1	63.9	62.5	62.4	62.6
Final consumption expenditure, as a share of GDP (%)	5)	88.2	85.5	85.4	84.9	82.1	81.9	79.7	78.3	77.4	76.1
Households and NPISH, as a share of GDP (%)	6)	63.8	60.1	58.9	60.1	60.1	60.4	58.8	57.9	56.9	56.0
General government, as a share of GDP (%)	6)	24.4	25.4	26.5	24.8	22.0	21.6	21.0	20.4	20.5	20.1
Gross fixed capital formation, as a share of GDP (%)		24.2	23.3	23.3	21.8	22.3	24.3	28.6	28.1	28.1	29.9
Changes in inventories, as a share of GDP (%)		3.3	0.7	-0.3	-1.6	1.6	4.8	2.5	2.5	2.9	2.9
Exports of goods and services, relative to GDP (%)		41.1	39.6	40.9	47.1	48.4	45.3	47.1	47.5	47.1	47.9
Imports of goods and services, relative to GDP (%)		56.8	49.2	49.3	52.3	54.5	56.4	57.9	56.4	55.5	56.8

Industry	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Industrial production volume index (2000=100)	7)	96.2	99.8	98.3	100.0	106.0	111.8	116.3	120.6	126.7	132.4

Inflation rate	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SI: Consumer price index (CPI), (total, % change on previous year)		:	:	4.0	4.6	3.8	1.7	1.8	2.1	3.3	3.2

Balance of payments	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Balance of payments: current account total (million euro)		:	:	-1 311	- 477	- 806	-2 091	-1 874	-1 457	-1 992	-2 671
Balance of payments current account: trade balance (million euro)		:	:	-3 106	-3 499	-4 604	-5 960	-6 974	-6 728	-7 522	-8 364
Balance of payments current account: exports of goods (million euro)		:	:	4 134	4 969	5 319	5 293	5 572	6 603	7 217	8 434
Balance of payments current account: imports of goods (million euro)		:	:	7 240	8 469	9 923	11 253	12 546	13 331	14 738	16 798
Balance of payments current account: net services (million euro)		:	:	1 545	2 470	3 303	3 285	4 933	4 769	5 318	5 711

Balance of payments current account: net income (million euro)		:	:	- 344	- 407	- 605	- 567	-1 077	- 690	- 972	-1 120
Balance of payments current account: net current transfers (million euro)		:	:	594	959	1 099	1 152	1 245	1 192	1 184	1 102
of which government transfers (million euro)		:	:	- 123	25	65	32	71	3	10	- 13
Foreign Direct Investment (FDI) in the reporting economy (million euro)		:	:	1 368	1 140	1 513	1 202	1 789	872	1 427	2 701

<b>Public finance</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General government deficit/surplus, relative to GDP (%)	8)	:	:	-7.1	-7.5	-6.8	-4.9	-6.2	-4.8	-4.0	-3.0
SI: General government debt, relative to GDP (%)		:	:	33.0	40.1	41.3	39.8	40.4	42.2	44.0	40.9

<b>Financial indicators</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross foreign debt of the whole economy, relative to GDP (%)		:	47.6	54.1	60.6	60.7	61.5	75.5	79.4	81.7	84.8
Gross foreign debt of the whole economy, relative to total exports (%)		:	119.4	132.2	128.7	124.6	135.3	150.8	160.0	167.3	171.1
Money supply: M1 (banknotes, coins, overnight deposits, million euro)		1 977	1 846	1 805	2 373	3 216	4 148	4 432	4 505	5 263	6 606
Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)		:	:	:	:	:	:	:	:	:	:
Money supply: M3 (M2 plus marketable instruments, million euro)		:	:	:	:	:	:	:	:	:	:
Total credit by monetary financial institutions to residents (consolidated) (million euro)		8 089	9 131	8 587	9 483	11 891	15 119	16 526	18 417	22 836	27 274
Interest rates: day-to-day money rate, per annum (%)		9.1	10.3	9.3	6.9	3.0	1.3	4.1	5.6	3.3	2.4
Lending interest rate (one year), per annum (%)		19.3	20.1	20.9	20.6	19.5	16.4	15.0	14.4	12.9	12.0
Deposit interest rate (one year), per annum (%)		9.3	9.6	9.5	8.2	6.6	5.3	3.8	3.8	4.0	4.0
Euro exchange rates: average of period - 1 euro = ... national currency	9)	6.960	7.140	7.580	7.643	7.482	7.413	7.569	7.497	7.401	7.325
Effective exchange rate index (2000=100)		:	:	95.4	100.0	98.7	96.5	93.7	90.4	89.2	:
Value of reserve assets (including gold) (million euro)		2 304	2 400	3 013	3 783	5 334	5 651	6 554	6 436	7 438	8 725

<b>External trade</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Trade balance: all goods, all partners (million euro)		:	:	:	:	:	-6 139	-7 071	-6 901	-7 880	-8 853
Value of exports: all goods, all partners (million euro)		:	:	:	:	:	5 188	5 439	6 454	7 069	8 252
Value of imports: all goods, all partners (million euro)		:	:	:	:	:	11 327	12 510	13 354	14 950	17 105
Terms of trade (export price index / import price index, % change on previous year)	10)	:	:	:	98.3	94.4	97.8	98.2	109.3	92.6	100.2
Share of exports to EU-27 countries in value of total exports (%)		:	:	:	:	:	66.1	68.3	65.8	63.3	64.3
Share of imports from EU-27 countries in value of total imports (%)		:	:	:	:	:	71.9	73.3	71.0	67.9	67.2

<b>Demography</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Natural growth rate: natural change (births minus deaths) (per 1000 inhabitants)	1)	:	-1.2	-1.5	-1.5	-1.9	-2.4	-2.9	-2.1	-2.1	-2.0
Net migration rate: immigrants minus emigrants (per 1000 inhabitants)	11)	7.4	9.8	4.1	5.3	3.8	1.9	2.7	2.6	1.9	1.6
Infant mortality rate: deaths of children under one year of age per 1000 live births	1)	8.2	8.2	7.7	7.4	7.7	7.0	6.3	6.1	5.7	5.2
Life expectancy at birth: male (years)	1)	:	:	:	70.5	71.1	71.2	71.4	72.0	71.8	72.5
Life expectancy at birth: female (years)	1)	:	:	:	77.8	78.1	78.3	78.4	79.0	78.8	79.3

<b>Labour market</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Economic activity rate (15-64): share of population aged 15-64 that is economically active (%)	12)	63.6	62.8	62.6	62.2	62.2	62.9	62.4	63.7	63.3	62.6
SI: Employment rate (15-64): share of population aged 15-64 that is in employment (%)	12)	57.1	55.3	53.2	51.3	51.8	53.4	53.4	54.7	55.0	55.6
Share of male population aged 15-64 that is in employment (%)	12)	63.6	61.7	59.0	57.4	59.0	60.5	60.3	61.8	61.7	62.0
Share of female population aged 15-64 that is in employment (%)	12)	50.9	49.4	47.8	45.5	44.9	46.7	46.7	47.8	48.6	49.4
SI: Employment rate of older workers (55-64): share of population aged 55-64 that is in employment (%)	12)	29.1	25.6	25.9	24.2	23.7	24.8	28.4	30.1	32.6	34.3

Employment by main sectors (%)												
Agriculture	12)	17.8	16.5	16.7	11.7	15.6	15.5	16.9	17.0	17.3	14.2	
Industry	12)	23.9	23.5	23.9	22.7	23.1	22.6	22.1	21.4	20.5	20.9	
Construction	12)	5.7	6.7	6.6	5.9	6.3	7.2	8.1	8.2	8.2	8.4	
Services	12)	52.5	53.2	52.8	59.6	55.0	54.6	52.8	53.2	54.0	56.3	
SI: Unemployment rate: share of labour force that is unemployed (%)	12)	10.0	11.7	14.5	17.0	16.3	14.7	14.1	13.6	12.6	11.1	
Share of male labour force that is unemployed (%)	12)	9.6	10.6	13.5	15.9	14.4	13.2	12.8	12.0	11.6	9.8	
Share of female labour force that is unemployed (%)	12)	10.4	12.9	15.7	18.2	18.7	16.5	15.6	15.6	13.8	12.7	
Unemployment rate of persons <25 years: share of labour force aged <25 that is unemployed (%)	13)	28.5	31.0	39.2	43.1	41.7	34.4	35.8	33.8	32.0	28.8	
SI: Long-term unemployment rate: share of labour force that is long-term unemployed (%)	14)	4.4	5.4	7.3	9.1	10.1	8.9	8.4	7.3	7.4	6.7	
<b>Social cohesion</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Average nominal monthly wages and salaries (national currency)	15)	3 668.0	4 131.0	4 551.0	4 869.0	5 061.0	5 366.0	5 623.0	5 985.0	6 248.0	6 634.0	
Index of real wages and salaries: index of nominal wages and salaries divided by CPI (2000=100)	15)	87.3	92.4	98.4	100.0	99.2	103.2	106.1	112.2	113.4	116.6	
SI: Early school-leavers: share of population aged 18-24 having not completed upper secondary education and not currently in education or training (%)	13)	:	:	:	:	:	8.3	8.4	6.2	5.4	4.8p	
<b>Standard of living</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Number of passenger cars per 1000 population		205.4	222.5	234.1	257.5	269.4	280.0	291.2	301.1	311.6	323.2	
Number of subscriptions to cellular mobile telephone services per 1000 population	16)	26.2	39.3	79.3	250.3	390.1	526.6	574.3	639.8	821.3	996.4	
<b>Infrastructure</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Density of railway network (lines in operation, per 1000 km <sup>2</sup> )		47.8	47.8	47.8	47.8	47.8	47.8	47.7	47.7	47.7	47.7	
Length of motorways (thousand km)		0.3	0.3	0.4	0.4	0.4	0.5	0.6	0.7	0.8	0.9	
<b>Innovation and research</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
SI: Spending on human resources (public expenditure on education) relative to GDP (%)		:	:	4.2	4.5	4.2	4.3	4.5	:	:	:	
SI: Gross domestic expenditure on research & development, relative to GDP (%)		:	:	1.0	1.2	1.1	1.1	1.1	1.2	1.0	:	
SI: Percentage of households who have Internet access at home (%)		:	:	:	:	:	:	:	:	:	:	
<b>Environment</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
SI: Total greenhouse gases emissions, CO2 equivalent (tons, 1990=100)		77.4	78.1	81.3	81.2	84.9	88.7	93.8	94.6	:	:	
SI: Energy intensity of the economy (kg of oil equivalent per 1000 euro GDP)	17)	344.0	346.0	345.8	330.1	321.9	330.3	321.1	308.3	297.6	:	
SI: Share of renewable energy in electricity consumption (%)		38.8	38.3	45.1	40.0	42.7	33.9	29.4	41.0	36.1	:	
SI: Road freight transport as a share of total inland freight transport (modal split) (%)		:	:	:	:	75.9	76.4	76.2	76.6	76.0	74.8	
<b>Energy</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	
Primary production of all energy products (thousand TOE)		4 077	3 983	3 570	3 562	3 730	3 689	3 727	3 852	3 781	:	
Primary production of crude oil (thousand TOE)		1 791	1 825	1 394	1 328	1 232	1 200	1 138	1 079	1 017	:	
Primary production of hard coal and lignite (thousand TOE)	18)	29	31	9	0	0	0	0	0	0	0	
Primary production of natural gas (thousand TOE)		1 403	1 282	1 267	1 355	1 642	1 732	1 789	1 796	1 854	:	
Net imports of all energy products (thousand TOE)		3 710	3 991	4 427	4 174	4 166	4 967	4 985	5 090	5 234	:	
Gross inland energy consumption (thousand TOE)		7 794	8 037	7 959	7 819	7 959	8 624	8 828	8 842	8 902	:	
Electricity generation (thousand GWh)		9.7	10.9	12.2	10.7	12.2	12.3	12.7	13.3	13.1	:	

<b>Agriculture</b>	Note	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Agricultural production volume index of goods and services (producer prices, previous year=100)	19)	104.1	110.1	98.8	88.7	108.5	107.7	84.1	111.9	91.3	104.4
Total utilised agricultural area (thousand hectare)	20)	1 941	2 048	2 032	2 064	2 084	2 081	2 074	1 991	1 202	1 216
Livestock: cattle (thousand heads, end of period)	21)	451	443	438	427	438	417	444	466	471	483
Livestock: pigs (thousand heads, end of period)	21)	1 176	1 166	1 362	1 234	1 234	1 286	1 347	1 489	1 205	1 489
Livestock: sheep and goats (thousand heads, end of period)	22)	552	510	567	608	632	677	673	848	931	680
Production and utilisation of milk on the farm (total whole milk, thousand tonnes)		641	653	641	626	674	716	686	707	813	870
Crop production: cereals (including rice) (thousand tonnes, harvested production)		3 177	3 209	2 881	2 776	3 400	3 724	2 356	:	3 039	3 048
Crop production: sugar beet (thousand tonnes, harvested production)		931	1 233	1 114	482	965	1 183	678	:	1 338	1 560
Crop production: vegetables (thousand tonnes, harvested production)		346	498	537	449	511	548	403	:	228	274

SI: Structural Indicator

e: estimate

f: forecast

p: provisional

1. Source: Eurostat.
2. Land area.
3. 2005 and 2006 data based on quarterly values.
4. 2005 and 2006, constant prices of 1997.
5. 2005 and 2006 data based on quarterly values; 2005 and 2006, without NPISH.
6. 2005 and 2006, without NPISH.
7. Gross series; include NACE Sections C to E.
8. GFS 1986 basis; privatisation revenues are excluded and reclassified to the financing of the balance.
9. 1999-2006, source: Eurostat.
10. Calculated on the basis of exports and import values expressed in US dollars; break in series in 2004: change in methodology as of 1 January 2004.
11. Total number of migrants includes Croatian citizens and permanently resident foreigners who reported/unreported their place of permanent residence in the Republic of Croatia at the Ministry of Interior.
12. 1997 to 2001, second half of the year.

13. Second half of the year.
14. 1997 to 2001, second half of the year; until 2001 long-term unemployment refers to thirteen months or more.
15. For the period 1997-2003, the persons employed in crafts, trades and as free-lances, as well as in the police and defence-related activities are excluded; from 2004 onwards the number of persons employed in the police and defence-related activities are included.
16. Break in series: from 1999 onwards data present the number of prepaid and post-paid users.
17. Eurostat estimates.
18. 2000-2006: Croatia closed all coal mines in 1999 and 2000 and therefore, there is no production of coal starting with 2000.
19. Volume indices of agricultural production have been calculated on the basis of production data for 65 agricultural products since 1977; the moving average of producer's prices (purchase prices) in the last three years has been taken as a weighting factor for the calculation of the index.
20. Break in series: only since 1998 the data have been collected for the whole territory; break in series: until 2005, data on land areas, number of fruit trees, grapevines, production and home processing by individual family farms were obtained by the estimation method; from 2005, data are obtained by using the interview method done by interviewers on a selected sample.
21. Until 2005 data as on 31 December for legal entities and 15 January for private family farms; for 2006 data as on 1 December for both legal entities and private family farms.
22. Until 2005 data as on 31 December for legal entities and 15 January for private family farms; for 2006 data as on 1 December for both legal entities and private family farms; break in series: in 2004 the survey sample was changed.