

## Conclusions on Croatia

(extract from the Communication from the Commission to the Council and the European Parliament "Enlargement Strategy and Main Challenges 2009-2010", COM(2009)533 final)

Croatia continues to meet the **political criteria**. Progress has been made in most areas and efforts intensified in the field of rule of law. However, the reform effort needs to be sustained, particularly in areas such as judicial and administrative reform, the fight against corruption, minority rights and refugee return. The Accession Partnership priorities have been largely addressed.

**Democracy and the rule of law** have been further strengthened. Both *government* and *parliament* have generally functioned well. However, significant improvements in the judiciary, in the public administration and in the fight against corruption are essential, not least to create a solid basis for full implementation of the *acquis*. Police reform, including depoliticising key posts and improving professionalism, needs to continue.

Some progress has been made on *public administration* reform. A new Law on General Administrative Procedures (LGAP) was adopted. A new post of Minister of Administration was established. The capacity of the newly created Ministry of Administration (formerly the Central State Office for Administration) has further improved and training measures have continued. However, important weaknesses in administrative procedures remain and implementation of the new LGAP has not yet begun. The civil service continues to suffer from many shortcomings, such as politicisation, low salaries, and weak human resources management. In addition, civil service salaries have been cut to mitigate the effects of the financial crisis and a recruitment freeze introduced. Anti-corruption measures and ethical principles remain to be embedded in public administration and the cooperation between different public stakeholders improved. A professional, merit-based, accountable and transparent civil service still needs to be established.

Implementation of the *judicial reform* strategy has continued and a large volume of new legislation was adopted. The directorate for strategic development in the Ministry of Justice was reinforced. A new selection procedure for judicial trainees was introduced. The backlog of cases was further reduced. Steps were taken to rationalise the court network. Professional training programmes were further expanded. Ethnic bias in war crime cases is being reduced. The issue of *in absentia* verdicts from the 1990s has been partially addressed.

However, the selection procedure for judges and prosecutors remains deficient. The overall case backlog remains high and the length of judicial procedures excessive. Problems with the enforcement of court rulings remain. Court rationalisation is at a very early stage. Monitoring of reform measures is still not adequate. Further improvements in case management and in the accountability, independence, professionalism and competence of the judiciary are also required. Impunity for war crimes remains a problem, especially where victims were ethnic Serbs. Many crimes remain unprosecuted. There is as yet no track record of implementation of new review provisions for *in absentia* cases. Overall, reforms in the judiciary continue but concrete results are only slowly appearing.

There has been some progress in the *fight against corruption*. The legal framework to combat corruption has been further improved, including as regards confiscation of assets. A national police office for the fight against corruption and organised crime became operational. Special anti-corruption departments in four key courts were established. The office for the fight against corruption and organised crime continues to be active and has issued indictments and secured verdicts – notably in the Croatian Privatisation Fund (Maestro) case - in some important cases. It has also begun to investigate possible high level corruption involving a

former government minister. However, corruption is still prevalent in many areas. The recently upgraded legal and administrative structures remain to be tested in practice. While the total number of corruption cases investigated so far has increased, the actual number of prosecutions and convictions remains low. There has been limited investigation of high level corruption. A culture of political accountability is lacking. The administrative capacity of state bodies for fighting corruption continues to need further improvement. There has been little progress in preventing conflicts of interest.

Some progress has been made in the area of *human rights and the protection of minorities*. Human rights protection is broadly ensured but certain important challenges remain in terms of implementation. Sustained efforts are needed on minority rights and refugee return.

The Law on Legal Aid began to be implemented. However, *access to justice* is frustrated by many implementation problems, including the complexity of the application procedure itself. Further steps were taken to address shortcomings in *prison conditions*. However, a shortage of prison staff and capacity persists. As regards *ill-treatment*, the Ombudsman continued to receive a number of complaints regarding the excessive use of force by the police.

*Freedom of expression*, including freedom and pluralism of the media, is provided for in Croatian law and is generally respected. However, threats against journalists working on cases of corruption and organised crime have been increasing. Editors and journalists continue to report undue political pressure.

As regards *women's and children's rights*, handling of domestic violence cases has improved. The ombudsmen have continued to play an important role. However, the situation of women on the labour market remained difficult; data by gender is still missing, thereby hampering monitoring of gender equality legislation. Implementation of measures regarding the protection of children's rights needs to be accelerated.

The new Office of the Ombudsman for Persons with Disabilities has been successful in carving out a visible role for itself. Public bodies and private enterprises have been responsive to its recommendations. However, continued efforts are needed as regards the *socially vulnerable and persons with disabilities*. More progress is needed in the field of de-institutionalisation, including in cases of mental health and for children with disabilities.

The new *anti-discrimination law* is in an early phase of implementation. The ombudsman has started to exercise his new responsibilities. However, proper implementation of the new law is jeopardised by recent budget cuts. Discrimination against minorities remains a particular problem (see below). In practice the level of protection against discrimination and its judicial prosecution is not yet in line with EU standards.

Some progress has been made with regard to *minorities*. High level public expressions of commitment to the rights of minorities have continued. The Roma minority has continued to receive attention, with improvements particularly in preschool education. However, many problems remain for minorities. Minorities continue to face particular difficulties in the area of employment, both in terms of under-representation in state administration, the judiciary and the police as well as in the wider public sector. Legal provisions and programmes need to be implemented with more determination, and adequate monitoring assured. Croatia needs to encourage a spirit of tolerance towards the Serb minority and take appropriate measures to protect those who may still be subject to threats or acts of discrimination, hostility or violence. The Roma minority still face difficult living conditions and challenges remain in many areas.

There has been some progress on *refugee return* issues. Progress has been made towards meeting the government's targets for the provision of housing care for former occupancy and tenancy rights holders, with many apartments being made available. Although not yet fully met, good progress was made towards meeting the 2008 target of providing 1,400 accommodation units. However, work on meeting the 2009 target is still at an early stage. Several thousand housing units still need to be made available to returning refugees.

Moreover, some 8,000 appeals for housing reconstruction still remain pending. Implementation of the decision on validating pension rights has been uneven. Efforts to create the economic and social conditions necessary for the sustainability of refugee return need to be accelerated. Croatia should ensure that budget cuts necessary in the context of the economic crisis do not weigh negatively on refugee return issues.

As regards *regional issues and international obligations*, co-operation with the International Criminal Tribunal for the former Yugoslavia (ICTY) has continued. However, problems of access for ICTY to important documents in Croatia have still not been resolved. Croatia needs to ensure all necessary steps are taken to settle this issue.

Croatia has continued to participate actively in regional initiatives, including the South East European Cooperation Process (SEECP), the Regional Cooperation Council (RCC) and the Central European Free Trade Agreement (CEFTA). Progress has been made towards settling the bilateral border issue between Croatia and Montenegro. Both countries have been co-operating on preparing their submission to the International Court of Justice on delimiting the border at Prevlaka. However, further progress is required towards finding definitive solutions to the various bilateral issues which remain open, particularly as regards borders. Efforts are needed to further develop co-operation and good neighbourly relations. Croatia, together with its neighbours, should address the regional impunity gap, including by taking steps towards extradition agreements covering war crimes cases. Relations with Slovenia have been affected by the outstanding border issue. The border issue between the two countries held back the accession negotiations, such that a substantial number of chapters could not be opened or closed until October 2009, although technically finalised earlier. The Commission has provided its facilitation services to settle this dispute. Intensive efforts by the Commission, supported by the Trio of Presidencies, have been made over six months, which paved the way for a political agreement between the two parties reached in September 2009. The Commission welcomes the recent progress that led to a substantial number of chapters being opened or provisionally closed at the accession conference in October.

The **economy** of Croatia has been increasingly hit by the global crisis. The country entered into recession in the first half of 2009 and unemployment increased. Macro-economic stability has been preserved by a prudent monetary policy. Some efforts to rebalance the budget were made, but the fiscal deficit increased significantly. The banking sector remained sound and resilient to the crisis. A high level of external indebtedness and large short-term repayment obligations are key vulnerabilities of the economy. The process of economic restructuring and privatisation has remained slow and limited improvements in the business environment have been made.

As regards the **economic criteria**, Croatia is a functioning market economy. It should be able to cope with competitive pressures and market forces within the Union, provided that it further implements its comprehensive reform programme with determination in order to reduce structural weaknesses.

The macroeconomic policy response has by and large been appropriate to address spill-overs from the crisis. In particular, monetary policy contributed successfully to preserving financial stability mainly by alleviating foreign exchange liquidity constraints through regulatory changes. In reaction to mounting fiscal pressures, some adjustments in spending as well as measures to compensate for falling revenues were adopted in the context of successive budget revisions. The legal basis for strategic and multiannual budget planning and reporting was improved. A health reform was adopted to improve the financial situation of the health sector. External imbalances have narrowed, exchange rate stability has been preserved, and inflationary pressures have subsided. The banking sector remained resilient to shocks and credit growth has declined. Croatia's economy is well integrated with the EU.

However, the government's economic policy has sometimes lacked a clear medium-term orientation. Policy coordination within the government and between the government and the central bank is sometimes weak. Structural reforms have generally advanced at a slow pace, in particular with respect to the restructuring of loss-making enterprises. The labour market suffers from low employment and participation rates, which have worsened with the crisis. Only limited progress has been achieved with reforms aimed at addressing labour market rigidities. In the context of the crisis, significant risks of higher spending and further declines in revenues have materialised. The fiscal deficit increased significantly. The late policy response revealed weaknesses in the budget planning process. Moreover, little progress has been achieved in increasing the efficiency of public spending. Social transfers remained high and not well-targeted and a large number of public and state-owned enterprises continued to receive state support through subsidies and guarantees. Therefore, the design of a credible fiscal strategy aimed at reducing budget rigidities and enhancing the efficiency of public spending remains a key challenge. Further progress has been made in facilitating business registration procedures, but the investment climate continued to suffer from a heavy regulatory burden and numerous para-fiscal taxes.

Croatia has improved its **ability to take on the obligations of membership**. Preparations for meeting EU requirements have continued to progress well and there is a good degree of alignment with EU rules in most sectors. In most areas there has been good progress, principally in terms of legislative alignment but also as regards administrative capacity building. However, further efforts lie ahead, in particular as regards further reinforcement of the administrative structures and capacity necessary for proper implementation of the *acquis*. Also, vigilance is required to ensure the budget cuts necessary in the context of the economic downturn do not disproportionately affect preparations for EU accession.

Good progress has been made in the field of *free movement of goods*. Alignment is well advanced, but some elements are not yet fully in place, notably with regard to conformity assessment, metrology and market surveillance. Continued efforts are needed to complete alignment with the *acquis* and to build the necessary implementation capacity. Good progress has been made on the *free movement of workers*. A satisfactory level of legal alignment has been reached. However, sustained efforts are needed to develop the necessary administrative capacity, in particular for the coordination of social security systems.

Some progress has been made with regard to the *right of establishment and freedom to provide services*. Overall, there is a reasonable level of alignment with the *acquis*. However, further efforts on alignment are needed. Administrative capacity also needs to be reinforced.

There has been some progress on the free movement of capital, mainly as regards liberalisation of the real estate market and legislative changes in the anti-money laundering (AML) area. Overall a reasonable level of alignment has been achieved. Further efforts will be needed especially with implementation and enforcement of AML legislation, and with completing liberalisation of capital movements and alignment with the payment services *acquis*.

There has been good progress in *public procurement*, in particular as regards completion of the necessary institutional set-up. Overall, preparations are at an advanced stage. However, legislative alignment has still to be completed and administrative capacity further enhanced at all levels of the procurement system, in particular with a view to effectively fighting corruption and tackling irregularities and potential political interference.

Some progress was made in the field of *company law*. Alignment with the *acquis* is well on track. More remains to be done in the area of auditing as regards the implementation of new legal provisions and the strengthening of administrative capacity. Progress can be reported in the field of *intellectual property law*, both as regards legislative alignment and enforcement. Alignment with the *acquis* is at a very high level. The overall awareness of intellectual

property rights in society needs to be increased and attention should be given to the increasing involvement of organised crime groups in intellectual property rights-related offences.

Significant progress has been achieved on *competition policy* in particular as regards the adoption of the Competition Act and the publication of tenders for the shipyards in difficulty with a view to their restructuring through privatisation. Overall, a reasonable level of alignment has been achieved. However, sustained efforts are required in order to complete the restructuring of the shipyards. Work also remains to improve the Competition Agency's enforcement record against cartels, to align the Croatian Broadcasting Act, and in the steel sector.

Significant progress can be reported on *financial services*. Legislative alignment is very advanced, but further efforts are needed regarding implementation. Efforts are needed to further strengthen the supervisory authorities' capacity to perform their supervision function and improve consultative interaction with the financial sector.

Good progress has been made in the field of *information society and media*. A good level of alignment has been reached. Efforts need to continue to strengthen the capacity of the national regulators to implement correctly the legal framework, as well as to sustain liberalisation of the electronic communications market.

There has been progress on *agriculture and rural development*, in particular regarding the collection and processing of agricultural data. Overall preparations are moderately advanced. However, substantial efforts are still required to establish the paying agency and Integrated Administration and Control System/Land Parcel Identification System. Further alignment of the support schemes with the Common Agricultural Policy (CAP) is essential to prepare for a smooth transition to the CAP. In rural development, the absorption capacity for EU pre-accession funds needs to be improved.

Good progress has been made on *food safety, veterinary and phytosanitary policy*, in particular with implementation of new legislation. Overall, preparations are advanced. Continued efforts are required to finalise the transposition and implementation of the *acquis* in particular regarding the implementation of the national programme for the upgrading of establishments for animal origin and the securing of the necessary administrative and control capacity.

Croatia has made good progress in the field of *fisheries*. Overall, preparations are well advanced. Croatia will need to step up its efforts to close the remaining gaps in the areas of fleet management, inspection and control, structural action and state aid.

There has been some progress in the *transport* field. Overall, there is a reasonable level of alignment. Further improvement of administrative capacity is needed in the maritime transport sector, in the Civil Aviation Agency in particular in view of aviation safety, and in the railway regulatory authority. Further legislative alignment is needed in particular in the aviation and maritime cabotage sectors. There has been good progress on the *energy* chapter. Alignment with the *acquis* is well advanced. Efforts are still needed to enhance administrative capacity, to improve the functioning of the electricity and gas markets and to meet the renewable energy targets.

Good progress was made on *taxation*, notably on legislative alignment. The discriminatory excise duties on cigarettes have been repealed and legislation further aligned to the EU *acquis* in the field of direct taxation, excise duties and VAT. Nevertheless, efforts are still required to further align Croatian legislation, most notably in the field of VAT. Efforts should continue to strengthen administrative capacity, including IT interconnectivity.

There has been significant progress in the area of *economic and monetary policy*. Overall alignment with the *acquis* in this area is very advanced. Work on anchoring the independence of the central bank in Croatia's legislation needs to be completed. Further efforts are required concerning policy co-ordination.

On *statistics*, substantial progress has been made. A good level of legal alignment has been reached. However, efforts should continue to further align Croatian statistics with EU requirements.

Good progress has been made on *social policy and employment*. A good level of legal alignment has been reached, although some gaps remain, especially as regards labour law. Further efforts are required in order to strengthen the administrative capacity in good time before accession to ensure proper implementation and enforcement.

Some progress was achieved on *enterprise and industrial policy*. Overall, alignment with the *acquis* in this chapter is very advanced. However, further efforts are needed to put into practice the regulatory impact assessment of new legislation and to improve the SME environment.

Good progress was made regarding the development of the transport and energy networks in line with the design and objectives of the *TENs* – Transport network and Energy network. Overall, alignment with the *acquis* is well advanced.

Some progress has been made on *regional policy*, notably in preparing implementation of those IPA components which serve as pre-cursors to the Structural Funds. Overall, Croatia is partially aligned with the *acquis*. Further efforts are needed to meet the regulatory and operational requirements of the Community's cohesion policy. In addition to enhancing the administrative capacity and preparing the project pipeline, Croatia needs to further build its financial management and control ability.

Croatia has made some progress on *judiciary and fundamental rights*. Reforms in the judiciary have continued but significant challenges remain, particularly relating to judicial independence and efficiency. Anti-corruption efforts have produced initial results, but corruption remains prevalent in many areas and tools are not being deployed with sufficient vigour, especially on political corruption. Legal provisions on fundamental rights are in general adequate, but despite some progress, a number of important challenges remain in terms of implementation, especially for minorities. Particular vigilance is required as regards freedom of expression and threats against journalists.

Croatia has made some progress in the chapter *justice, freedom and security*, particularly as regards the fight against drugs, dealing with trafficking of human beings, and management of external borders. However, Croatia needs to step up its efforts in order to ensure that EU requirements are met upon accession, notably in developing administrative capacity, fighting organised crime and developing the infrastructure, equipment and resources to manage effectively the external border.

Good progress has been made on *science and research* and preparations are well advanced. Further efforts remain necessary, however, to ensure association and full participation of Croatia in the European Research Area.

Good progress has been made in the area of *education and culture*. A good level of legal alignment has been achieved. Croatia should continue its efforts to prepare for the management of Life Long Learning and Youth in Action programmes. Due attention also needs to be paid to adult education.

Good progress has been made on the *environment*, especially in the areas of air quality, industrial pollution control and risk management, and climate change. Overall, Croatia's preparations are advancing well. However, considerable efforts are still needed in reaching alignment with the *acquis* in the water sector and nature protection. Implementation of the horizontal *acquis*, not least strategic environmental assessment and access to justice in environmental matters, needs to be improved. Administrative capacity needs further strengthening both at national and local level.

There has been good progress in the area of *consumer and health protection*. A good level of legal alignment has been reached. However, sustained efforts are necessary to further

strengthen administrative capacity.

Croatia has made good progress in the field of *customs union*, where its legislation is well aligned with the *acquis*. Croatia has improved its administrative capacity and IT interconnectivity, and has started to implement a coherent anti-corruption policy within Customs. Efforts need to continue in the remaining areas of legislative alignment, in implementing the Anti-Corruption Strategy and in IT interconnectivity.

Croatia has made some progress in the area of *external relations*. Preparations for the EU's common commercial policy are well on track. However, Croatia should respect its international obligations when resorting to trade defence measures. Efforts are still needed with regard to development policy and humanitarian aid.

Croatia has made good progress and reached overall a good level of alignment in the area of *Foreign, Security and Defence Policy*. Croatia continues to participate in several EU ESDP missions. Croatia now needs to strengthen implementation and enforcement of arms control including transparency of arms-related information, and to further improve capacity for full implementation of CFSP-ESDP.

Progress has been made on financial control. Continued efforts are needed to ensure sustainable development of the overall PIFC system on both central and local government level. The functional and financial independence of the State Audit Office needs to be anchored in the Constitution.

There has been good progress in the area of *financial and budgetary provisions*, with improvements in institutional capacity. Overall, Croatia has reached a good level of alignment, except for sugar levies. Preparations to apply the own resources rules need to continue.